

# Crawley Borough Council

## Report to Cabinet

13 January 2022

### Provision of Internal Audit Services

Report of the Head of Corporate Finance, **FIN/553**

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#### 1. Purpose

- 1.1. With the retirement of all three members of the internal audit service over the past 10 months and the legal requirement to provide an internal audit service, this report seeks approval to enter into the Joint Working Agreement to receive internal audit services from [Southern Internal Audit Partnership](#) (SIAP) for the period of four years from 1 April 2022.
- 1.2. There is a statutory requirement to provide an internal audit service. The internal audit work is currently being undertaken by temporary members of staff with the management of the audits being undertaken on a temporary basis by SIAP until 31<sup>st</sup> March 2022. This is because of the short notice of period of staff involved.

#### 2. Recommendations

- 2.1. To the Cabinet:
  - a) Approve, with effect from 1 April 2022, that Southern Internal Audit Partnership provides the internal audit service for Crawley Borough Council.
  - b) Authorise the Section 151 Officer to enter into the Joint Working Agreement by way of a deed of accession with Southern Internal Audit Partnership and finalise the arrangements.
  - c) Approve the Section 151 Officer or their representative to represent the Council's interests by becoming a voting member of the Southern Internal Audit Partnership Key Stakeholder Board.

#### 3. Reasons for the Recommendations

- 3.1. To ensure that a statutory internal audit function is provided for the Council. By joining an existing shared service there will be access to qualified internal audit staff and specialisms not available to a team of two.

#### 4. Background

- 4.1. Internal Audit is a statutory requirement in local government as defined in the Local Government Act 1972. The Accounts and Audit Regulations 2015 (Regulation 5) require the Council to "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 guidance”.

- 4.2. The Council has delegated this responsibility to the Head of Corporate Finance (Section 151 Officer). Until recently the service has been provided by a small team employed by the Council. Prior to 1<sup>st</sup> April 2021 the team provided an internal audit service to Mid Sussex District Council. A member of the Audit team retired in April 2021 and as a result Crawley Borough Council stopped providing the service to Mid Sussex.
- 4.3. On 10<sup>th</sup> October 2021 the Audit and Risk Manager retired from the Council, leaving a final team member who also retired on 7<sup>th</sup> November 2021. This has left the Council with no permanent audit staff.

## **5. Provision of Internal Audit Services**

- 5.1. As a result of the remaining two members of the Audit team retiring in the last four months the internal audit service is currently being provided by temporary staff and some additional support from SIAP, with oversight until 31<sup>st</sup> March 2022 also being provided by SIAP. SIAP is fulfilling the Audit and Risk Manager role to ensure that an adequate Audit Plan is completed and reported to the Audit Committee for the current financial year.
- 5.2. Joining an existing shared service offers a number of advantages as SIAP has local government knowledge and is not for profit. It can provide flexibility, resilience and independence whilst also offering added value and sharing best practice.
- 5.3. SIAP is able to provide a strong proposal. It currently provides services to a range of other organisations including schools, local government pension funds and other district and borough councils, including Mole Valley which forms part of the shared procurement service.
- 5.4. Recruiting to the two vacant posts would not give access to a range of specialist auditors including IT auditors or the resilience afforded through access to a pool of available auditors.

## **6. The Southern Internal Audit Partnership**

- 6.1. The Southern Internal Audit Partnership (SIAP) is hosted by Hampshire County Council. It was established in 2012 and has a diverse portfolio of 25 public sector clients and provides 7,500 audit days.
- 6.2. SIAP's emphasis is on quality, professionalism and value adding services. It has a range of in-house specialists covering IT, procurement and contract management. SIAP has been externally assessed as compliant with the Public Sector Internal Audit Standards.
- 6.3. A report will be put before the Cabinet meeting in January 2022 recommending that the Council join as a partner as this would provide a number of advantages, rather than joining as a client where days can be requested annually. As a partner, the Council would become a member of the Key Stakeholder Board which would result in the Council having a say in the future direction of the Partnership, business planning, performance reporting, resourcing and updates. The Head of Corporate Finance (S151 Officer) or their representative would represent the Council's interests

by becoming a voting member of the Southern Internal Audit Partnership Key Stakeholder Board.

- 6.4. In addition, each partner can flex the audit days purchased to meet business needs, so they can use additional days when required as long as parity is restored over a three year period.
- 6.5. The Council would be required to enter into the Joint Working Agreement by way of a deed of accession. The Joint Working Agreement provides for a partner to pay an annual financial contribution, which is a proportion of the costs incurred by the SIAP in delivering audit services calculated on the number of internal audit days required by the Council. The composite day rate is reviewed annually and reflects pay costs based on national pay awards and annual increments and any increase or decrease in the operating costs of the joint service. Any other increase or decrease would be subject to the agreement of the SIAP Key Stakeholder Board.
- 6.6. If the Council joins with effect from 1 April 2022, it would have a commitment of four years (to 31 March 2026). Should the Council wish to exit the SIAP after that initial four year period, it is required to give 12 months' written notice in order to bring its participation to an end as of a financial year end.
- 6.7. If Cabinet agrees the recommendation, the Head of Corporate Finance will work with SIAP to agree the Audit Plan with effect from April 2022. The current year internal Audit Plan is also being revised to ensure that SIAP has the assurance that corporate risks are being mitigated.

## **7. Views of the Audit Committee members**

- 7.1. Members of the committee were asked for their views on the proposal. Feedback included.
  - a. Although the current situation is not ideal (i.e. shortage of auditors to recruit independently) the situation was out of the Council's control and the option to join a shared service appears to be the best alternative option.
  - b. Joining the shared service could potentially be beneficial to the Council as SIAP is independent and may provide more challenge.
  - c. Noted that the Council would have to give 12 months' notice to withdraw early from the agreement, at that time we could look for another provider or attempt to recruit internal staff.

Overall there was support from the Audit Committee members.

## **8. Implications**

### Financial

- 8.1. The SIAP option would be on par with the cost of two full-time salaries that the Council has budgeted for within internal audit. The day rate will be reviewed annually and any increase over the previous year shall be in line with inflation. There is no cost of joining the partnership.
- 8.2. There will therefore be no financial implications arising from this report as the cost of the service will be met from within existing budgets.

- 8.3. There are no TUPE implications as all posts are vacant.
- 8.4. Other options were pursued including advertising for the vacant posts, however there are challenges in recruiting to professional roles such as auditors due to competition in the labour market. Another option pursued was outsourcing, however this was more costly due to SIAP being a not for profit organisation. The SIAP option therefore represents the best value for money in the current employment climate.

#### Legal

- 8.5. Under the Accounts and Audit Regulations 2015 the Council is required to ensure that it has a sound system of internal control which; (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) ensures that the financial and operational management of the Authority is effective; and (c) includes effective arrangements for the management of risk.
- 8.6. Section 101 of the Local Government Act 1972 enables an Authority to make arrangements for the discharge of its functions by a Committee, Sub-Committee or officer of the Authority or by another Authority.
- 8.7. As is outlined above, if agreed by Cabinet, the Council will be entering into a Joint Working Agreement as a partner. The Joint Working Agreement regulates the relationship between all the partner authorities, including the governance structure, the roles and responsibilities of each partner authority towards the other partner authorities, the financial contribution arrangements, information sharing protocols, withdrawal/exit provisions together with the scope of internal audit services.
- 8.8. Under Section 101 of The Local Government Act 1972 a Council may arrange for the discharge of its functions to another Authority. Section 9EA of The Local Government Act 2000 and Regulation 5(2)(a) of the Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2012 enables Cabinet to delegate the discharge of one of its executive functions to another Authority. As the Council is not entering into a contract for services with SIAP (which is the other possible model), public procurement legislation does not apply as Crawley will be discharging its duty to another authority.

## **9. Background Papers**

*None.*

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