

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE COMMITTEE ON 22 FEBRUARY 2022

SUBJECT: Provision of Internal Audit Service to the Council

REPORT AUTHOR: Carolin Martlew, Interim Group Head of Corporate Support and Section 151 Officer

DATE: February 2022

EXTN: 01903 737558

AREA: Corporate Support

EXECUTIVE SUMMARY:

This report considers options for the future provision of Internal Audit Services for the Council due to anticipated changes in circumstances.

RECOMMENDATIONS:

The Committee is requested to:

- i. Confirm to the Corporate Support Committee that that Southern Internal Audit Partnership (SIAP) can be appointed as the Council's Internal Audit Service provider from 1 April 2022, being one of the possible options;
- ii. Recommend to the Corporate Support Committee to approve the consequential changes in staffing arrangements to provide the Council with a suitably resourced Internal Audit service with effect from 1 April 2022.
- iii. Delegate Authority to the Interim Group Head of Corporate Support, to agree the Internal Audit Plan for 2022/23 before 31 March 2022.

1. BACKGROUND:

Between 2011 and the present day, the Internal Audit Section staff level has been reduced from 3 full time equivalent (FTE) staff to 1. However, the budget has been maintained at 2.5 FTE giving a budget in 2021/22 of £134,660. In addition, £15,000 is in an earmarked reserve authorised by the previous Head of Corporate Support to potentially cover costs / overlap under any new arrangement. The Council's current Internal Audit Manager, the only remaining employee, had expressed an interest in retiring in 2019 and this was delayed once the pandemic arose. A partnership arrangement with Wealden DC was being explored (on corporate savings list). However, this solution did not address issues like the residual workload (e.g. Contract management, production of Annual Governance Statement and Strategic Risk Register etc.) The post of Finance and Risk Manager was recently filled (internally by Senior Auditor) with the view of that post taking on more of the Risk Management work carried out by the Internal Audit Manager.

Further discussions were held in 2019 with Wealden District Council who had expressed an interest in a collaborative working arrangement. This initiative was under consideration when the pandemic hit in March 2020, so was deferred. It is understood circumstances have now changed at Wealden and this is no longer available to the Council.

The pandemic further delayed these plans and left the provision of internal audit under resourced meaning the Internal Audit plan is not currently being delivered. The Internal Audit Manager has been employed by the Council for 13 years. It is therefore considered now would be an appropriate time to review the service provision for future years.

As mentioned above, the Internal Audit Manager has expressed interest in leaving the Council's employment. It is suggested that after 13 years' service, this should be supported.

The Council could run a recruitment exercise to replace the current Manager and fill the currently vacant posts. However, this is not recommended as other Councils report difficulty in recruiting and retaining Internal Audit staff. In addition, private sector companies offering internal audit services point to similar difficulties in recruitment and retention.

It is therefore recommended that the Council pursue a different means of delivering Internal Audit to mitigate the anticipated recruitment and retention difficulties. In addition, engaging a partner would reasonably be expected to provide certainty and increase resilience in the service. With a small team, any significant sickness absence can cause problems with service provision.

In addition, the lack of Internal Audit staff has resulted in a lower level of internal audit coverage than would reasonably be expected in recent years. This could result in external audit criticism and increased risk of system weakness, fraud and theft.

A change in the internal audit arrangements provides the Council with an opportunity of changing some fixed costs to variable cost as discussed by officers on 12 November 2021.

The Internal Audit Plan presented to Audit and Governance Committee on 25 February 2021 assumed 2 FTE staff and included 372 chargeable days. This was revised to 180 chargeable days at the committee meeting of 29 July 2021, recognising the decrease to 1 FTE member of staff. Obviously, reduction in plan provision does increase risk of issues such as fraud and misappropriation although this does remain unlikely. The Council must be seen to protect itself from such issues. In addition, CIPFA guidance lists one of the CFO's main functions in the Public Sector as providing a suitable and adequate internal audit service for the Council. It can be argued that the current situation does not meet this criterion.

2. PROPOSAL(S):

Because of the issues referred to above, it is proposed that the Council enter in to a partnership arrangement. It is likely the service would be provided by a Council orientated body (SIAP or ORBIS). SIAP are based in Hampshire County Council and provide a service for West Sussex County Council. ORBIS provide audit services to East Sussex County Council, Surrey County Council, Brighton and Hove Council and Horsham District

Council. Information received indicates that a full tender process would not be required if a partnership solution were pursued. In addition, SIAP is known to be a not for profit organisation.

This type of arrangement has been discussed with neighbouring Councils in recent years and was delayed or deferred for varying reasons. It is known that some potential providers may still be interested in providing the service to the Council in future. For expediency, this is the preferred method of future service provision. It can be implemented reasonably quickly. The Head of Corporate Support and Chief Executive are clear that an enhanced Internal Audit service should be implemented as soon as possible to offset the potential issues mentioned above.

The initial Internal Audit Plan for 2021/22 was in line with the business case for a proposed shared service arrangement in 2016 which anticipated 182 chargeable days from a manager and 192 from an auditor. This indicates this option was still in the thinking of staff at the time the Plan was drafted. It is understood that service sharing was supported by Members at that time. The shared service proposal would have to be handled sensitively and it is expected such initiative would be supported now.

It must be remembered that pursuing either outsourcing or partnership would require consultation with Unison as there are potential staff issues. However as there are two vacant posts and the current Manager has expressed a wish to leave the Council's employment this would be a likely formality in this case. Consultation has been undertaken with Unison.

Following research, officers are the view that entering a partnership with SIAP offers the most effective future option. SIAP is hosted by Hampshire County Council and was established in 2012. It has a diverse portfolio of 25 public sector clients and provides 7,500 audit days.

SIAP's emphasis is on quality, professionalism and value adding services. They have a range of in-house specialists covering IT, procurement and contract management. SIAP have been externally assessed as compliant with the Public Sector Internal Audit Standards.

It is recommended that the Council join as a partner as this would provide a number of advantages, rather than joining as a client where days are requested annually. As a partner, the Council would become a member of the Key Stakeholder Board which would result in the Council having a say in the future direction of the Partnership, business planning, performance reporting, resourcing and updates. The Head of Corporate Support and s151 officer, or their representative would represent the Council's interests by becoming a voting member of the Southern Internal Audit Partnership Key Stakeholder Board.

In addition, each partner can flex the audit days purchased to meet business needs, so additional days can be used when required as long as parity is restored over a three year period.

The Council would be required to enter into the Joint Working Agreement by way of a deed of accession. The Joint Working Agreement provides for a partner to pay an annual financial contribution, which is a proportion of the costs incurred by the SIAP in delivering audit services calculated on the number of internal audit days required by the Council. The composite day rate is reviewed annually and reflects pay costs based on national pay awards and annual increments and any increase or decrease in the operating costs of the joint service. Any other increase or decrease would be subject to the agreement of the SIAP Key Stakeholder Board.

Assuming the Council joins with effect from 1 April 2022, a commitment of five years (to 31 March 2027) would be made. Should the Council wish to exit the SIAP after that initial five year period, it is required to give 12 months' written notice in order to bring its participation to an end as of a financial year end.

If the recommendations are agreed, the Head of Corporate Support and S151 Officer will work with SIAP to agree the Audit Plan with effect from April 2022,

Suggested Approach

It is clear that the current situation is unsustainable. The following approach is therefore recommended:

- The Internal Audit Manager has confirmed his desire to end employment with the Council. Assuming an alternative delivery method can be arranged from 1 April 2022, a termination date of 30 September 2022 has been agreed in principle with the Manager. Between 1 April 2022 and 30 September 2022, the Manager's working hours will be decreased. This will allow the Manager to undertake duties outstanding from 2021/22 such as drafting the Annual Governance Statement and Code of Corporate Governance for 2021/22, preparing the Annual Internal Audit Report and Opinion for 2021/22 and the Counter Fraud Report for 2021/22;
- Consultation be undertaken with Unison on the proposal, to allow a response to be included with any formal report. This has been done;
- The Council's Procurement Support from Hampshire County Council has confirmed the suggested approach is within rules and procedures;
- Informal contact has been made with SIAP who have confirmed interest in assisting the Council.

The Interim Group Head of Corporate Support and Financial Services Manager have spoken to SIAP. A proposal for SIAP to provide the service to the Council is appended to this report. The main request SIAP have made is that the Internal Audit Plan for 2022/23 be drafted in consultation with them. The plan should be approved before 1 April 2022, so to achieve this, an additional meeting of this Committee will be required. A representative from SIAP is attending this Committee to offer a presentation and answer any questions Members may have.

3. OPTIONS:

The following options are available to procure the Internal Audit service in future:

Recruitment of Staff

As mentioned earlier, the Council can attempt to recruit staff. This is not recommended for the reasons outlined. In addition, although control of Internal Audit remains with the Council, the costs and risks of recruitment, lack of resilience and staff turnover outweigh the anticipated benefit.

Outsourcing

This would involve running a procurement exercise. The Council receives professional procurement support from Hampshire County Council who would manage the process. There are procurement framework arrangements available for this service but it is understood there is a low number of companies registered.

The benefits of competition would likely be:

- Costs probably driven down by the competitive process;
- Access to specialist staff;
- Resilience against staff shortage;

The disbenefits/risks would be:

- If contractor unsuitable, contract may be difficult to terminate (sound documentation and governance would mitigate against this);
- Tender may not result in a suitable response;
- Procurement rules may be unhelpful in the process.

Partnership/Service Sharing

Pursuing this option is again outsourcing the work. The attraction of this method is:

- It is likely the service would be provided by a Council orientated body (SIAP or ORBIS). SIAP are based in Hampshire County Council and provide a service for West Sussex County Council. ORBIS provide audit services to East Sussex County Council, Surrey County Council, Brighton and Hove Council and Horsham District Council;
- Information received indicates that a full tender process would not be required if this option were pursued.

4. CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify): Unison Trade Union	✓	

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial	✓	
Legal	✓	
Human Rights/Equality Impact Assessment	✓	
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓

6. IMPLICATIONS:

Financial

The current budget for the service is £134,660 in 2021/22. An earmarked reserve balance of £15,000 is also available. Any proposed service provision will be met from existing budgets.

Legal

The provision of Internal Audit is a statutory requirement in local government as defined in the Local Government Act 1972. The Accounts and Audit Regulations 2015 (Regulation 5) require the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes; taking into account public sector internal auditing standards or guidance”.

The Council has delegated this responsibility to the Head of Corporate Support and Section 151 officer, under the auspices of the Corporate Support Committee.

Section 101 of the Local Government Act 1972 enables an Authority to make arrangements for the discharge of its functions by a Committee, Sub-Committee or officer of the Authority or by another Authority. Part 3 of the Arun Constitution (Responsibility for Functions) the Corporate Support committee has delegated authority to enter partnership arrangements under section 101 of the Local Government Act 1972.

As is outlined above, the Council will be entering into a Joint Working Agreement as a partner. This is an arrangement under section 101(5) of the Local Government Act 1972. The Joint Working Agreement regulates the relationship between all the partner authorities, including the governance structure, the roles and responsibilities of each partner Authority towards the other partner authorities, the financial contribution arrangements, information sharing protocols, withdrawal/exit provisions together with the scope of internal audit services.

Under the Local Government Act 1999, the Council is required to make arrangements to secure continuous improvements in the way on which it exercises its functions having regard to a combination of factors including, economy, efficiency and effectiveness. Committee can make the recommendations if Committee is satisfied that this will secure improvement of the internal audit service.

Human Resources

The current Internal Audit Manager has indicated his desire to leave the Council's employment and is agreeable to a flexible date. There are no further human resource implications. There are no TUPE implications as the Internal Audit Manager wishes to retire and all other posts in the Section are currently vacant.

7. REASON FOR THE DECISION:

To ensure the Council provides an adequate Internal Audit service in future following the planned leaving of the current Internal Audit Manager.

8. BACKGROUND PAPERS: