

**TITLE: PROVISION OF INTERNAL AUDIT SERVICE**

**TO/ON: THE CABINET / 7<sup>TH</sup> DECEMBER 2005**

**BY: HEAD OF FINANCIAL SERVICES**

**PORTFOLIO HOLDER: CABINET MEMBER FOR FINANCE AND RISK MANAGEMENT**

**STATUS: FOR PUBLICATION**

**1. PURPOSE OF THE REPORT**

- 1.1 The purpose of the report is to seek approval on the recommendation for the provision of Internal Audit Services for Rossendale Borough Council.

**2. RECOMMENDATIONS**

- 2.1 That Members agree that in this instance it is appropriate to waive standing orders.
- 2.2 That Members approve the provision of Internal Audit services by Lancashire CC's Lancashire Audit Services initial three year agreement, as soon as is practical, with the option for a further two year extension.

**3. REPORT AND REASONS FOR RECOMMENDATIONS AND TIMETABLE FOR IMPLEMENTATION**

- 3.1 The provision of internal audit services is currently carried out through a management arrangement with Lancashire Audit Services (LAS) and the provision of two internal audit staff employed by the Council.
- 3.2 In October 2005 one of the internal audit staff resigned and left the organisation as part of a career move. The remaining member of staff has secured an internal appointment to the post of Procurement Assistant. This gives the Council the opportunity to extend current arrangements with LAS.
- 3.3 LAS have submitted a proposal (see appendix 1) which envisages a five year agreement at an initial value of £97k (plus travel expenses at approximately £5k pa) for 06/07 decreasing to £90k to £80k for each of the two following years. This is based on an average rate of £296 per day. It is considered

appropriate that the Council commits itself to an initial three year agreement, as soon as is practical, with the option for a further two year extension.

- 3.4 The current internal audit arrangements have evolved over the past 18 months prior to which the Council had an in house provision for internal audit. This service was heavily criticised by the Audit Commission in its report of March 2003. The Main conclusions from that report were:
  - 3.4.1 Internal audit did not meet the standards outlined by the CIPFA code of practice.
  - 3.4.2 Failures in Internal Audit represented a key weakness in the Council's system of internal control.
  - 3.4.3 External auditors ability to place reliance on the work of Internal Audit was significantly reduced.
  - 3.4.4 Though weaknesses had been identified in previous years few recommendations for action had been implemented.
- 3.5 Rossendale Borough Council's size does not lend itself to attracting the calibre of senior managers or career auditors necessary for the provision of modern local authority internal audit facilities. In such circumstances attempting to provide an in house Internal Audit service will always expose the Council to issues surrounding: attracting and retention of quality staff. In such circumstances councils are encouraged (see National Procurement Strategy) to investigate the partnership route this is also in line with one of the Council's eight corporate objectives of Partnership (increasing our capacity to deliver through effect partnerships).
- 3.6 Standing Orders states that where contracts are to be offered above £30k formal tenders should be invited from four sources. An exception applies when the Council has a current existing arrangement and that the Head of Service in consultation with a Corporate Director considers it desirable in the best interests of the Council that a tender be invited by an existing contractor. The Council has an existing relationship with LAS which is valued at £45k for 05/06. The rate offered by LAS for the proposed new arrangement is considered by Officers to be equivalent those offered by similar organisations in the professional financial sector.

#### **4. CORPORATE IMPROVEMENT PRIORITIES**

##### **4.1 FINANCE AND RISK MANAGEMENT**

- 4.1.1 See main report

##### **4.2 MEMBER DEVELOPMENT AND POLITICAL ARRANGEMENTS**

- 4.2.1 There are no member development issues

##### **4.3 HUMAN RESOURCES**

- 4.3.1 There are no Human Resource issues

#### **4.4 ANY OTHER RELEVANT CORPORATE PRIORITIES**

4.4.1 There are no other significant corporate priority areas.

#### **5 RISK**

5.1 The Council will be entering into a five year arrangement with Lancashire CC, though some flexibility will be built into the final contract to manage planned resources over this period and to agree termination arrangements.

5.2 Members and Officers should ensure that the planned audit arrangement and resource are adequate to satisfy in particular the council's annual Statement of Internal Control. Officers consider the proposal by LAS to be a robust solution to the Council's systems of Internal Control.

#### **6. LEGAL IMPLICATIONS ARISING FROM THE REPORT**

6.1 There are no legal implications.

#### **7. EQUALITIES ISSUES ARISING FROM THE REPORT**

7.1 There are no material equality issues as Lancashire CC is an equal opportunities employer.

#### **8. WARDS AFFECTED**

8.1 All wards.

#### **9. CONSULTATIONS**

9.1 Executive Director of Resources, Audit Commission

#### **Background documents:**

Audit Commission Report on Internal Audit

National Procurement Strategy

#### **For further information on the details of this report, please contact:**

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