

<b>Title</b>	Future resourcing of the Internal Audit Service
<b>Purpose of the report</b>	To make a Key Decision
<b>Report Author</b>	Terry Collier, Deputy Chief Executive Farida Hussain, Group Head of Corporate Governance
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	Report and Appendix A - No Appendix B - Yes
<b>Exemption Reason</b>	The attachment contains exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006 Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because, disclosure to the public would prejudice the financial position of the authority in any lease, contract or other type of negotiation with the tenant or developer, who could then know the position of the Council
<b>Corporate Priority</b>	A fully resourced and efficient Internal Audit Service supports all Corporate Priorities.
<b>Recommendations</b>	<p><b>Council is asked to:</b></p> <ol style="list-style-type: none"> <li>1. Agree to discharge its Internal Audit function to Hampshire County Council under Section 101 of the Local Government Act 1972 to enable Southern Internal Audit Partnership (“SIAP”) to provide the Internal Audit Service for the Council from or after 1 April 2024;</li> <li>2. Delegate to the Council’s Section 151 and Monitoring Officers to enter into the Joint Working Agreement by way of a deed of accession with Southern Internal Audit Partnership for a period of 5 years and complete all necessary documentation including any relating to TUPE arrangements;</li> </ol>

	<p>3. Agree that the Council's Section 151 Officer or nominated officer represents the Council's interests by becoming a voting member of SIAP's Key Stakeholder Board; and</p> <p>4. Agree that the Council's Human Resources team deals with any consequential staffing implications including any TUPE transfer.</p>
<b>Reason for Recommendation</b>	To ensure that the Council has a fully resourced Internal Audit Service which has greater resilience and capacity

## 1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> <li>The current Internal Audit Service has an operating resource of 1.75 FTE plus 31 contractor days, equating to approx. 410 days. The service budget also includes a contract with Reigate &amp; Banstead Borough Council for Counter-Fraud.</li> </ul>	<ul style="list-style-type: none"> <li>Since 31 August 2023 the Team has been carrying a vacancy of 1 FTE. Remaining audits for the current year are being undertaken by a contractor.</li> <li>The vacancy in the Internal Audit Team presents an opportunity to review how the service is delivered and consider alternative options.</li> </ul>
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> <li>The Audit Committee has considered a number of options of how to deliver the Internal Audit Committee and recommends that the Council enters into partnership with SIAP hosted through Hampshire County Council for delivery of the Internal Audit Service.</li> </ul>	<ul style="list-style-type: none"> <li>To make a Key Decision as set out above.</li> <li>To enter into a Joint Working Agreement with Hampshire County Council via a deed of accession.</li> <li>To TUPE one member of staff to Hampshire County Council.</li> </ul>

- 1.1 This report seeks to consider the recommendation from Audit Committee to enter into a partnership agreement with SIAP hosted via Hampshire County Council.
- 1.2 The Extraordinary Audit Committee of 2<sup>nd</sup> November 2023 considered a number of options on how to resource the future Internal Audit Service. These options were to (i) keep the service in-house and address capacity ii) buy in extra contractor days or iii) explore entering into a shared partnership. The Committee agreed to authorise the Deputy Chief Executive to further explore opportunities to enter into a shared Internal Audit Service arrangement in principle to commence on or after 1 April 2024.

- 1.3 The Deputy Chief Executive and Monitoring Officer sought business proposals from various different Internal Audit Service providers however the majority of the providers did not have capacity to take on further work. Two business proposals were considered by the Audit Committee including one from SIAP on 7<sup>th</sup> December 2023.
- 1.4 The Extraordinary Audit Committee of 7<sup>th</sup> December 2023 deferred their decision on which partnership to recommend to Council to allow further information to be provided. The additional information was considered at the Audit Committee of 29<sup>th</sup> January 2024.

## **2. Key issues**

- 2.1 Recruitment and retention of internal auditors in local government is very challenging, which has been very much reiterated by all the internal audit partnerships that were approached, two of which, whilst welcoming our interest did not have capacity to progress discussions around expanding to provide support for this council.
- 2.2 Internal Audit is a statutory requirement in local government as defined in the Local Government Act 1972 and its role is critical to the Council as it helps the Council to achieve its objectives by evaluating the effectiveness of internal control arrangements. It is therefore essential that there are appropriate arrangements in place to deliver Internal Audit effectively.

## **3. Options analysis and proposal**

### **3.1 Entering into a partnership with SIAP (Preferred Option)**

- 3.2 SIAP is hosted through Hampshire County Council. It was established in 2012 and has a diverse portfolio of over 30 public sector partners, employing over 55 audit professionals.
- 3.3 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. A copy of the External Quality Assessment (EQA) is attached at Appendix A.
- 3.4 If the Council were to join SIAP 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 Deputy Chief Executive (s.151 Officer) would represent the Council's interests by becoming a voting member of SIAP's Key Stakeholder Board which meets bi-annually.
- 3.5 If the Council joins with effect from 1 April 2024, it would have a commitment of five years (to 31 March 2029) with a review at the third anniversary. Should the Council wish to exit SIAP after that initial term, it is required to give 12 months' written notice in order to bring its participation to an end.
- 3.6 Mole Valley District Council, Epsom & Ewell Borough Council, Reigate & Banstead Borough Council ("R&B"), Tandridge District Council, Guildford Borough Council and Waverley Borough Council are already partners of SIAP. Runnymede District Council are also set to join SIAP on 1 April 2024.
- 3.7 Following due diligence, presentations and detailed questioning of SIAP and reviewing references from other councils, the Audit Committee agreed that this was the preferred option.

- 3.8 Option 2 – Recruit to the vacancy within the Internal Audit Service. This option is not recommended as mentioned above, it is very challenging to recruit internal auditors and would also not provide the breadth of experience that SIAP can provide.
- 3.9 Option 3 - Buy in additional contractor days
- 3.10 Contractor rates for audit days range from £450 to £800 per day. Although this option could provide the resilience and specialist knowledge required, it could potentially be a costly option to meet the requirements of the Internal Audit Service.

#### 4. Financial management comments

- 4.1 A comparison of the cost of the Internal Audit Service against SIAP's proposal is set out in the table below:-

Current Internal Audit		SIAP – WITH TUPE	
Internal Audit 243 days and 46 days of Risk management and counter-fraud oversight	124,180	Internal Audit - 300 days	157,500
Counter- Fraud (Contract with R&B)	90,020	Counter- Fraud (Contract with R&B)	90,020
Other management 121 days			
Total	214,200		247,500

- 4.2 Entering into the partnership with SIAP will provide more internal audit days providing more resilience, however this presents a budgetary pressure of £33,300. There are underspends within Corporate Governance which could absorb this cost for the first year. A growth bid of £30,000 has also been submitted to deal with any budgetary pressures for the transfer.
- 4.3 Going forward the Group Head of Corporate Governance will review budgets within Corporate Governance to accommodate the cost of the partnership arrangement.

#### 5. Risk management comments

- 5.1 If steps are not taken now to consider alternative service provision arrangements, this could lead to insufficient capacity and the audit plan not being progressed within the necessary timescales as agreed by the Audit Committee.
- 5.2 If the preferred option is approved, there will be a period of adjustment while the service is transferred to SIAP.

#### 6. Procurement comments

- 6.1 Further to Regulation 12 of the Public Contracts Regulations 2015, contracts between public bodies are excluded from procurement rules if certain conditions are met.

#### 7. Legal comments

- 7.1 Under the Accounts and Audit Regulations 2015 the Council is required to ensure that it has a sound system of internal control which; (a) facilitates the

effective exercise of its functions and the achievement of its aims and objectives; (b) ensures that the financial and operational management of the Authority is effective; and (c) includes effective arrangements for the management of risk.

- 7.2 If the Council decide to join SIAP, a delegation will be required under section 101 Local Government Act 1972 to Hampshire County Council as this provision permits delegation of services from one local authority to another. The Council will be required to complete a Joint Working Agreement and Deed of Accession. The internal Legal Team would support this work.

**8. Other considerations**

- 8.1 If the preferred option is agreed, there are TUPE implications. Unison are being consulted.

**9. Equality and Diversity**

- 9.1 There are no equality and diversity implications.

**10. Sustainability/Climate Change Implications**

- 10.1 SIAP has indicated that much of their work would be done virtually which would limit the number of journeys of auditors would need to make into the Borough.

**11. Timetable for implementation**

- 11.1 If the preferred option is agreed, SIAP would provide the Internal Audit Service on or after 1 April 2024.

**12. Contact**

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**Background papers: There are none.**

**Appendices:**

**Appendix A - External Quality Assessment**

**Appendix B - Business Proposal**