

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	18 MARCH 2021	5
AUDIT SERVICE			

PUBLIC ITEM

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

SUMMARY

As members will be aware, the Shared Head of Internal Audit has recently left the authority to take up a position elsewhere. At the same time an auditor within the team has also resigned leaving the service with one FTE Senior Auditor. The rapid depletion of resources exposes the council's vulnerabilities in this small team and the lack of resilience which exists as a result.

This report proposes a short-term solution to address this issue prior to an options appraisal being instigated for the future delivery of the service.

RECOMMENDATIONS

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.

SUMMARY OF PREVIOUS DECISIONS

None arising

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	✓

REPORT

Background

1. The Public Sector Internal Audit Standards (PSIAS) define auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisations 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”*.

2. 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 and shall secure that one of their officers has responsibility for the administration of those 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, considering the public sector internal auditing standards and guidance.
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 afore-mentioned paragraphs that the council must ensure the provision of an internal audit function. However, the precise form this takes is open to the Council. In most recent years this has been in the form of a Shared Head of Internal Audit with Preston City Council together with a small internal team comprising two staff.

The Future

5. As members will be aware, the Shared Head of Internal Audit has recently left the authority to take up a position elsewhere. This post was a shared post on a fifty-fifty basis with Preston City Council. At the same time an auditor within the team has also resigned leaving the service with one FTE Senior Auditor. The rapid depletion of resources exposes the council’s vulnerabilities in this team and the lack of resilience which exists. Preston City Council intends to replace this post on a full-time basis going forward and it is clear that an option appraisal exercise with respect to the service is required. However, this not an insignificant piece of work which officers would struggle to respond to in the immediate future. This would leave the service exposed until this options appraisal was completed.
6. For this reason, the Director of Resources, in consultation with the Corporate Governance Group, has sought to find a short-term solution to bridge this gap in provision through the provision of auditing services being provided under a contractual arrangement.
7. Under the contract procedure rules the following provision exists under exempt contracts where a contract with the estimated value of goods and services to be supplied is £10,000 or more and other procedures cannot practicably be followed because:
 - (i) *the contract is an extension of an existing contract;*
 - (ii) *the contract is for spot purchasing fuel or utilities;*
 - (iii) *the goods, materials or works desired are of a proprietary or special character or for other reasons there would be no genuine competition; or*
 - (iv) *in the opinion of the Chief Executive the need for the goods materials or works is urgent.*
8. In relation to (iv) above the Chief Executive has agreed that the awarding of a contract in the short-term to sustain audit service delivery is considered urgent. Councillor Singleton, Chairman of the Audit and Standards Committee, has also been kept apprised of developments and agrees that a short-term solution is required to address this issue.
9. Under this procedure the relevant director must be also satisfied that the arrangements made secure the best available terms to the Council and must report the circumstances to the next available meeting of the relevant committee.

10. This report is therefore brought forward to members of the Committee to inform them of the awarding of a short-term contract running to 31 March 2022, to the Mersey Internal Audit Agency (MIAA) , to deliver both the Head of Internal audit role and fulfil the shortfall in general auditing hours. The MIAA has delivered work for the council previously to a high standard as it undertakes the council's specialist computer audit work. The MIAA has a proven track record of delivering audit, assurance and advisory services to the NHS and the public sector for over 25 years. It employs over 120 staff, of which 75 per cent are qualified, within the auditing field. Both the Director of Resources, together with the Corporate Governance Group, are confident that the MIAA will be able to bridge the gap in resources in the short-term and are therefore satisfied that this arrangement secures the best available option and terms at this current time.
11. The intention is that Head of Governance will bring forward an options appraisal report to the committee, as soon as practicable, but by the end of this calendar year at the latest, for discussion in order that a longer-term solution can be addressed for the future delivery of audit service ensuring that resilience is built into any future delivery model.
12. In the interim the MIAA will manage the internal audit service, including supervision of the remaining auditor. There will be a regular presence at key meetings, including attendance at the Audit and Standards Committee by a lead engagement manager for the contract. The costs of the contract will be met through the existed budgeted provision for the audit service, with a small shortfall being met from a virement from other staffing budgets, within the Resources Directorate.

Financial Implications

13. The cost of the contract with MIAA is £88,900 for the period 15/03/2021 to the end of the following financial year, which exceeds the available budget for the two currently vacant posts by £10,800. It is proposed that this shortfall will be met by way of virement from within existing budgetary provision in the directorate. As such the proposals in the report do not seek any additional financial resources beyond those already approved.

IMPLICATIONS	
Finance	The shortfall in budget provision between the cost of awarding the contract and the available budget for the two vacant posts will be met by a virement from existing revenue budgets. As such the proposals in the report do not seek any additional financial resources beyond those already approved.
Legal	A legal agreement has been entered into for the provision of services
Community Safety	None arising
Human Rights and Equalities	None arising
Sustainability and Environmental Impact	None arising
Health & Safety and Risk Management	None arising

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BACKGROUND PAPERS		
Name of document	Date	Where available for inspection