

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet

DATE: 9th March 2022

SUBJECT: **Extension of Internal Audit Contract**

PORTFOLIO: Cabinet Member for Financial Oversight, Council Assets & Performance - Cllr Anderson

CHIEF OFFICER: Steven Mair

CONTACT OFFICER: Clare Priest / Mike Thomas

WARD(S): All

KEY DECISION: NO

EXEMPT: NO

DECISION SUBJECT TO CALL IN: YES

APPENDICES: None.

1 Summary and Recommendations

- 1.1 This report seeks approval to extend the current Internal Audit contract with RSM Risk Assurance Services LLP through the NHS Shared Business Services Internal and External Audit, Counter Fraud and Financial Assurance Services consultancy framework. The Council has been using the NHS SBS Framework for a number of years and has received good value from the rates tendered and agreed under the framework.
- 1.2 The current internal audit contract expires on 31 March 2022 and will leave the Council without an Internal Audit service – a statutory requirement for the section 151 Officer. Members will be aware that the Audit and Corporate Governance Committee recommended on the 9th December 2021 that in the longer term the internal audit service be brought back in-house further to the recommendations in the DLUHC CIPFA and Governance Report issued in October 2021. This was subject to the Lead Commissioner requesting a detailed timeline for the recruitment process. This is included as a background paper and indeed the process has begun with the development of job descriptions. This process will run alongside a wider re-structure of the Finance and Commercial Services department during 2022.
- 1.3 This route provides a cost-effective route to procure essential internal audit services at a very challenging time for the Council and will provide on-going assurance for members as to the adequacy of the Council's governance, risk management and internal control systems. The arrangement will be set up in such a way that future flexibility is maintained should recruitment not be successful.

2 Recommendations:

Cabinet is recommended to:

- 2.1 Approve the extension of the Internal Audit Contract for 1 year to cover the work needed to complete the Head of Internal Audit Opinion for 2022/23 and with an option for a further extension of 1 further year to provide flexibility should recruitment of an in-house team take longer than expected or be unsuccessful.
- 2.2 Delegate authority to the Director of Finance, in consultation with the Lead Member for Forward Strategy and Corporate Resources and the Lead Member for Financial Oversight, Council Assets and Performance to award a contract to RSM Risk Assurance Services LLP for the provision of internal audit services in line with an internal audit plan to be agreed with the council and approved by the Audit and Corporate Governance Committee.

Reason:

Procurement through an audit services consultancy framework provides a cost-effective route to procure essential internal audit services whilst the Council undertakes a recruitment process to recruit an in-house internal audit service during 2022/23. Extending the contract for one year with a further year offers the council a degree of flexibility if recruitment plans do not go as planned. It also ensures the delivery of the 2022/23 Head of Internal Audit opinion without the need to return to Cabinet for further approval.

The recommendation enables the Director of Finance (s151 officer) to meet his statutory responsibilities.

Commissioners review:

"The Commissioners agree with this proposal. In addition, the Commissioners expect that separate arrangements are put in place for the audit of the procurement and contract management processes by a third party to avoid conflict of interest."

3 Report

Introduction

- 3.1 The DLUHC governance and the CIPFA review both recommended an independent review of the current internal audit arrangements be undertaken. The Governance review recommended bringing the service back in-house in order to obtain greater control over the scope and nature of the work. An independent review of the options for internal audit was undertaken in November 2021 and presented to the Audit and Corporate Governance Committee at its meeting on 9 December 2021 (see background papers).
- 3.2 The Committee reviewed the options and recommended the service be brought back in-house as recommended under option E within the paper. In order to complete option E a recruitment process will be needed during 2022. This will run alongside the wider finance departmental re-structure that is also being considered and is expected to be completed by October 2022.

- 3.3 The current internal audit contract has been with RSM Risk Assurance Services LLP since 2018 and was let on the basis of a two-year contract with the potential for a two-year extension to 31 March 2022. The service was procured and the contract let through the NHS Shared Business Services Framework. It is proposed to use this route again for the extension of the contract.

Options considered

- 3.4 The following options were considered to support the procurement of essential internal audit services.

Option 1: Extend the current contract with RSM Risk Assurance Services LLP for 1 year with a possible further year.

This option is preferred as the current contract with RSM Risk Assurance Services LLP can be extended under the framework agreement without the need to go out to tender. The benefits of going down this route are:

- RSM have a team available who have detailed and strong knowledge of the Council, its systems and its historical challenges;
- The RSM team have good connections across the Council, which would take a new team time to develop;
- RSM will need to be working with the Council until July 2022 in order to complete the Head of Internal Audit Opinion for 2021/22;
- The costs of an extension will be contained through the use of the framework rates and current approved budget;
- This route allows for assurance during a time of significant uncertainty and change within the Council;
- RSM have indicated provisionally that they would be willing to continue.

This is the preferred option.

Option 2. Recruit a new supplier through a mini-tender process using a Framework Contract

The Council could run a mini-tender using a relevant Framework contract. This would incur delay in making an appointment, probably until the end of Quarter 1 2022. The Council would not have an internal audit plan in place until post Q1 2022 thus impacting the ability of a new supplier to deliver the audit programme and Head of Internal Audit Opinion within the required timescale.

There may be some benefits of having a new set of internal auditors review and develop a new plan for 2022/23 although this is potentially offset by the time needed for them to become familiar with the Council, its systems and its challenges. At a time of great uncertainty and change this has some significant risk attached.

In addition, there would be the costs and capacity required to run a procurement exercise which the Council would have to buy-in separately at the current time, as it has little resource in-house.

Background

- 3.5 The current internal audit contract expires on 31 March 2022 and will leave the Council without an Internal Audit service – a statutory requirement for the section 151 Officer. Members will be aware that (see separate paper on agenda), following an independent review, the Audit and Corporate Governance Committee recommended that in the longer term the internal audit service be brought back in-house following the recommendations in the DLUHC CIPFA and Governance Report issued in October 2021.
- 3.6 This route provides a cost-effective route to procure essential internal audit services at a very challenging time for the Council and will provide on-going assurance for members as to the adequacy of the Council's governance, risk management and internal control systems. The arrangement will be set up in such a way that future flexibility is maintained should recruitment not be successful.

Deliverables

- 3.7 Delivery of an internal audit service whilst the decision to transition to a permanent in-house team structure is implemented during 2022. This will ensure:
- Compliant internal audit provision that helps the Director of Finance meet his statutory responsibilities;
 - Provides coverage that will give adequate assurance to the Audit and Corporate Governance Committee regarding the adequacy of systems of internal control, risk and governance;
 - a procurement process that is allowable under law and demonstrates value for money
 - Delivery of the 2022/23 Internal Audit Plan and Head of Internal Audit Opinion.
- 3.8 An update on the recruitment of an In-House Internal Audit team will be reported to future Audit and Corporate Governance Committee meetings.

Timeline

- 3.9 The contract needs to be in place for the start of the 2022/23 financial year to ensure that the service can be maintained at an acceptable level.

Risk assessment

- 3.10 The lack of an internal audit service would be a significant risk to the council if the current contract is not extended or some alternative is put in place at short notice. This extension will be used to maintain the current providers and enable a transition to take place to an in-house team during 2022.
- 3.11 If the contract is extended a review of the current internal audit plans will be undertaken with a view to assessing the potential for savings during 2022/23. In the medium term the Review of Internal Audit Report options identified the potential for savings of £80,000 in the next three years by bringing the service back in-house. This will be re-evaluated once the in-house team has been employed and the transition has taken place during late 2022. There is a risk that the anticipated

savings will not be achieved in 2022/23 or future years until an in-house function is developed.

- 3.12 There is the potential for additional costs in the second half of the financial year 2022/23 as a new in-house team is recruited whilst RSM are still delivering the 2022/23 internal audit plan. This will be re-evaluated once the recruitment process has been completed and the wider departmental re-structure has taken place.
- 3.13 There is also the potential for additional costs arising from the need to undertake internal audit work on the contract management and procurement function. This function is currently provided by RSM and has not been subjected to audit during the time of the current contract due to conflicts of interest. The auditors raised this concern with the previous Director of Finance who failed to put in place alternative arrangements for this element of the internal audit programme. The timing of a review of the procurement function will be sensitive as this is a new team that is also being recruited during the first half of 2022.

4. Implications of the Recommendation

4.1 Financial implications

- 4.1.1 It is envisaged that once the framework agreements are in place and these services are called upon, expenditure in the first year will be within the approved budget for the service of £290k. As the service transitions to an In-House function there is the potential to make savings alongside the wider integration of the IA service within the department. Option E in the Internal Audit Options Appraisal highlights the potential for savings of up to £80k once implemented.
- 4.1.2 The extended contract will need to be delivered within the available budget and discussions will be had with the internal auditors regarding the assessment of risk and the timetable for internal audit reviews over a more strategic time horizon. This could enable further cost savings whilst offering an appropriate level of assurance to the Council.

4.2 Legal implications

- 4.2.1 The proposed contract value of the internal audit framework agreement is estimated to be no more than the current budget of £290,000 for 2022/23 and a similar or lower amount for 2023/24 subject to further negotiation and agreement of audit needs.
- 4.2.3 The proposed use of the NHS SBS framework is compliant with both the CPR and the Public Contracts Regulations 2015. For the reasons highlighted in Section 3.4 an extension of the current contract is seen as the preferred option. HB Public Law will be instructed to finalise the contract once a decision is taken.
- 4.2.4 The Council is under a general Duty of Best Value¹ to “make arrangements to secure continuous improvement in the way in which its functions are exercised,

¹ Section 3 of the Local Government Act 1999 (as amended by s137 of the Local Government & Public Involvement in Health Act 2007)

having regard to a combination of economy, efficiency and effectiveness.” The development of an in-house internal audit service will enable the Council to fulfil its best value duties in the medium-term. However, in the interim period there is a need to put in place arrangements to protect the Council’s position regarding the need to have a continuous internal audit service and to enable the recruitment of an in-house team to take place.

- 4.2.5 In the medium to longer term it is assessed that the arrangements will allow a transition to secure continuous improvement regarding economy, efficiency and effectiveness and overall value, including social value which will be considered in the 2022/23 and future audit plans. The achievement of best value referenced in the value for money indicators used in the Review of Internal Audit Options Appraisal report November 2021 which was presented to the Audit and Corporate Governance Committee on 9 December 2021. This is provided as a background paper below with the detailed timeline for completion.
- 4.2.6 The recruitment of an in-house team has already begun with job descriptions and person specifications developed and ready for evaluation ahead of the recruitment process beginning on 1 April 2022. A detailed recruitment timetable is shown in background papers for information purposes.

4.3 Risk management implications

Summary of risks.

Category	Risk/Opportunity	Controls	Residual Risk Score (1 (Low) to 10 (high)	Additional Controls
Economic/Financial	Increased fees due to increases in daily rates not being controlled through a framework.	Risk reduced by ability to appoint from a framework of consultants who have demonstrated strong value for money	2	No commitment to use the framework if other routes are more economic
Procurement	Non-adherence to contract policies and procedures and procurement law.	Legal advice obtained from HB law regarding compliance.	2	Once in place staff will monitor against the contract on a regular basis. Standard T&Cs in Framework agreement already being adhered to.
Contract management	Opportunity to improve contract management of internal audit services	Extending the contract allows further time to focus the audit service plan on a shared view of the significant risks with a resultant view on the best use of the Council’s investment in Internal Audit.	2	
Legal	Extension provides certainty for the Director of Finance that he can meet his statutory responsibilities.	Current service provides Head of Internal Audit opinion and full internal audit plan covering whole of 2022/23, with a possibility of extending to 2023/24 if recruitment proves unsuccessful..	2	

- 4.3.1 If a decision were made not to agree the above, this would likely result in a more expensive means of procuring related services.

4.4 Environmental implications

- 4.4.1 No specific environmental implications arise from extending the contract.

4.5 Equality implications

- 4.5.1 The framework is constructed to ensure equality of access and non-discrimination. This is currently encapsulated in the existing contract and this will role forward into a new contract.
- 4.5.2 The provider is retained on the basis that it is knowledgeable and understanding of Equality Act duties.

4.6 Procurement implications

- 4.6.1 It is recommended that the *NHS Shared Business Services Internal and External Audit, Counter Fraud and Financial Assurance Services consultancy framework* route provides the most cost effective and practical solution for the extension of the internal audit services contract.
- 4.6.2 The proposed use of the NHS SBS framework is compliant with both the CPR and the Public Contracts Regulations 2015.

4.7 Workforce implications

- 4.7.1 Officer resources will be focused on the recruitment of an in-house team during 2022 whilst providing a client role to the continuing contractor. This approach will be more efficient than the officers having to run a mini-procurement exercise which may result in a sub-optimal short-term solution.

4.8 Property implications

- 4.8.1 This Framework has no direct implication on properties.

5. Background Papers

Review of Internal Audit Options November 2021 – Report to Audit and Corporate Governance Committee - 9 December 2021

Updated Timetable for Recruitment of In-House internal Audit Service shown in table below:

Action	Date	Who
Review of IA Options Report	9 December 2021	Audit and Corporate Governance Committee
Approval of Audit and Corporate Governance Committee recommendation to accept Option E and the associated timeline	1 March 2022	Audit and Corporate Governance Committee
Ratification and Approval of Audit and Corporate Governance Committee recommendation	9 March 2022	Cabinet
Cabinet Report on extension of current IA provider for 2022/23	9 March 2022	Interim Financial Adviser – Cabinet Report (<i>report drafted</i>)
Agreement and evaluation of Job Description, person specifications and consultation	By 31 March 2022	Independent Financial Adviser and HR <i>(NB: JD's and task lists already drafted for evaluation and consultation)</i>
Recruitment of Internal Audit In-House team alongside wider Departmental Re-structure	1 April – 1 October 2022	Interim Financial Adviser with input from HR and CIPFA.
Recruitment of Internal Audit Team with specialist support from CIPFA Penna if required	1 April – 29 July 2022	HR with support from CIPFA Penna <i>(NB: indicative proposal from CIPFA already received if required)</i>
Advertisement of roles	Closing date 28 April 2022	HR with support from Department
Applicant Review and Invites to Interview	By 6 May	HR with support from Department
First Phase Interviews	By 13 May	HR with support
Assessment Centres	w/c 23 May	HR with support from Department
Offers Made	By 7 June	HR
Successful Candidates informed and employed	From Mid-June – September 2022	HR