

Audit & Governance Committee 29th September 2014



Internal Audit Service: Future Delivery

Report of the Corporate Head of Financial Management

Ward(s) affected: All

1. Purpose of Report

- 1.1 To inform members of the Audit and Governance Committee of the options available to the Council for the delivery of its Internal Audit function from April 2015.

2. Recommendation

- 2.1 That members recommend to Council that; The internal audit shared service provision with the current provider (Harrogate Borough Council) is continued for a further three years from April 2015.

3. Background

- 3.1 It is a statutory requirement for Local Authorities to have an internal audit function. This responsibility lies with the Corporate Head of Financial Management as s151 Officer.
- 3.2 The service is designed to support the Corporate Head of Financial Management and the Audit and Governance Committee to help demonstrate the highest standards of corporate governance, public accountability and transparency in the Council's business.
- 3.3 The current Internal Audit Service is provided by Harrogate Borough Council and it has worked well. The service is provided under a three year shared service/joint working contract arrangement which is due to end on 31 March 2015.
- 3.4 The costs of the current contract are a fixed fee of for 250 days per annum plus expenses. The Council's 2014/15 budget provision is £57,390.
- 3.5 Under the Council's procurement rules, the contract cannot be extended, because this option was not agreed at the time.
- 3.6 The Council must now decide which option it wishes to pursue in order to ensure that the Council has an internal audit function in place from 1 April

2015. The Council also needs to decide if it wishes for the new contract to be over a 3 year term or include an opportunity for a two year extension.

3.7 From 1 November 2012 Mazars was appointed as the external auditor for at least five years. Prior to this the external auditor was the Audit Commission. The Council has a positive relationship with external audit; a respected internal audit service plays an important part in this.

3.8 Professionally, all audit work must be in accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS) 2013. The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

3.9 In addition the Accounts and Audit (England) Regulations 2011 require the Council to maintain an adequate and effective Internal Audit of its records and control systems.

4. **Options**

4.1 The options for procuring the Internal Audit Service are outlined in the table below.

	Option	Positives	Negatives
1	Do nothing		<ul style="list-style-type: none"> • Not an option. The contract expires on 31/03/15 and in line with contract procedure rules a decision needs to be made.
2	Seek to continue to receive an internal audit service from HBC under a shared service / collaboration agreement.	<ul style="list-style-type: none"> • Continuity • Offers a clear audit trail of improved performance in internal control • Good working relationships already established with the Harrogate internal audit team • Flexibility • Continued sharing of knowledge about processes and procedures (both authorities use the same Financial Management System - Agresso Financials) • Resilience • Established understanding of Craven District Council • Aligns with corporate concordat initiative • No requirement to set up new governance arrangements • Positive PSIAS report • Aligns with the general shared services agenda 	<ul style="list-style-type: none"> • Missed opportunity to test the market • External Challenge

	Option	Positives	Negatives
3	Seek other shared service arrangements	<ul style="list-style-type: none"> Aligns with general shared services agenda Opportunity to “test the market” Opportunity for working outside the North Yorkshire area. 	<ul style="list-style-type: none"> Requirement to set up new governance arrangements (see further considerations below) Limited opportunities within North Yorkshire Lack of continuity There would need to be an SLA drawn up and agreed.
4	In house solution	<ul style="list-style-type: none"> Staff dedicated to Craven DC audit work 	<ul style="list-style-type: none"> No in house expertise Difficulty recruiting staff Difficult to fully utilise specialist staff within a small team Possible additional costs
5	Undertake a full tender exercise	<ul style="list-style-type: none"> Enables full test of the potential market 	<ul style="list-style-type: none"> Costs incurred in the procurement exercise - Small volume of service, won't attract economies of scale Lack of continuity

5. Further Considerations

- 5.1 Mazar's Annual Governance Report for 2012/13 indicated that with the comprehensive and detailed, rather than a light touch approach of the work done by the Harrogate Internal Audit Service its systems and processes for internal control are working. This is an improvement from 2010/11.
- 5.2 The PSIAS requires that with effect from 1 April 2013 it is a requirement that public sector internal audit is externally assessed every five years. In light of the Council's current shared internal audit service agreement with Harrogate BC ending on 31 March 2015 this assessment took place in January/February 2014. The review was comprehensive and the overall conclusion was “We conclude that the IAS is **substantially compliant** with the requirements of the PSIAS and the CIPFA Application Note”. Areas for improvement were also identified.
- 5.3 Prior to transferring the service to Harrogate Borough Council in April 2010, the Council used the services of an external provider. The arrangement of a shared service through another local authority appears to have been more appropriate for the council.
- 5.4 Under procurement regulations, if the new contract period for an internal audit service was to span three years, the aggregate cost would be over the EU procurement threshold. Typically EU tenders take at least 6 months to complete.

- 5.5 A shared service / collaboration agreement with another authority such as the one that the Council currently has with Harrogate BC (option (a) below), or option (b) would entail one of the following governance arrangements:
- (a). One authority provides a service to another (joint services arrangement) but each authority would be represented on a joint management board. This has worked well. It is advised that such joint management boards fall outside public procurement, but that a Voluntary Transparency Notice would need to be published in the EU journal to publish the proposed arrangements for third parties to lodge objections on the basis that a public tender is necessary. The timescale for objections is short (10 days) and if no objection was lodged within that time, the arrangement cannot be declared invalid.
 - (b). Joint Committee Arrangement. Authorities delegate decisions to a joint committee. There is no requirement for public procurement. A Constitution would have to be agreed. There would need to be separate accounts kept. The joint committee would in effect become the joint audit committee of the two authorities - or at least the powers and authority of the joint committee relative to the two audit committees would need to be clear.
- 5.6 In light of the information provided by the PSIAS report from Mazars and the costs involved for procuring a small service, it would appear that the most cost effective solution is to continue with the current method of service delivery from the Council's existing partner – Harrogate BC.

6. **Implications**

6.1 **Financial and Value for Money Implications**

None

6.2 **Legal implications**

The council has a statutory requirement to have an internal audit function.

6.3 **Contribution to Council Priorities**

The Internal Audit Function assists in the delivery of the Council's priorities.

6.4 **Risk Management**

The council has a statutory requirement to have an internal audit function. Reviews assist the Council in managing and mitigating its risks associated with service delivery.

6.5 **Equality Impact Assessment**

The Council's Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

7. **Consultations with Others**

None

8. **Access to Information : Background Documents**

None

9. **Author of the Report**

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