

Executive

Ward(s) affected: All

Report of Executive Head – Finance (S.151)

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Future of Internal Audit

Executive Summary

The Council's existing contract for the provision of Internal Audit services expires in March 2023. A process of soft market testing and due diligence has been undertaken to assess the available options and to identify a preferred provider.

The purpose of this report is to seek approval to enter into the Joint Working Agreement to receive internal audit services from Southern Internal Audit Partnership (SIAP) for a period of 5 years from 1 April 2023. Southern Internal Audit Partnership (SIAP) was established in 2012. The Partnership is hosted by Hampshire County Council and is one of the largest providers of public sector internal audit in the region across a diverse portfolio of 29 public sector organisations. In Surrey, Tandridge, Mole Valley, Epsom and Ewell, Reigate and Banstead and Surrey Police are all partners in the partnership as well as a number of other district and borough councils and police authorities across Hampshire and Sussex. Waverley Borough Council is a contracting authority. Joining SIAP offers value for money as well as contributing to the achievement of the vision of the Guildford-Waverley partnership by aligning of support service provision with Waverley BC.

Recommendation to Executive

The Executive agrees:

- (1) That, with effect from 1 April 2023, the Council discharges its Internal Audit Function under Section 101 of the Local Government Act 1972 to Hampshire County Council so that Southern Internal Audit Partnership (SIAP) can provide the Internal Audit Service for Guildford Borough Council.

(2) That the Council's Section 151 and Monitoring Officers be authorised to enter into the Joint Working Agreement by way of a deed of accession with Southern Internal Audit Partnership and undertake all necessary legal arrangements to do so.

(3) That the Section 151 Officer or nominated officer represents the Council's interests by becoming a voting member of the Southern Internal Audit Partnership Key Stakeholder Board.

Reason for Recommendation:

To ensure good governance arrangements and internal control by undertaking an adequate level of internal audit coverage through discharging the Council's functions as permitted by the S101(5) of the Local Government Act 1972.

Is the report (or part of it) exempt from publication? YES

Part – Appendices 1, 2 and 3

(a) The content of the Appendices to this report are to be treated as exempt from the Access to Information publication rules due to the disclosure of commercially sensitive information and is therefore exempt from publication by virtue of paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as follows:

“(3) Information relating to the financial or business affairs of any particular person (including the authority holding that information).

(b) The content is restricted to councillors.

(c) It is not anticipated that the exempt information can be expected to be made available for public inspection until the new contract commences

(d) The decision to maintain the exemption may be challenged by any person at the point at which the Committee/Council is invited to pass a resolution to exclude the public from the meeting to consider the exempt information.

1. Purpose of Report

1.1 To undertake a review of the options for the provision of internal audit services and pursue the preferred option of the Council discharging its functions to Southern Internal Audit Partnership.

2. Strategic Priorities

2.1 The audit of Council services supports the priority of providing efficient, cost effective and relevant quality public services that give the community value for money.

3. Background

- 3.1 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”.
- 3.2 The Council entered into a contract for the provision of internal audit services with KPMG in 2018-19 to provide the majority of the internal audit plan for 2019-20. In 2019, the contract was extended to cover the three-year period of 2020-21 through to 2022-23 and also include the provision of acting as the Council’s Head of Internal Audit. At the time of outsourcing the service a saving of around £90,000 was made in staff salaries from previously having an internal audit team; however, the then Audit and Business Improvement Manager still provided the client-side function of the service and monitored the contract with KPMG. This arrangement remained in place until the departure of the Audit and Business Improvement Manager in 2021 as part of Future Guildford, which achieved further savings. The S151 Officer now manages the contract with KPMG.
- 3.3 The contract is due to expire at the end of March 2023 and therefore a new arrangement needs to be put in place for the year starting 1 April 2023. Officers have looked at the options for provision of the service which are as follows:
 - (a) Carrying out a full open market procurement exercise to find a new internal audit service contract and/or provider
 - (b) Carrying a restricted procurement exercise via an established framework in order to procure a new internal audit service contract and/or provider
 - (c) Join an existing Shared Service with capacity to carry out additional work
 - (d) Bring the service back in house
- 3.4 In assessing the options above, consideration has been given to the collaboration project between Guildford and Waverley Borough Councils. As part of the objectives and vision for the collaboration which have been approved by Council, the two Councils have set out to harmonise internal processes except where there is a good reason not to. This means that the Councils will try to harmonise internal policies, systems and staffing structures subject to the approval of further business cases. The default approach is for one staffing team in the long term and a single suite of internal procedures. Waverley Borough Council currently has an in-house Head of Internal Audit but outsource the majority of audit work under contract to Southern Internal Audit Partnership.
- 3.5 In considering options (a) and (b) above, officers have looked at the comparable day rates available for audit services via framework contracts as an indication as to the price range a supplier may bid in an open market tender exercise. Whilst

value for money is a key driver in all aspects of procurement, it is also essential that in selecting an internal audit provider that its service can meet quality assurance against the Public Sector Internal Audit Standards and provide assurance of the systems of control in place. The advantage of potentially using a framework is that there would be assurance that the suppliers on the framework would have already demonstrated that they meet this criterion and there may be advantages in using the framework in terms of pricing rather an open market exercise. In terms of cost, comparable framework rates were obtained and compared to the price of our existing contract and the comparable rates outlined in option (c).

- 3.6 Joining an existing shared service offers a number of advantages as they have local government knowledge and are not for profit. They can provide flexibility, resilience and independence whilst also offering value added and sharing of best practice.
- 3.7 Although a number of shared service partnerships are available, in considering Option (c), and mindful of the existing collaboration arrangements with Waverley Borough Council, officers contacted Southern Internal Audit Partnership to provide a proposal for the provision of internal audit services. Their proposal is outlined in Appendix 1 (exempt from publication) and the financial impact of their proposal compared to our existing contract is outlined in Appendix 2 (exempt from publication). This proposal provides the ability to generate a small saving when compared against other options but also has the advantage of aligning service provision between Guildford and Waverley Councils.
- 3.8 The option for bringing the service back in scope was considered; however, in order to provide an effective service a team of around 3 to 4 staff would be required. This would most likely be a Head of Internal Audit, one senior auditor and two auditors. This option may also not be fully resilient as specialist audit skills such as ICT audit may not be possible to employ in house. This option was the most expensive (see Appendix 2).

Proposal

- 3.9 The preferred option of those evaluated is for the Council to discharge its function of internal audit to Southern Internal Audit Partnership (Option c). Southern Internal Audit Partnership (SIAP) was established in 2012. The Partnership is hosted by Hampshire County Council and is one of the largest providers of public sector internal audit in the region, employing approximately 50 audit professionals and delivering approximately 9,000 audit days across a diverse portfolio of 29 public sector organisations. In Surrey, Tandridge, Mole Valley, Epsom and Ewell, Reigate and Banstead and Surrey Police are all partners in the partnership as well as a number of other district and borough councils and police authorities across Hampshire and Sussex. Waverley Borough Council is a client authority.

- 3.10 SIAP's emphasis is on quality, professional 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.
- 3.11 It is proposed that the Council joins as a partner as this would provide a number of advantages, rather than joining as a client where days can be 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 Council's S151 officer or his nominated representative would represent the Council's interests by becoming a voting member of the Southern Internal Audit Partnership Key Stakeholder Board.
- 3.12 In addition, each partner can flex the audit days purchased to meet business needs, so they can use additional days when required as long as parity is restored over a three-year period.
- 3.13 The Council would be required to join the partnership by entering 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.
- 3.14 SIAP refreshed their Joint Working Agreement in February 2018. Any accession to the Agreement requires an initial five-year commitment after which the Agreement runs in perpetuity. Should any organisation wish to withdraw from the Agreement following the initial five-year period or at any time in the future it may do so by serving 12 months' written notice. A copy of the Joint Working Agreement is attached at Appendix 3 (exempt from publication).

4. Financial Implications

- 4.1 The financial implications are set out in the exempt Appendix 2 (Internal Audit Options Evaluation).

5. Legal Implications

- 5.1 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.
- 5.2 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.
- 5.3 As is outlined above, the Council will be entering into a Joint Working Agreement as a partner. 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.
- 5.4 The Council is not entering into a contract for services with SIAP (which is the other possible model), public procurement legislation does not apply to the recommendation put forward to Councillors in this report.

6. Human Resource Implications

- 6.1 The Council's Section 151 officer will become a member of the Partnership board of SIAP. This responsibility will need to be incorporated into the job role profile for the new Joint Executive Head of Finance (Section 151 officer).

7. Conclusion

- 7.1 The Council's existing contract for the provision of Internal Audit services expires in March 2023. A process of soft market testing and due diligence has been undertaken to assess the available options and to identify a preferred provider.
- 7.2 The purpose of this report is to seek approval to enter into the Joint Working Agreement to receive internal audit services from Southern Internal Audit Partnership (SIAP) for a period of 5 years from 1 April 2023. Southern Internal Audit Partnership (SIAP) was established in 2012. The Partnership is hosted by Hampshire County Council and is one of the largest providers of public sector internal audit in the region across a diverse portfolio of 29 public sector organisations. In Surrey, Tandridge, Mole Valley, Epsom and Ewell, Reigate and Banstead and Surrey Police are all partners in the partnership as well as a number of other district and borough councils and police authorities across Hampshire and Sussex. Waverley Borough Council is a client authority. Joining SIAP offers value for money as well as contributing to the achievement of the

vision of the Guildford-Waverley partnership by aligning of support service provision with Waverley BC.

8. Background Papers

None

9. Appendices (all exempt from publication)

Appendix 1: Southern Internal Audit Partnership Proposal

Appendix 2: Options Evaluation

Appendix 3: SIAP Joint Working Agreement