

SHARED INTERNAL AUDIT SERVICE WITH BASILDON BOROUGH COUNCIL

1 PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek Council's approval to delegate its internal audit service to Basildon Borough Council under Section 101, Section 111, and Section 113 of the Local Government Act 1972, with effect from 1 July 2022, in order that a Shared Internal Audit Service can be established across both councils from that date.

2 INTRODUCTION

- 2.1 It is proposed that the Council should delegate its internal audit service to Basildon Borough Council with effect from 1 July 2022 so that the service is performed by them on behalf of the Council from that date going forward. This is permissible under Section 101, Section 111 and Section 113 of the Local Government Act 1972 and will create a Shared Internal Audit Service across both councils.
- 2.2 Basildon Borough Council has already agreed to accept this delegation at its Full Council meeting on 24 March 2022, subject to the appropriate governance being undertaken by the Council and finalisation of the supporting legal agreement being signed by both councils.

3 BACKGROUND

- 3.1 Effective internal audit services have a vital role to play in helping councils achieve their objectives by ensuring the soundness of governance, risk management and control arrangements. To remain effective in the increasingly challenging backdrop, internal audit teams need to be fit for purpose and provide assurance of the necessary quality, depth, and coverage.
- 3.2 The Council currently has a small team of two officers, supplemented by Chief Audit Executive support provided by Basildon Borough Council; however, due to the imminent retirement of the Council's Principal Auditor the Council has had to re-consider options for the delivery of its Internal Audit Services going forward. The potential options considered were:

Option 1: Recruit a like for like replacement for the Principal Auditor position

Recruitment of a like for like replacement is not recommended. Across the local government sector the recruitment of good internal auditors with relevant experience is very challenging. There are a limited number of candidates available and it is difficult for small local authorities to compete with bigger employers. In addition, the replacement of a single post will not deliver any additional resilience in service provision and will not address the 'key man' risk for the Council since there is a reliance on the Principal Auditor post to

deliver a significant amount of work as well as manage and support the Auditor post, and therefore it would not be easy to manage any unexpected absences.

Option 2: Procure an Internal Audit service from the external market

- 3.2.1 Securing a private sector provider would involve a formal procurement exercise to be undertaken. Whilst the specification would require local government experience, it is unlikely that it would have local knowledge and would be less likely to be responsive to the Council's specific needs. A procurement process would be time consuming and resource intensive and require a transition/handover period of several months to 'bed in' a new provider, with a high risk that there will be disruption to Internal Audit service provision in the meantime. Therefore, this is not the preferred option

Option 3: Enter into an arrangement with another authority to provide Internal Audit services on the Council's behalf

- 3.2.2 This is the preferred option. A shared services solution enables the Council to utilise resources with relevant local government experience which provides greater resilience across both councils.
- 3.2.3 The Council has recently entered into a strategic partnership with Brentwood Borough Council, with Jonathan Stephenson appointed as joint CEO and the intention of sharing a management team and working together more closely over the medium term. This would therefore be the natural starting point for discussions about a joint service; however, Brentwood Borough Council is not in a position to join up Internal Audit services at this time as they are currently committed to an external contract. Going forward it may be an option for Brentwood Borough Council to also join this shared service arrangement.
- 3.2.4 The Council does, however, have an existing relationship with Basildon Borough Council to provide its Chief Auditor function, which has worked very well over the past few years. The proposed shared service is a natural extension of that successful relationship, and this is therefore the preferred option.

Details of the Preferred Option

- 3.3 It is proposed for Basildon Borough Council to deliver a full, professional Shared Internal Audit Service (SIAS) that will meet the statutory requirements of the Public Sector Internal Audit Standards (PSIAS). Bringing together the professional discipline of internal audit into one team provides the opportunity to deliver a more resilient and responsive service that would allow internal audit work to be carried out seamlessly and without barriers across the two councils. An SIAS would create a pool of auditors available to work across the two councils, providing additional resilience to cover holidays, training and any sickness. Through working across more than one council the options for

auditors to develop and use specialist skills will increase. Initiatives can be developed at one council and then rolled out across the other.

3.4 Reflecting the drivers for change, the objectives of the new SIAS are to:

- deliver a programme of high quality and reliable assurance on all key governance, risk and control systems to each council, operating in accordance with statutory requirements, professional standards, and recognised best practice methodology;
- deliver high standards of customer service and be responsive and flexible in its approach, offering the benefits of a 'close' in-house team;
- offer a wide base of experience, resilience, specialisms and skills, taking advantage of the economy of scale available to larger audit teams;
- deliver efficiencies through exploiting opportunities for joined up working, adopting a common methodology and service standards, sharing knowledge, skills and expertise;
- provide a supportive and stimulating working environment for those staff working in SIAS with opportunities for career development; and
- be open to future opportunities to expand the SIAS, the ability to become commercial and offer services to other organisations.

3.5 The proposed arrangement will be a collaboration falling within the scope of Section 101 of the Local Authorities Act 1972, which allows authorities to collaborate in relation to administrative, professional or technical assistance. This permits Basildon Borough Council to offer an Internal Audit service to other Councils and allows those other Councils to commission Basildon Borough Council to provide this service for a fee.

3.6 Where the Transfer of Undertakings (Protection of Employment) Regulations 2006 (as amended) apply, there is an automatic transfer principle which means that the employees who are assigned to the work that is moving across will transfer to Basildon Borough Council on their existing terms and conditions of employment.

3.7 The arrangement will be governed through an agreement under the Local Government Act 1972 between the two participating authorities, setting out the arrangements in place to govern relations between the partners, and performance standards and expectations.

3.8 The responsibility for the adequacy of the entire system of internal audit at each council remains firmly with the councils themselves, who will continue to:

- be responsible for overseeing the effectiveness of the internal audit function at Council level, and holding the Audit & Counter Fraud Service Manager to account for delivery.

- be responsible for the effectiveness of their respective governance, risk management and control arrangements, holding managers to account for delivery.
- receive regular progress updates on internal audit work, consider key themes and issues, and take them forward as necessary.

3.9 For the avoidance of doubt:

- each council's Section 151 officer will remain fully responsible for establishing a clear framework for the proper administration of their respective authority's internal affairs;
- each council remains fully responsible for fulfilling its obligations and duties under the Accounts and Audit Regulations 2015; and
- each council will retain their own Audit Committee.

4 RISK IMPLICATIONS

- 4.1 It is possible that, at a future date, either authority may wish to end the arrangement, and this may result in the transfer of a number of employees from Basildon Borough Council to the Council if the Transfer of Undertakings (Protection of Employment) Regulations 2006 apply. This will depend upon the work that the employees within the team are undertaking at that time.
- 4.2 It may also be challenging for Basildon Borough Council to recruit staff into the vacant positions to cover the internal audit functions of both authorities, which could result in a reduced service being provided to both authorities. It is anticipated that this can be mitigated through a successful recruitment campaign or by backfilling the roles using agency staff or through the Cross Council Assurance Service (CCAS) framework. Any additional costs incurred will be apportioned across the two authorities.

5 RESOURCE IMPLICATIONS

- 5.1 Basildon Borough Council will charge for its time based on actual cost incurred. Based on an Audit Plan of 357 chargeable audit days it is anticipated that the annual cost will be c.£113k compared to a 2022/23 Internal Audit staffing budget of £127k, but this will be closely monitored going forward. Any saving made from the arrangement may be required to help resource wider governance support not directly covered under the SIAS arrangement but currently carried out by the Principal Auditor.

6 LEGAL IMPLICATIONS

- 6.1 Section 101 of the Local Government Act 1972 provides the ability for a local authority to arrange for the discharge of any of its functions by any other local authority, subject to some specific exceptions of which this function is not one. Section 113 of the Local Government Act 1972 allows one Council to put its

officers at the disposal of another authority and Section 111 gives the power to the Councils to do anything which is calculated to facilitate or is conducive or incidental to the discharge of any of their functions.

- 6.2 The Council's Constitution provides that the decision to accept a delegation from another local authority shall be reserved to the Council.
- 6.3 Where the Transfer of Undertakings (Protection of Employment) Regulations 2006 (as amended) apply, the employees who are assigned to the organised grouping that has as its primary purpose the Council's audit work will transfer automatically to Basildon Borough Council on their existing terms and conditions of employment. All of the rights, powers, duties and any liabilities of the Council arising from any of its acts or omissions prior to the transfer will pass to Basildon Borough Council.

7 EQUALITY AND DIVERSITY IMPLICATIONS

- 7.1 The Public Sector Equality Duty which applies to the Council will apply equally to the proposed SIAS arrangements under Basildon Borough Council. It is therefore not anticipated that the recommended decision will have any equality and diversity implications.

8 RECOMMENDATION

- 8.1 It is proposed that Council **RESOLVES**
- (1) That its Internal Audit Service be delegated to Basildon Borough Council under Section 101, Section 111 and Section 113 of the Local Government Act 1972 and any other relevant legislation, with effect from 1 July 2022; and
 - (2) That the Assistant Director (Resources) in consultation with the Assistant Director (Legal and Democratic) be authorised to approve the final terms of the joint working arrangement and to enter into all necessary and appropriate contracts and agreements to implement delivery from 1 July 2022



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Background Papers:-

None

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