

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
CHIEF FINANCIAL OFFICER	AUDIT AND GOVERNANCE COMMITTEE	28 SEPTEMBER 2023	5
INTERNAL AUDIT SERVICE			

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

RELEVANT LEAD MEMBER

This item is within the remit of Lead Member for Finance and Resources(Councillor Ellie Gaunt).

PURPOSE OF THE REPORT

The council's internal audit service is currently provided under contract by Mersey Internal Audit Agency (MIAA). This is based on a two-year agreement from 1st April 2022 to 31st March 2024. This report considers the effectiveness of this arrangement and proposes an extension of the agreement with MIAA for a further two-year period to 31st March 2026.

RECOVERABILITY

This decision is recoverable under section 7 of part 3 of the constitution.

RECOMMENDATIONS

The Committee is recommended:

To approve the re-appointment of MIAA, by a direct award under lot 2 of the NHS Business Services Procurement Framework, to provide internal audit services to the council from the end of the present contract until 31st March 2026.

REPORT

Need for and role of internal audit

- The Public Sector Internal Audit Standards (PSIAS) define auditing as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operation. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance procedures"*.
- There are also statutory obligations which require a local authority to maintain an internal audit service as follows:
 - Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for *"the proper administration of their financial affairs..."*. It is the view of the Chartered Institute of Public Finance and Accountancy (CIPFA) that proper administration requires a wider consideration of all aspects of local authority financial management and should include compliance with statutory requirements for auditing and internal audit.

- Under the Accounts and Audit Regulations 2015 a relevant local authority must 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 guidance¹.
3. In their statement of the role of the Chief Financial Officer, CIPFA sets out a number of key principles and responsibilities linked to the role including:

Ensuring that the authority has in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.
 4. It can be seen from the aforementioned paragraphs that the council must ensure the provision of an effective internal audit function. However, the precise form this takes is for the Council to determine.

Background

5. Until 2017, the council's internal audit function was provided by a directly employed head of internal audit, supported by two other audit staff, one of whom was also a qualified and accredited auditor. Subsequently, the post of head of internal audit was shared on a fifty-fifty basis with Preston City Council, while the other audit staff continued to be directly employed by Fylde. That arrangement came to an end in January 2021 due to the departure from the council of audit team staff members.
6. As a temporary arrangement to ensure the continued provision of an internal audit service, a one-year contract was awarded to Mersey Internal Audit Agency ('MIAA') to provide internal audit services to 31st March 2022. The arrangement proved to be satisfactory both in terms of the quality of the service and in terms of value for money and in February 2022 the Audit and Standards Committee agreed to extend the arrangement for a further two-year contract period to 31st March 2024.
7. To ensure a continuation of the provision of an internal audit service it is now timely to consider how the service is to be delivered after March 2024.
8. The budgeted cost of the current arrangement with MIAA in the current financial year is £90,424, based on delivery of the internal audit plan approved by the Audit and Standards Committee at its meeting of 16th March 2023.
9. The arrangements with MIAA have been in place since April 2021 and have proved to be an efficient means of delivering a high-quality and cost-effective service. Members will be familiar with Louise Cobain and Fiona Hill, who have been the lead auditors assigned to Fylde. They have been supported by other qualified auditors employed by MIAA. Management Team and the Corporate Governance Group remain very satisfied with the thoroughness and professionalism of the service that has been provided. The Audit and Standards Committee report of February 2022 considered a number of alternative ways of delivering the internal audit service. The Committee determined that a continuation of the MIAA was preferable and discounted each of the available alternatives as each presented a risk to the resilience of the service that the MIAA arrangement secures and would not necessarily achieve improved value for money. A link to that report can be found here: [Audit Committee Report February 2022](#)

Procurement considerations

10. Procurement regulations would not require the service to be exposed to further competition as a direct award can be made under the [NHS Business Services framework](#), which is open to the wider public sector as well as NHS bodies. MIAA is one of fifteen providers who can be appointed under lot 2 (internal audit) of the framework. Using the framework would provide assurance that procurement requirements had been met and that all providers were appropriately qualified and resourced to provide the services.
11. A direct award would be based on the rates provided by the supplier for the purposes of the framework. Rates are provided for different grades of auditor, based on a standard length of day, together with a blended day rate for audit work.

¹ See regulation 5

12. The present arrangement with MIAA is on the basis of a blended day rate of £350 per audit day. The blended day rate of MIAA on the framework is £376². This is the third lowest among the fifteen suppliers in lot 2. Officers consider that the blended day rate represents good value, and that any marginal saving that would be made by moving to another provider would not justify the dislocation that would be caused. On the working assumption that the internal audit plan for 2024/25 will require the same number of internal audit days to deliver as the current year, the framework rate of £376 per audit day would equate to £97,141 which is within the existing budget provision for delivery of an internal audit service. The net cost of the previous in-house internal audit provision was £107,597 during the last full year of its operation.
13. A direct award would be for 2 years commencing on 1 April 2024, on the rates, terms and conditions set out by the framework agreement. Making such an award to MIAA would allow the present well-regarded audit service to continue with no dislocation, at a satisfactory price and in compliance with the council's procurement rules and the Public Contracts Regulations 2015 ("PCR").

Recommendation

14. Officers are satisfied that the services offered by MIAA during the contract period have been robust, responsive, professional and proficient. The assigned auditors have become familiar with and familiar to officers and to members of the committee. Relationships of trust and respect have been established. An audit plan has been put in place and has, subject to adjustments agreed with the auditors, formed the basis of a methodical and thorough risk-based programme of assurance. MIAA has a broad range of auditors available and are able to utilise particular personnel to undertake more specialist work, drawing upon its staffing base.
15. As such, it is therefore unlikely that there would be scope for a change in provider to lead to a significantly better service and the renewal of the contract with MIAA for a further two-year term is recommended.

CORPORATE PRIORITIES	
Economy – To create a vibrant and healthy economy	
Environment – To deliver services customers expect	
Efficiency – By spending money in the most efficient way	√
Tourism – To create a great place to live and visit	

IMPLICATIONS	
Finance	If approved, the cost of the recommendation as detailed within this report can be met from existing budget provision for the delivery of an internal audit service.
Legal	Commissioning the service from an external provider would engage the legislation and internal rules about procurement. However, these could be satisfied by awarding a contract under an applicable framework. It may also be possible to structure a shared service to avoid procurement controls being engaged.
Community Safety	None arising
Human Rights and Equalities	None arising
Sustainability and Environmental Impact	None arising
Health & Safety and Risk Management	None arising

² The blended day rates in the framework range from £310 per day (CW Audit Services) to £1,028 per day (Deloitte).

SUMMARY OF PREVIOUS DECISIONS

Audit and Standards Committee, 18 March 2021:

1. To note the awarding of a contract, under the exempt contract procedure rules, by the Director of Resources to the Mersey Internal Audit Agency until the 31 March 2022 for a partial internal audit service including the role of Head of Internal Audit.
2. To seek an options appraisal report from the Head of Governance as soon as practicable to consider how the internal audit service can be delivered from 1 April 2022 onwards with resilience built into future arrangements.

Audit and Standards Committee, 23 February 2022:

1. To appoint Mersey Internal Audit Agency (MIAA), by a direct award under lot 2 of the NHS Business Services Framework, to provide internal audit services to the council from the end of their present contract until 31 March 2024.

BACKGROUND PAPERS REVELANT TO THIS ITEM

Name of document	Date	Where available for inspection

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue	paul.o'donoghue@fylde.gov.uk	September 2023

Appendix 1 - NHS Business Services Procurement Framework - Prices