

## AUDIT AND RISK COMMITTEE

8 April 2014

### REVIEW OF INTERNAL AUDIT – SERVICE UPDATE

Report of the Director of Resources

|                  |     |
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| STRATEGIC<br>AIM | All |
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#### 1. PURPOSE OF THE REPORT

- 1.1 To brief the Committee on staff changes in the Internal Audit team and options for future service delivery.

#### 2. RECOMMENDATIONS

- 2.1 That the Committee notes the proposed way forward as set out in 3.8.

#### 3. BACKGROUND

- 3.1 The Council commissioned an independent review of the Internal Audit function (report 142/2013). The findings, although disappointing, were broadly as expected following the Head of Internal Audit's own self-assessment as reported in the Annual Report (139/2013).
- 3.3 The Welland Internal Audit Board and the Audit and Risk Committee wanted to see improvements in the way Internal Audit services were delivered in line with an agreed action plan. Should these improvements not be made, the Board and this Committee confirmed that it would consider its options which included looking at different delivery models or reviewing the way in which the team is led and managed.
- 3.4 The Assistant Director (Finance) reported in January 2014 (Report 25/2014) that good progress had been made although arrangements still needed to be embedded.
- 3.5 Since January, there has been one key development, namely that the Head of the Welland Internal Audit Consortium has confirmed that he will retire at the end of August 2014. Against, this backdrop the Welland Internal Audit Board has reviewed the current position and potential

options to assess whether simply recruiting a new Head of Audit is still the preferred course of action.

3.6 The potential service delivery options are:

1. Full outsource – the procurement of an internal audit service from an external provider;
2. Co-source – combination of an in-house team and one or more external providers;
3. Shared service (the current model) – internal audit delivered by an internal team, employed by one of the member organisations, and who work across member organisations.

3.7 Indicative costs and advantages/disadvantages for each model have been discussed by the Board. The results are shown below with notes:

| Option   | Costs         | Advantages/Disadvantages   |
|--|---------------|--|
| Full outsource (1)   | £534k - £668k | <ul style="list-style-type: none"> <li>+ Greater resilience</li> <li>+ Access to wider/specialist resources</li> <li>+ No recruitment costs</li> <li>+ Potentially better quality but experience is mixed</li> <li>- Contract management required</li> <li>- Continuity of staffing not guaranteed</li> <li>- Increased cost even if external providers argue 10-20% productivity gains</li> <li>- Takes time and cost as OJEU process is required</li> <li>- Change of scope may require changes in contract</li> </ul> |
| Co-source (2)  | £480k - £520k | Combination of models 1 and 3  |
| Current model (3)  | £300k         | <ul style="list-style-type: none"> <li>+ Continuity of staffing</li> <li>+ Greater familiarity with clients</li> <li>+ Scope of service easily modified</li> <li>- Lack of resilience</li> <li>- Access to specialist advice is limited</li> <li>- Some difficulties in recruitment as pay rates not always competitive in this market</li> </ul>  |
| <p>(1) Costs based on days required (1335) multiplied by an estimated day rate range of £400-£500 per day following informal discussions with suppliers and the knowledge of the Board of rates charged elsewhere. As staff currently employed would TUPE transfer, providers would wish to see details of employment packages before deciding rates.</p> <p>(2) Assumes 400 days commissioned and the remainder provided in-house. Day rates higher as buying-in a Head of Audit would cost more per day (£500 - £650 per day) than a general composite rate.</p> <p>(3) Costs are shared between 5 local authorities</p> |               |  |

- 3.8 In light of the above considerations, the Board proposed and agreed the following recommendations with the Welland Chief Executives:
1. That the current shared service model is continued;
  2. That a new Head of Internal Audit is recruited and that a market supplement (the cost of which will be shared between the five authorities) is applied to this role to attract the best possible candidate;
  3. That the five authorities consider additional investment into the service (in the range of £50-£60k) that will allow it to address the issue of resilience through either a) allowing the Head of Internal Audit a budget to procure external support as required, or b) allowing for an increase in the staffing structure; and
  4. That the Board continues to look for other authorities to join the shared service arrangement so as to further increase resilience, capacity and available skills.
- 3.9 The Board will be preparing a paper in relation to point 3 for the Welland Chief Executives to consider but the recruitment of the new Head of Internal Audit will begin shortly.

#### 4. RISK MANAGEMENT

| RISK                   | IMPACT | COMMENTS  |
|------------------------|--------|---|
| Time                   | High   | Action to address the departure of the Head of Audit must be taken quickly.           |
| Viability              | Medium | The Council should be able to recruit a Head of Audit.                                |
| Finance                | Low    | There is a potential financial cost in the region of £15k for this Council.           |
| Profile                | Medium | The profile of Internal audit is relatively high in light of previous service issues. |
| Equality and Diversity | Low    | EIA screening produced a low result; therefore a full EIA was not required.           |

Background Papers

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