



**Rochford District
Council**

COMMITTEE TITLE Audit & Governance Committee

DATE 3 September 2024

REPORT TITLE:	Review of internal audit services
REPORT OF:	Tim Willis, Interim Resources Director

REPORT SUMMARY

Rochford’s internal audit services are currently provided by Basildon Borough Council. RDC plans to review and tender for internal audit services in conjunction with Brentwood (whose internal audit services are currently provided by BDO) with the intention that the new arrangements have effect from 1 April 2025. This report sets out the plan and timetable for the process.

RECOMMENDATIONS

That the Committee notes the report.

1.0 BACKGROUND INFORMATION

- 1.1 Rochford’s internal audit services are currently provided by Basildon Borough Council (Basildon) via a partnership agreement. Rochford wishes to tender for provision, from 1 April 2025, of its internal audit services. This will be done in conjunction with Brentwood, with the aim of achieving better value for money, greater resilience and a consistent approach to delivering the internal audit plan.
- 1.2 Rochford/Brentwood are committed to a OneTeam strategy, to bring together services of the two councils to create a more resilient, efficient service. The two internal audit services will now be similarly considered to establish the benefits of a single supplier.

- 1.3 Both council's suppliers have one-year contracts in place for 2024-25 and have been informed that this review will be undertaken. Although a new contract or contracts will be effective from 1 April 2025, there is expected to be a handover to accommodate any outstanding audits, follow-ups due, and outstanding recommendations. The new contract is planned to be for three years and may provide for an extension.
- 1.4 There are considered to be no TUPE implications of any change in supplier on the part of BDO, but TUPE would apply for Basildon. It is not yet certain that any specific staff would TUPE from Basildon to a new provider, as the Basildon internal audit team also provides the service to Basildon itself.

2.0 OBJECTIVES OF THE REVIEW

- 2.1 The review objectives are:
- To reduce costs overall, and ideally for each Council.
 - To establish a longer-term arrangement for the internal audit service.
 - To enable an enhanced internal audit service that supports the maintenance of internal controls and assists the Councils in obtaining value for money.
 - To build on the existing good practice in each Council.

3.0 OPTIONS REGARDING THE PROVIDER

- 3.1 The primary options are:
- Continue as-is, with Basildon for Rochford and BDO for Brentwood.
 - Appoint one or other of the existing providers, as an outcome of the process, to be responsible for both Councils' internal audit service.
 - Appoint a new provider for both Councils (not for each Council).
- 3.2 A further option to provide an in-house service for both Councils (not for each Council) was considered. However, given the limited management capacity within each council and the risks of recruitment and retention, it was decided to exclude this option.
- 3.3 There are a limited number of providers that could feasibly carry out the work: large accountancy firms like BDO (although they may be expensive); local authority audit teams like Basildon that could expand their operations; or more specialist firms such as those that provide services to the public sector (though these are few in number).

- 3.4 All providers are struggling to recruit, train and retain auditors, which will present a challenge to achieving all objectives.

4.0 SCOPE OF INTERNAL AUDIT

- 4.1 A draft schedule of services has been developed. It is attached for information and comment. This may be varied to ensure compliance with the format of any framework used for procurement. The essence of audit work is the production of an audit plan before the financial year; quarterly formal reporting of progress during the year on specific audits and follow-ups; and an end of year audit report, including the Internal Audit Opinion. Of course, it is important that the conduct of the audit provider is professional, with adequate consultation with management, availability of staff to deal with queries and reports presented at committee. The audit plan may be varied and supplemented during the year with advisory/consultancy assignments.
- 4.2 An option was considered to appoint a permanent member of staff to be the Chief Internal Auditor for both councils, which would add capacity and resilience and reduce, to some extent, the cost of outsourcing. However, this was deemed to be too expensive, especially as the current arrangements are adequate, with the S151 Officer and Corporate Manager (Technical & Accounting) acting as an intelligent client on the councils' side.

5.0 PROCUREMENT ROUTE

- 5.1 It is proposed to use a framework, such as the Crown Commercial Services framework for audit & assurance, which has 19 providers. The providers include some that are specific to the NHS so are unlikely to bid, but it also includes the large accountancy/audit firms as well companies that offer audit services to local government, such as TIAA. Basildon will be approached to ascertain their appetite and capacity to provide a service to both councils.
- 5.2 The value of the contract, which is planned at this stage to be for three years with a possible option to extend, is targeted as £600,000 for the three years and adequate budget exists.

6.0 CURRENT PROVIDERS

- 6.1 It is important to continue to work constructively with the two providers (Basildon and BDO) and to keep them informed of progress regarding this exercise, without imparting any information that would be anti-competitive. At this stage, both providers have indicated they may be interested in the two-council contract.
- 6.2 It is considered that at least 200 audit days are required for each council, ideally 200 audit delivery days plus management days. Therefore a target for

this review is to approve a provider that delivers an adequate number of days within the budget available.

7.0 INDICATIVE TIMETABLE

7.1 The timetable for delivering the new contract is set out below:

Date	Action
June 24	Seek approval of Statutory Officers and CLT for the review
July 24	Review the supplier market, verify interest from existing providers to present a case to take on both Councils' audit service
Aug 24	Prepare a specification for the service
Sept 24	Report to audit committees on the plan
Sept 24	Go out to tender
Nov 24	Evaluate tenders and provide indication to successful bidder Conduct any post-award negotiations and resolve any clarifications
Dec 24	Report to audit committees on outcome Notify current providers of outcome Formally contract with new providers
Jan–Mar 25	Make arrangements for handover between providers
Apr 25	New contract(s) begin

8.0 OTHER OPTIONS CONSIDERED

8.1 As set out in the report.

9.0 RELEVANT RISKS

9.1 The handover period could result in the late presentation of a 2025-26 audit plan and a slow start to audit assignments. However, this should be manageable, in terms of risks to internal control.

10.0 ENGAGEMENT/CONSULTATION

10.1 None.

11.0 FINANCIAL IMPLICATIONS

11.1 Described in the body of the report.

12.0 LEGAL IMPLICATIONS

12.1 None.

13.0 ECONOMIC IMPLICATIONS

13.1 None.

14.0 EQUALITY & HEALTH IMPLICATIONS

14.1 None.

15.0 ENVIRONMENTAL & CLIMATE IMPLICATIONS

15.1 None.

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Attached: Draft schedule of audit services

EXAMPLE GENERAL TERMS AND CONDITIONS OF CONTRACT

Appendix 1

1. INTRODUCTION

- 1.1 Rochford District and Brentwood Borough Councils (the Councils) are seeking to engage an external provider of suitably qualified and experienced auditors to deliver the Councils' Internal Audit services.
- 1.2 This document sets out the functions, performance standards and expectations required from the external provider.
- 1.3 The contract will start from 1st April 2025 for a period of 3 years. The contract will be subject to a one-plus one-year extension if both parties are satisfied with its delivery.
- 1.4 The timing and areas to audit may vary as a result of staff availability and changes to the Councils' risk environment. Any such changes will be discussed and agreed with the external provider at the earliest opportunity.

2. BACKGROUND

- 2.1 The Councils have recently reviewed the options for delivering their Internal Audit service. Following this review, it has been agreed that the most effective model of delivery is for a single provider to provide services to both Councils, via either a single contract or two contracts.
- 2.2 The provision of Internal Audit services will include audit reviews in areas that are designed to improve and optimise the Councils' performance in relation to their corporate priorities, such as:
 - internal processes and controls;
 - legislative compliance;
 - management of information systems;
 - tendering and contracts probity reviews;
 - operational or value for money reviews;
 - adequacy of corporate governance arrangements.
- 2.3 The primary aim of the Councils' Internal Audit function is to provide independent and objective assurance to management and the respective Audit Committees that an effective control structure exists and that internal controls are aimed at ensuring that:
 - the conduct of business is orderly and efficient;
 - irregularities are prevented (as far as possible) and detected should they occur;

- areas for continuous improvement are identified;
- assets are safeguarded from unauthorised use or disposal; and
- financial records and systems completely and accurately reflect the operational activities of the Councils and permit the timely preparation of information.

3. **PURPOSE AND SCOPE OF CONTRACT**

- 3.1 The primary role of the external provider is to assist the Councils' S151 Officer to review the adequacy and effectiveness of the Councils' governance, internal processes, control environment and risk management systems.
- 3.2 The work produced by the external provider will be used to support the S151 Officer in delivering the assurance function and providing an independent and objective opinion to the Audit Committees on the effectiveness of the Councils' control environment.

4. **SERVICE SPECIFICATION AND REQUIREMENTS**

4.1 It is the responsibility of the S151 Officer to:

- client and coordinate the overall Internal Audit services for the Councils;
- approve the annual Audit Plans;
- monitor the performance of the external provider.

4.2 It is the responsibility of the external provider to:

- manage the effective and appropriate use of internal and external resources to deliver the Annual Audit Plan;
- prepare the Annual Internal Audit Plan and Annual Audit (retrospective) report including an opinion;
- identify the work to be undertaken (in line with the Annual Internal Audit Plan), including scoping, audit timings, and appropriate resourcing;
- ensure that arrangements are made to follow up audit recommendations;
- carry out audits, management requests and other investigations allocated by the S151 Officer;
- provide assistance with the preparation and implementation of any reviews of the Councils' policies, plans, procedures, and regulations as deemed necessary.

4.3 In undertaking this work, the external provider will be expected to:

- liaise and build good working relationships with Councils' staff, management and lead members;

- ensure that all staff engaged for audit reviews possess the appropriate skills, qualifications and experience;
- prior to the commencement of any audit, prepare a detailed audit brief, which needs to be presented and agreed with the relevant manager of the area being audited;
- propose and agree the systems-based methodology or other methodology to be used in conducting audit assignments;
- have in place appropriate procedures and management controls to ensure quality audits are conducted;
- ensure that identified risks associated within the area of review are taken into consideration and that the final report provides strategies to mitigate the risks;
- immediately report any instances of fraud, misappropriation and / or corruption identified to the S151 Officer;
- implement a methodology which will provide the Councils with business value, one which is focused on business process risks and incorporates the application of better practice principles;
- discuss and agree draft findings and recommendations with relevant managers and the S151 Officer;
- ensure that all work is checked for quality and accuracy, and that the objectives of the review have been met, prior to submission;
- ensure that all staff engaged in the Councils' work have signed a declaration of interest;
- ensure all staff engaged in the Councils' work are made aware of the 'Restrictions on Public Political Activity' – pursuant to Section 2 (2) of the Local Government and Housing Act 1989;
- ensure that its staff maintain objectivity by remaining independent of the activities they audit; and
- Attend Audit Committee as requested to present report findings.

5 TECHNICAL COMPETENCIES

5.1 The external provider shall:

- provide details of ongoing staff training and development policies and procedures;
- details of key staff to be engaged in the audit programme, including brief CV and seniority; and
- assign staff with the appropriate qualifications, skills and experience to undertake audit assignments.

6 THE PLANNING PROCESS

6.1 This section describes the Councils' and the external provider's responsibilities with regards to the audit planning process.

6.2 Risk Assessment Process

6.2.1 The S151 Officer will undertake an assessment of organisational risks and risks within individual systems to identify audit needs, which are then to be incorporated in the Annual Internal Audit Plan.

6.2.2 The external provider will be required to inform the S151 Officer of any matters that come to their attention which may impact on the risk assessment process.

6.3 Annual Internal Audit Plan

6.3.1 The external provider will produce a risk-focused Annual Internal Audit Plan, identifying the audits and / or reviews to be covered in the respective financial year and will include a schedule of the audit work planned, and agree it with the S151 Officer.

6.3.2 Any changes to the contents, implementation and timing of the Annual Internal Audit Plan will be agreed between the parties during the year.

6.4 Audit Scope

6.4.1 Prior to the commencement of an audit, with the direction of the S151 Officer, the external provider will prepare a detailed scoping document of audit coverage.

6.4.2 The scoping document will be presented to the respective auditee and will include (but not be limited to) the following components:

- key objectives of the audit;
- audit methodology;
- budgeted days (including the anticipated date of commencement and audit completion); and
- external provider team members responsible for conducting the audit work.

6.4.3 The external provider will ensure that any variations or modifications to the approved scoping document (including audit costs and audit timings) are discussed and approved with the S151 Officer in advance.

7 **QUALITY CONTROL PROCESSES**

7.1 System of Quality Control

7.1.1 The external provider will maintain a system of quality control to ensure that its staff complies with, and work is completed to, professional standards and the Code of Practice for Internal Audit and the Public Sector Internal Audit

Standards and that conclusions and recommendations are relevant and appropriate.

7.1.2 The details of the external provider's quality control system will be made available to the S151 Officer.

7.2 Evidence of Quality Control

7.2.1 The external provider will ensure that all documentation (including the briefings, process flow charts, draft audit reports and final audit reports and supporting workings) are quality control reviewed prior to the draft report being issued and that audit files (whether in hard or electronic copy) show clear evidence of quality review.

8 **REPORTING ARRANGEMENTS, DOCUMENTATION AND MEETINGS**

8.1 The primary purpose of Internal Audit reports is to provide management and the Audit Committees with information on significant audit findings, conclusions and recommendations.

8.2 The reports produced by the external provider should at a minimum include the following:

- a summary of the scope and objectives of the work carried out;
- the methodologies which have been applied to the audit work;
- a statement which summarises the level of assurance achieved as a result of audit work performed in line with the Councils' Internal Audit opinion statement and definitions;
- risk and / or priority ratings assigned to each control weakness;
- control weaknesses and improvement opportunities; and
- graphs and tables, where appropriate, of the processes and control environment reviewed.

8.3 Exit Meetings

8.3.1 The external provider will be required to discuss the conclusions and findings arising from all audits undertaken at scheduled periodic meetings with the S151 Officer as well as the relevant line manager.

8.4 Audit Committees

8.4.1 The external provider will be required to attend the Audit Committees to present completed audit reports.

8.5 Quarterly Performance Reviews

8.5.1 The external provider will attend quarterly performance review meetings with the S151 Officer in order to review progress against the Performance Standards

as set out in the Contract, to discuss planning of future audits, delivery of ongoing audits and any other matters which may arise relating to contract management, quality, monitoring and performance.

8.6 Additional meetings

8.6.1 From time to time the external provider and / or their representatives may be required to attend other meetings of the Councils such as the Corporate Leadership Team meeting.

9 Management and Monitoring

9.1 This section describes the arrangements for the management and monitoring of the quality of the Internal Audit service and performance under the agreement.

9.2 Performance of the external provider will be assessed by the Councils' S151 Officer, by reference to the following Key Performance Measures:

	Deliverable by the external provider	Criteria for Measurement of Performance
1	<p>Completion of allocated audit work in accordance with the Internal Audit Plan, within targets and established timelines.</p> <p>This includes:</p> <ul style="list-style-type: none"> - Scoping and Planning; - Fieldwork; - Reporting; and - Finalisation of meetings with management. 	<p>Scoping – subsequent to consultation with the S151 Officer (or delegated officer), the agreed Audit Brief is to be prepared and presented to the relevant stakeholder(s), and fieldwork to commence within 10 days of issue.</p> <p>Any changes to the Audit Brief following commencement of fieldwork to be agreed by the S151 Officer and the relevant stakeholder(s)</p> <p>Fieldwork – this is dependent on the nature of the audit. Fieldwork is to commence only once the Audit Brief has been approved by the respective line manager and S151 Officer.</p> <p>Draft Report and Exit Meeting – preliminary exit meeting with relevant stakeholder(s) to discuss the draft report, are to be carried out within 10 days of the completion of audit fieldwork, at a pre-arranged time.</p> <p>Final Audit Report – the Final Audit Report, incorporating management responses, responsibilities and target action dates, is to be issued to the relevant stakeholder(s) within 15 days, following notification of the management responses being received. Management responses will be expected to be provided to the</p>

		external provider within 15 days of receipt.
2	Completion of work within the budget agreed as part of the scope and objectives approved for the Services.	Any deviations to the final agreed scope including days should be negotiated with the S151 Officer during the course of the audit. Invoice to match the audit scope. 100% of audit reviews completed in target or prior approved extension by the S151 Officer.
4	Audit recommendations accepted and/or rejected by management.	100% audit recommendations are accepted by management and implemented within the agreed timescales.
5	Client satisfaction with the level of service that has been provided by the external provider.	Audit Surveys following the completion of each audit report – target of 80% auditee satisfaction.

9.3 Any alterations to the above deliverables are subject to the approval by the S151 Officer.

10 STAFF - QUALIFICATIONS, EXPERIENCE & PROFESSIONALISM

10.1 The external provider will ensure that all resourcing is agreed with the S151 Officer prior to the commencement of fieldwork.

10.2 The external provider will make all reasonable efforts to ensure that there is continuity of staff employed during the conduct of each individual audit or project.

10.3 The staff to be assigned on the engagement are to be suitably qualified with relevant experience.

10.4 The external provider will ensure that all staff comply with the International Professional Practices Framework (IPPF) Code of Ethics while undertaking work for the Councils – statement of principles and expectations governing behaviour of individuals and organisations in the conduct of internal auditing.

11 PAYMENT ARRANGEMENTS

11.1 Payment of the contract fee will be made quarterly in arrears.