

SPECIAL AUDIT COMMITTEE
21 FEBRUARY 2017

REPORT ON INTERNAL AUDIT OPTIONS FROM 2017/18

Cabinet Member Cllr Peter Hare-Scott
Responsible Officer Audit Team Leader, Catherine Yandle

Reason for Report: This report summarises the options MDDC has for Internal Audit provision going forwards.

RECOMMENDATION(S): That the Audit Committee resolves which option for future Internal Audit provision it believes will be best for MDDC going forward so more detailed negotiations can take place.

Relationship to Corporate Plan: Effective Internal Audit plays a fundamental role in assisting the Council to deliver its corporate plan.

Financial Implications: The Council's budget for Internal Audit in its current form is £124,380 the primary objective here is not to save money but to ensure effective service provision.

Legal Implications:

1. The provision of an internal audit service within Local Government is a requirement of the Accounts and Audit Regulations 2015.
2. S151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs.
3. MDDC will have to enter into a financial agreement with an external supplier for the provision of services. The form of agreement will depend upon which route is chosen.

Risk Assessment: There is no immediate risk to the Council; however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

1.0 Introduction

- 1.1 In common with all other services of the Council regular consideration must be given to whether the current model for the internal audit service is the most efficient one and also the best value for money.
- 1.2 As was stated in the report to this committee on 24 January, the Internal Audit Team Leader has taken on responsibility for various functions which were previously the responsibility of the Head of Communities and Governance (who has now left MDDC).
- 1.3 As a result of this change there are potential impairments to the Internal Audit Team Leader's independence, which is a fundamental requirement of the

International Auditing Standards and the Public Sector Internal Audit Standards, by which MDDC operates.

1.4 In addition, any potential supplier will need to have some input into the Audit Plan for 2017/18 as they will be, in the main, delivering it. This is due to come to the 21 March Audit Committee meeting so needs to be prepared by 3 March.

1.5 Once the initial decision has been made, further negotiations with the potential suppliers will be necessary and more detailed costings agreed. Further reports will then be presented to the Committee on progress made, prior to a final decision.

2.0 The Options

2.1 Do Nothing

2.1.1 This is not really a viable option for the reasons in 1.3 above. The Internal Audit Team Leader has concluded that even if capacity was created by buying in additional 'Audit days' there would still be the issue of the reduction in independence due to the Audit Team Leader's line manager being the line manager for a lot of other services.

2.2 Procure Audit management via a Service Level Agreement (SLA) or Enter into Partnership Arrangements with an External Provider

2.2.1 This is the option which both the Leadership Team and the Internal Audit service believe is best for MDDC. It was for this reason the background papers about the potential suppliers were provided with the report on 24 January. The Committee has not been asked to choose a supplier as yet.

2.2.2 This would be a shared service arrangement constituted under s20 of the Local Government Act 2000. Joining a local authority shared service partnership removes costly procurement exercises.

2.2.3 Under full partnership arrangements MDDC would be involved in the management of the service provider with representation on the Board of the organisation.

2.2.4 These arrangements are not likely to save money; the costs would be very similar to the present arrangements, but the resultant service should be an even more effective and efficient service than at present (i.e. it should improve the audit outcomes for the Council).

2.2.5 The Internal Audit Team Leader would be freed up to perform other statutory functions such as the preparing the Code of Corporate Governance and the Annual Governance Statement.

2.3 Tender for Internal Audit Services from External providers.

2.3.1 If we wish to consider commercial external providers we would need to publish an OJEU notice to invite potential suppliers to have discussions – possibly via a supplier day – and treat them all in the same way with the same access to information. It is important to document what is discussed so that

this can then be shared with all potential bidders in the case of a tender exercise.

- 2.3.2 The EU regulations minimum response timescales for a tender of this type of 15 days. However to give the supplier a chance to give their best possible offering longer is advised.
- 2.3.3 In terms of the whole process, this is really driven by how long we take to come up with a specification, evaluate tenders and make award decisions. That is what adds the time and so we are often looking at around 2-3 months all in. Possibly a bit longer if you want to do the official pre-procurement with the supplier day.
- 2.3.4 TUPE requirements still apply to the private sector but may make the contract less attractive to a potential supplier.
- 2.3.5 The organisations at 2.2 are “not for profit”, which is clearly a different position to any commercial organisations that would be likely to tender.
- 2.3.6 Regarding costs the CIPFA average cost per audit day for 2014/15 was £298 so the cost of our 500 days in the plan would be £149,000 although in practice the actual fee charged would likely be closer to the present budget.

3.0 Conclusion and Next Steps

- 3.1 Further work will be undertaken to agree the detailed timetable and budget with the party MDDC decide to work with and arrangements to co-ordinate software, training etc. will be necessary, this process will take about 3 months.
- 3.2 In addition, transitional internal audit management provision will be needed which ever route is chosen.
- 3.3 A further report will be brought to the next Audit Committee meeting on 21 March with further information to enable an informed decision to be made.

Contact for more Information: Catherine Yandle, Audit Team Leader, x4975

Circulation of the Report: Management Team and Cllr Peter Hare-Scott

List of Background Papers: None