

Report to Cabinet

27 January 2022

By the Cabinet Member for Finance

DECISION REQUIRED



Not Exempt

Service Provision of the Internal Audit Services

Executive Summary

The Council's internal audit service is currently supplied by the Orbis Partnership through a delegation to East Sussex County Council. Orbis is a local authority partnership between East Sussex and Surrey County Councils and Brighton and Hove Council. The agreement expires on 1 April 2023 and the Cabinet needs to decide now if it wishes to change its internal audit provider.

Following a review of quality and price the Director of Corporate Resources found the quality of the service is good but the price was a little high compared to outsourced options. A discussion with Orbis led to an offer to lower the price in exchange for a new five year agreement. As this new price was within 2.5% of the alternative, the recommendation to Cabinet is to accept this new price and enter a new five year agreement from 1 April 2022.

Recommendations

That the Cabinet is recommended:

- i) to agree to secure the provision of the internal audit service through a local authority partnership with East Sussex County Council for 5 years from 1 April 2022.
- ii) to delegate to the Director of Corporate Services the negotiations to finalise the legal documentation with East Sussex County Council in consultation with the Cabinet Member for Finance and the Monitoring Officer.

Reasons for Recommendations

- i) The new agreement retains the current good quality service with price £20,000 lower for each year and no risk or costs of change.

Background Papers None

Wards affected: all

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Background Information

1. Introduction and Background

- 1.1. The Council's internal audit service is currently supplied by the Orbis Partnership. Orbis is a local authority partnership between East Sussex and Surrey County Councils and Brighton and Hove Council. Cabinet decided to transfer its in-house internal audit service to Orbis in January 2017 after Chichester District Council withdrew from the previously agreed proposal to share support services with Chichester and Arun. The reasons for the move to Orbis were to reduce the scale of the audit plan, which benchmarking showed was high, and cut costs while maintaining resilience. Three staff were transferred to East Sussex County Council and one made redundant. Since the start of the arrangement one of the transferred employees left, another retired and one, the Chief Internal Auditor, remains in post. The Internal Audit agreement expires on 31 March 2023 but can be extended to 31 March 2025.
- 1.2. Horsham District Council has four options for the future provision of its services:
 - Remain with the existing partnership either with a new agreement or by taking up the two-year extension on the existing agreement.
 - Continue with a partnership arrangement but change to a new one.
 - Outsource the services to a private sector provider.
 - Bring the services in house.
- 1.3. With less than eighteen months remaining before the expiry date Cabinet needs to decide now if it wants to outsource the services to a private sector provider or bring the service in-house due to the lead in times for this change. Remaining in partnership would not have such a long lead in time.
- 1.4. Orbis Internal Audit has exceeded all its targets for delivery of work in year. Against a target of 90% of audits completed in year it achieved 100% delivery in 2018/19 and 2019/20 and 97% in 2020/21.
- 1.5. Professional competence in internal audit is measured by compliance with the Public Sector Internal Audit standards. Orbis' performance against these standards was reviewed in January 2018 by the South West Audit Partnership. Orbis achieved an opinion of 'Generally Conforms' – the highest of three possible rankings. In 2020/21 Orbis carried out a follow-up self-assessment to the review. This found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues and Orbis carry out ongoing monitoring as part of our quality assurance and improvement plan.
- 1.6. In the last year, Horsham District Council's senior managers have expressed some discomfort about the service they receive from Orbis. The number of minimal and partial assurance opinions rose from three partial and no minimal assurance opinions in 2018/19 to seven partial and one minimal assurance opinion in 2020/21. The main reason for this shift was an increase in non-compliance during lockdown, acknowledged and addressed by the Chief Executive and Leader in the 2020/21 Annual Governance Statement. The Director of Corporate Resources has

discussed these issues with Orbis. The Director's view is some of the junior auditors tend to suggest higher levels of internal check than might normally be expected in a district council. This level of check is necessary in the larger entities the auditors usually audit. Heads of Service could reasonably reject these suggestions and live with the risk but some have been reluctant to do so, because it might mean living with the "partial" assurance. Orbis' management carried out some extra training on smaller entities for their staff and trained our Heads of Service group on how to be an auditee in autumn 2021. More regular meetings between the Orbis Head of Internal Audit and the Director of Corporate Resources were introduced to ensure any further concerns are swiftly addressed on both sides of the partnership.

- 1.7. The cost of internal audit is driven by the number of audit days in the audit plan and the day rate of the internal audit. An in-house service tends to be more expensive, a local authority partnership in the middle and a private contractor the cheapest (see appendix A). Horsham District Council has one of the more expensive audit services in West Sussex because of the number of days in their plan combined with the mid-range day rate of an internal auditor.
- 1.8. The Director of Corporate Resources advises she would not be comfortable with a reduction in audit days given the problems in governance reported in recent reports and the Annual Governance Statement. This advice will stop the Council having the cheapest service available but will give better assurance over the Council's funds.
- 1.9. Benchmarking, especially looking at Adur/Worthing suggested a lower price than the Orbis price, could be achieved by outsourcing. Following a discussion of this price with the Head of Internal Audit at Orbis, a revised price was offered to the Council of £50 less for each audit day if the Council were prepared to enter a new 5 year agreement rather than an extension to the existing agreement in 2023. This rate is only 2.5% higher than that offered on the Croydon outsourced option. Based on the closeness of this cost, the recommendation to Councillors is to enter into a new 5 year agreement from 1 April 2022.

2. Relevant Council policy

- 2.1. Having a good internal audit service is essential to ensure all Council services are properly controlled and corporate objectives met.

3. Details

- 3.1. The Council needs to decide whether to accept the renewal of the agreement with East Sussex for Orbis Internal Audit or seek another supplier.
- 3.2. Orbis provide a good quality audit. The difference paid in price for a difference in quality is, like all professional services, impossible to evaluate with certainty. Changing supplier risks quality and usually incurs costs. The Director of Corporate Resources advises a 2.5% difference in price is insufficient gain to risk a change and recommends the Council accept the new five year agreement.

4. Next Steps

- 4.1. The Council and East Sussex County Council will review and agree a new agreement containing a new price from 1 April 2022. The Monitoring Officer will sign the agreement and the revised prices will begin for the 2022/23 financial year.

5. Views of the Policy Development Advisory Group and Outcome of Consultations

- 5.1. The former Finance & Assets PDAG was consulted on the internal audit situation in September. They were content the Council continued receiving its service from a local authority partnership providing costs and quality were acceptable.
- 5.2. The Finance PDAG was advised of the outcome of the pricing discussions and quality actions undertaken in autumn 2021, at their meeting on 11 January 2022. The PDAG made no extra suggestions for this service.
- 5.3. The Chairman of the Audit Committee was consulted about this proposal he has raised no objections.

6. Other Courses of Action Considered but Rejected

- 6.1. Internal Audit could be outsourced to a private company. Mazars provide internal audit to several Councils in West Sussex via a framework agreement held by Croydon Council. The Chief Finance Officers of those Councils are happy with the service. Investigation showed the day rate for this service is roughly 2.5% lower than the revised price from Orbis. This option was rejected on the grounds of likely exit costs from the current agreement and risk of different quality.
- 6.2. Internal Audit could be provided by another local authority partnership. The Southern Internal Audit Partnership, based in Hampshire County Council provides internal audit to West Sussex County Council and several Surrey Districts. This partnership has a very good reputation. However the option was rejected on the grounds prices would be similar and there were likely exit costs to the current agreement and there was no reason to leave Orbis on quality grounds.
- 6.3. Internal Audit could be brought back in house. Horsham District Council moved its audit service into partnership four years ago to gain greater resilience, more circulation of auditors and audit specialisms we could not achieve with a very small in house team. This option was rejected as a retrograde step. Benchmarking suggests this would be a more expensive option.

7. Resource Consequences

- 7.1. The proposed new agreement would save Horsham District Council £20,000 a year for the same quality service it enjoys now with no costs of change. This saving has been built into the 2022/23 budget presented to Cabinet elsewhere on this agenda.

8. Legal Considerations and Implications

- 8.1. The Council can enter into a new agreement for the provision of this service with East Sussex County Council under section 111 of the Local Government Act 1972 and all other enabling powers.

9. Risk Assessment

- 9.1. In changing nothing in its agreement, other than the price, this change makes very little difference to the Council's risk profile. Because Orbis internal audit uses risk based auditing, its activities help lower the Council's risks in other parts of its operations.

10. Procurement implications

- 10.1. Because this agreement is dealt with as a delegation under section 111 of the Local Government Act 1972, there are no procurement implications arising from this report.

11. Equalities and Human Rights implications / Public Sector Equality Duty

- 11.1. With no changes proposed to the current Council Tax Reduction scheme there are no Equality and Human Rights implications.

12. Environmental Implications

- 12.1. Because there is no change in the offer from Orbis this decision makes no change to the environment. However, during the lockdowns Orbis internal audit has learnt to operate more remotely and has now established an approach that allows its employees to audit with fewer car journeys than previously, with the resultant reduction in carbon this brings.

13. Other Considerations

- 13.1. Because there is no change in the offer from Orbis this decision makes no change to other considerations. Orbis internal audit operates the same levels of data protection as the rest of East Sussex County Council and there is a data sharing agreement in place between the two organisations.

WEST SUSSEX BENCHMARKING – INTERNAL AUDIT SERVICES 2021/22

	Adur/Worthing	Arun	Chichester	Crawley	Horsham	Mid Sussex
Number of days in the audit plan	500	372	438	281	400*	240
Cost	£143,730	£125,000	£225,000	£167,000	£166,000	c£55,000
Supplier	Mazars via LB Croydon contract	In-house (no management costs included)	In-house	In-house	Orbis Partnership	Mazars via LB Croydon contract

* excludes the audits of Council Tax, Business Rates and Benefits which are completed by Milton Keynes' internal audit as part of the Revenues and Benefits partnership agreement