



Reigate & Banstead
BOROUGH COUNCIL
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REPORT OF:	DIRECTOR OF FINANCE AND ORGANISATION
AUTHORS:	Jocelyn Convey
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TO:	OVERVIEW & SCRUTINY COMMITTEE
DATE:	11 OCTOBER 2018

SUBJECT:	INTERNAL AUDIT PARTNERSHIP AGREEMENT
RECOMMENDATION: To note the Internal Audit Partnership Agreement report to be considered by the Executive on 18 October 2018, and to make any comments to support the Executive's consideration of the report.	
SUMMARY: Attached as Annex 1 is the report to be received by the Executive on 18 October 2018. The Overview and Scrutiny Committee is requested to consider the report in advance of its consideration by the Executive, to note the contents of the report, and to offer any comments resulting from this pre-scrutiny process to the Executive to support its consideration of the report. The Committee's attention is drawn to the Part 2 report (Agenda Item: 8) accompanying this item containing supporting exempt information.	

REPORT OF:	JOCELYN CONVEY, DIRECTOR OF FINANCE & ORGANISATION
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TO:	EXECUTIVE
DATE:	18 OCTOBER 2018
EXECUTIVE MEMBER:	COUNCILLOR T SCHOFIELD

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	ALL

SUBJECT:	INTERNAL AUDIT PARTNERSHIP AGREEMENT
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RECOMMENDATIONS:

- (i) That with effect from 1 April 2019, the Council join the Southern Internal Audit Partnership as a Key Stakeholder / Partner thereby securing market tested, quality assured and value for money Internal Audit services for the Council for a minimum period of five years.
- (ii) That the Section 151 Officer in consultation with the Monitoring Officer be authorised to enter into the joint working agreement with Southern Internal Audit Partnership.
- (iii) That the Section 151 Officer should represent the Council's interests by becoming a voting member of the Southern Internal Audit Partnership Key Stakeholder Board.
- (iv) That approval is given for exemption from the Councils contract procedures as detailed in part 2 of the report.

REASONS FOR RECOMMENDATIONS:

Following extensive market and quality assurance testing, it has been evidenced that the recommended provider offers the best value for money and quality of service.

The Council will join the Partnership as a 'discharge of function' as permitted by the S101 (5) of the Local Government Act 1972

EXECUTIVE SUMMARY:

The Council's existing contract, for the provision of Internal Audit services, expires in March 2019.

A process of market testing and due diligence has distilled down the available options to identify a preferred provider.

The purpose of this report is to set before the Executive the options available, the recommendation for the way forward and to seek approval for the Council to enter into a partnership agreement with the Southern Internal Audit Partnership.

The above recommendations can be approved by the Executive.

STATUTORY POWERS

1. Under the *Local Government Act 1972* and the *Accounts and Audit Regulations 2015*, the Council is required to maintain an independent internal audit function which ensures that the Council operates within the law and has effective control procedures in place to make certain that public money is spent effectively and efficiently.
2. S101 (5) of the *Local Government Act 1972* makes provision for 'discharge of function'. Legal opinion is that the delegation of the Internal Audit function, to an external provider, is reasonable.

BACKGROUND

3. From 1 April 2012 internal audit arrangements have been provided by RSM (previously RSM Tenon) by means of a joint contract with Epsom & Ewell Borough Council, Mole Valley District Council, Reigate and Banstead Borough Council, Tandridge District Council, Waverley Borough Council and Surrey Police & Crime Commissioner's Office, known collectively as the East Surrey Internal Audit Consortium.
4. The contract was taken out for an initial period of five years followed by an extension for a further two years. The current arrangements are due to end on 31 March 2019. New internal audit arrangements need to be put in place for a start date 1 April 2019.
5. The East Surrey Internal Audit Consortium undertook market testing and evaluation of the options :
 - a. Joining a Shared Service
 - b. Use of established frameworks
 - c. Full OJEU Tender
6. The Consortium concluded that on both price and quality the preferred option is the Southern Internal Audit Partnership. This opinion has been examined and is supported by the responsible officer for Internal Audit and the Section 151 Officer of the Council.

Southern Internal Audit Partnership

7. The 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. As a public sector provider SIAP is a Not for Profit body.

8. Operating from their headquarters in Winchester (with a number of sub-offices across Hampshire and West Sussex), the SIAP currently employ 42 FTE staff delivering approximately 7,000 audit days across a diverse portfolio of 27 public sector / third sector organisations. RBBC will be allocated a Strategic Lead and Audit Manager as a permanent point of contact; they may work out of the Horsham sub office, which is within a short commute from RBBC.
9. The SIAP brings together the professional discipline of internal audit, pooling expertise and enabling a flexible, responsive and resilient service to their partner and client portfolio. To provide optimum benefits to their partners and clients, SIAP work with management to improve their control environment, assisting in the achievement of their objectives.
10. To enable effective outcomes, the SIAP provide a combination of assurance and consulting activities. Assurance work involves assessing how well systems and processes are designed and operating, with consulting activities available to help improve those systems and processes where necessary.

Ways of working with the Southern Internal Audit Partnership

11. SIAPs current portfolio of clients engage with the SIAP either through on-boarding as a key stakeholder through accession to the Partnership Agreement or on a fixed term contractual basis. The form of engagement is at the discretion of the organisation and their individual needs and requirements.

Partnering (Key Stakeholder)

12. The Southern Internal Audit Partnership is constituted under S101 (5) of the Local Government Act 1972. As such those Local Authorities joining the Partnership do so as a 'discharge of function' and therefore negate the requirement to undergo costly and resource intensive procurement / tendering exercises.
13. The underlying Partnership Agreement was refreshed in February 2018. The Agreement requires buy-in of an initial five year term (31 March 2023) 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. However, both the partnering and contractual routes provide exit arrangements at any stage if the service does not meet its statutory requirements.
14. Due to the Partnership Agreement only recently being revised any members of the East Surrey Consortium wishing to join the SIAP would do so as an accession to the existing Agreement, meaning a reduced upfront commitment of only four years (31 March 2023) to align with the existing agreement. The accession agreement will incorporate any specific requirements set out by RBBC that are not covered in the Partnership Agreement.

Contracting

15. Whilst all local authorities that have joined the Southern Internal Audit Partnership have done so through the above 'discharge of function', SIAP does have a number

of clients that engage by way of a contract as part of a formal tender procedure for which the SIAP have submitted proposals and been assessed and awarded works against an open field of providers.

16. Typically contracts are of a fixed term nature (generally three years with the option to extend for a further two). Due to the short(er) term nature of the arrangements the SIAP's rates are indicatively higher than those experienced by 'partners'. (as a guide these should be expected to be approx. 10% - 15% higher than the composite partnership day rate). This is partly to contribute to the risk of increasing capacity for a fixed term arrangement and further to contribute to SIAPs costs of compiling tender submissions and managing client / contractor relationships.

Exit Arrangements

17. Both the partnering and contractual routes provide exit arrangements at any stage if service does not meet its statutory requirements.
18. The Partnership agreement clearly sets out the Exit Arrangements:
 - a. The withdrawing partners shall use their best endeavours to mitigate the withdrawal costs. (4.1.1)
 - b. The Partners (as represented on the Key Stakeholder Board) agree to discuss putting in place arrangements to release on a fair and equitable basis the Withdrawing Partner from any Ongoing Liabilities.(5.1.4)
19. It has been confirmed that TUPE will apply for 1 FTE employee who will transfer from RSM to SIAP. This will provide business continuity and local expertise. SIAP have confirmed that there will be no cost implications for RBBC.
20. Epsom & Ewell Borough Council as lead to the East Surrey Internal Audit Consortium have given notice to RSM that the contract for service will terminate on 31 March 2019.
21. RSM have been made aware that the members of the East Surrey Audit Consortium intend to separately enter into a new partnership agreement with SIAP or in the case of Waverley Borough Council a contract for service. Waverly BC has an in house Head of Internal Audit and is not seeking to 'discharge its' function'.

MARKET TESTING, VALUE FOR MONEY & QUALITY ASSURANCE

Market Testing

22. Joining a Shared Service - Consideration was also given to joining a shared service provider operating in the geographical region including: Surrey County Council (Orbis), South West London Audit Partnership and Southern Internal Audit Partnership (SIAP)
23. Use of established frameworks - Consideration was given to using a number of established frameworks including Crown Commercial Service – RS3747 and the Croydon Framework with Mazars – "APEX". A number of suppliers on the framework would be ineligible to bid for the work due to conflicts of interest as they

already provide external audit services to members of the Consortium. Further, the day rates are significantly higher.

24. Full OJEU Tender - The current provider market is not strong as evidenced by the recent tendering of the Croydon Framework that only attracted two bidders. It is unlikely that given the limited purchasing power of the Consortium it would be possible to attract suitable providers to respond to an invitation to tender. It is on this basis that a full OJEU tender was considered and dismissed.

Value for Money

25. The financial model adopted by providers varies. Some charge a composite rate for all scheduled audits, including IT and Fraud. Others charge an enhanced rate for IT and Fraud Audits. SIAPs composite rate includes both IT and Fraud audits. Most providers charge an additional rate for non-scheduled audits with the exception of SIAP who offer a flexible solution with no additional charge to the partner organisations as long as parity is restored over a three year period. Further details are provided in the exempt part 2 section of the report.

Quality Assurance

26. Southern Internal Audit Partnership has been externally assessed as compliant with the Public Sector Internal Audit Standards. In September 2015 the Chartered Institute of Internal Auditors were commissioned to complete an external assessment of SIAP. The assessment will be repeated every five years.

27. In considering all sources of evidence the External Assessment concluded:

“It is our view that the Southern Internal Audit Partnership generally conforms to all principles within the Standards. This performance is within the top decile of EQA reviews we have performed. This is a notable achievement given the breadth of these Standards and the operational environment faced by SIAP. It is therefore appropriate for the Southern Internal Audit Partnership to say in reports and other literature that it “conforms to the IIA’s professional standards” and that its “work has been performed in accordance with the International Professional Performance Framework (IPPF)”

28. References have been received from recipients of services provided by SIAP including: Winchester City Council, Hampshire County Council, East Hants DC & Havant BC, West Sussex County Council and Office of Sussex Police & Crime Commissioner. . All references provide assurance that a good quality of service is consistently delivered.

INSURANCE

29. London Borough of Sutton, the Council’s current insurance provider, has indicated that there would be no impact on the Council’s existing insurance policy as a result of entering into the partnership. However, they would like to see a copy of the contract when the arrangement has been agreed, to review what the agreements on liability would be if a claim was made.

30. Hampshire County Council (as host) Insurance provision for both Public Liability and Professional Indemnity has been evidenced and is deemed to be appropriate and sufficient.

GOVERNANCE ARRANGEMENTS

Key Stakeholder Board Meetings

31. As a member of the partnership the Council would have a place on the Key Stakeholder board which is comprised of the Chief Finance Officer of each Key Stakeholder. Each Key Stakeholder Board Member has one vote.
32. It is proposed that as part of the arrangements for RBBC joining the partnership, the S151 Officer / Director of Finance is appointed to represent the Council on the Key Stakeholder Board.
33. In the event that a Key Stakeholder Board Member is unable to attend a Key Stakeholder Board Meeting, a substitute may attend in his or her place subject to the substitute being a financial officer of sufficient seniority and duly authorised to make any decision that the Key Stakeholder Board Member would have been authorised to make had they attended
34. The Key Stakeholder Board shall meet bi-annually and at such times as the Key Stakeholder Board consider necessary), providing the opportunity to engage in performance reporting, business planning, resourcing, updates, and future direction of the Partnership.

Overview and Scrutiny Committee

35. The Annual plan, annual report and quarterly performance report will continue to be presented to the Overview and Scrutiny Committee for approval. All service audit reports will continue to be available on eMembers room.

LEGAL IMPLICATIONS

36. The proposal is for the Council to join a public sector to public sector partnership, which is permitted under S101 (5) of the Local Government Act 1972 that makes provision for 'discharge of function' for the provision of Internal Audit services.
37. This will ensure that the Council complies with its statutory duty, Under the Local Government Act 1972 and the Accounts and Audit Regulations 2015. This legislation requires the Council to maintain an independent internal audit function which ensures that the Council operates within the law and has effective control procedures in place to make certain that public money is spent effectively and efficiently.

38. Legal services working in partnership with the Project Manager have undertaken due diligence of the Joint Working Agreement and obtained satisfactory references from existing Key Stakeholders and Clients of SIAP.

FINANCIAL IMPLICATIONS – see section above on finance & manpower

39. There are no financial implications arising from this report as the cost of service will be met from within the existing revenue budget.
40. The day rate will be reviewed annually and any increase over the previous years shall be in line with inflation.
41. It is anticipated that on average 180 audit days will be commissioned each year.
42. It is a requirement, of the Council's contract procedural rules, that a contract procedure exemption be granted to allow the Council to enter into the partnership arrangement outside of the procurement process. This approach is recommended as it provides value for money by securing the services of a quality provider at a competitive rate. Full details are provided in the exempt part 2 section of the report

EQUALITIES IMPLICATIONS

43. Hampshire County Council, as host of the SIAP, has adequate and appropriate Equalities policies and procedures in place and provides training and guidance for staff on all aspects of the equalities agenda
44. An Equalities Impact Assessment is not required as the service provision will remain the same with only change being the service provider.

COMMUNICATION IMPLICATIONS

45. This report has been reviewed and commented upon by the Corporate Governance Group.
46. Subsequent to approval being given, details of the approved provider and on boarding arrangements will be communicated to the organisation.

RISK MANAGEMENT CONSIDERATIONS

47. Should approval not be given to enter into a partnership with SIAP, then it would be necessary to commence a procurement process. Given the lead time needed, this could prove to be very challenging and could result in the Council not having an audit plan in place at the beginning of the financial year 2018/19.
48. Consideration is given to the risk that SIAP is not able to expand its operations and mobilise staff to undertake on-boarding in a time to produce the annual plan before the start of the financial year. Assurance has been given that SIAP has begun to recruit additional Auditors and will reduce the amount of ad hoc and client work they undertake in order to divert resources to the new strategic partnerships. SIAP currently employs 42 FTE staff delivering approximately 7,500 audit days. This Council's requirement is for 180 audit days.

49. These risk are to be mitigated through strong managerial leadership, effective use of the Council's decision making process and good project management.

CONSULTATION

50. The Leader, Portfolio Holder for Finance and Chairman of the Overview & Scrutiny Committee have been briefed during the preparation of this report. The report was considered by the Corporate Governance Group on 30 August and by Overview and Scrutiny Committee on 11 October 2018.

POLICY FRAMEWORK

51. There are no policy framework considerations resulting from this report.