

## **AGENDA ITEM NO 11**

**REPORT NO. 309/16**

### **ANGUS COUNCIL**

#### **SCRUTINY & AUDIT COMMITTEE – 23 AUGUST 2016 POLICY AND RESOURCES COMMITTEE – 30 AUGUST 2016**

#### **INTERNAL AUDIT RESOURCING**

#### **REPORT BY JANINE WILSON, SERVICE MANAGER- GOVERNANCE & CONSULTANCY**

### **ABSTRACT**

This report seeks homologation for the decision to extend the contract with Scott Moncrieff to address the shortfall in the internal audit resource to allow delivery of the agreed 2016-17 internal audit plan

### **1. RECOMMENDATIONS**

It is recommended that the Scrutiny & Audit Committee:

- (i) Note the contents of this report and that homologation for the actions taken is being sought from the Policy and Resources Committee.

It is recommended that the Policy and Resources Committee:

- (i) Notes the vacancies in the internal audit section and the impact this will have on delivery of the agreed 2016-17 plan;
- (ii) Homologates the decision of the Service Manager – Governance & Consultancy (in consultation with the Convener of Scrutiny and Audit and the Chief Executive) to procure a contract extension with Scott-Moncrieff to fill the resource gap in 2016-17 and deliver the internal audit plan for that year;
- (iii) retrospectively approve an exemption for that contract under Financial Regulation 16.24.10(a);
- (iv) Remit the Service Manager Governance and Consultancy to review how internal audit is provided within the council and bring back recommendations to both this committee and the Scrutiny and Audit Committee for delivery of this statutory service for 2017-18 and beyond.

### **2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN/SINGLE OUTCOME AGREEMENT/COUNCIL PLAN**

This report supports services in the delivery of all local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2013-2016.

### **3. BACKGROUND**

Internal audit is a statutory function within the council which is currently delivered through a mixed provision model with a contract let to Scott-Moncrieff to provide an Audit Management service and a small degree of co-sourcing. Report 479/14 to Policy and Resources on 2 December 2014 and Scrutiny and Audit on 25 November 2014 refers. Scott-Moncrieff work with council directly employed staff (3.6 full time equivalents) to deliver the audit plan.

Two of the directly employed staff (Senior Auditor and Auditor) have recently tendered their resignation, having secured other posts – one outwith and one within the council. This has

more than halved the directly employed staff (from 3.6FTE to 1.6 FTE) and means that the agreed audit plan for 2016-17 will not be delivered, unless alternative resourcing is found.

Historically there have been considerable difficulties in attracting Internal Audit staff to Angus, and, indeed, these difficulties exist across the market. Advertising the posts, one of which would be temporary as it is covering a secondment, is very unlikely to be successful.

#### **4. RECOMMENDED COURSE OF ACTION**

Discussions have taken place with Scott Moncrieff with a view to them covering the resource for the current year to ensure delivery of the audit plan. A proposal has been received, reviewed and accepted by the Service Manager, Governance and Consultancy, in consultation with the Convener of Scrutiny and Audit and the Chief Executive. The proposal is considered to be value for money.

This proposal involves the contractor seconding an experienced member of their staff to internal audit for around 150 days with an additional 20 co-source days from 1 August until completion of the 2016-17 audit plan. This can be no later than May 2017 given the requirement to have the plan completed for the Audit Managers annual report to the June 2017 Scrutiny and Audit Committee.

The 150 days will be provided at an additional cost of £70,000 on top of the £50,000 annual cost for the existing management contract. This represents a reduction in the current consolidated daily rate of £454 to £428 for 280 days input in total for the 2016-17 plan. The contractor is confident that they can drive efficiencies to ensure this additional resource, together with the directly employed 1.6 FTE remaining, is guaranteed to deliver the plan. The contractor will therefore assume the delivery risk based on the 1.6FTE internal resource availability.

This is an affordable and sensible option for delivery of the current year plan as a short-term solution but it is recommended there be a full review to consider delivery options beyond the 2016-17 to ensure the council is in a position to have an internal audit service that continues to discharge the statutory requirements and to continue to do so in full compliance with the Public Sector Internal Audit Standards.

This review should consider the various options for delivery and bring back a report to both Policy and Resources and Scrutiny and Audit with fully costed recommendations for the way forward.

#### **5. PROCUREMENT AUTHORITY**

##### **5.1 Sourcing Strategy**

The business case for procuring the additional audit services is set out above. Only Scott Moncrieff can reasonably provide this service because of the absence of available competition for technical incompatibility reasons. This is due to the unacceptable risks and management burden / conflicts that would apply by engaging another provider to work alongside Scott Moncrieff on parts of the same service / function.

In the circumstances, it is appropriate for an exemption to be granted allowing this supply to be single sourced without competition from Scott Moncrieff. This is permissible under both Financial Regulation 16.24.10(a) and Regulation 6(1)(b)(ii) of the Procurement (Scotland) Regulations 2016. The Corporate Procurement Manager has been consulted and agrees with this assessment.

The procurement is not considered to be a “major procurement” in terms of Financial Regulation 16.8.4. Approval of this Report would mean that the contract can be accepted without the need for further approval by the relevant committee. In accordance with the new arrangements the contract award will be reported to the Policy and Resources Committee for noting only.

## **5.2 Key Terms Proposed**

The contract will be for a maximum one year period at the cost set out above.

## **5.3 Procurement Procedure**

The contract has been directly sourced with Scott Moncrieff and not advertised on the Public Contracts Scotland Portal in accordance with the grounds of exemption referred to above.

## **6. RISKS**

A risk assessment has been undertaken for this contract and the risk of challenge to direct award is considered to be low given compliance with Regulation 6 of the Procurement (Scotland) Regulations 2016 as referred to above.

There is a high risk to the delivery of the 2016-17 plan if additional resource is not bought in quickly. Direct recruitment of experienced staff is unlikely to be successful and indeed, the capacity is no longer within the section to train staff. Non delivery of the audit plan puts the council at risk of not delivering on statutory requirements and leaves senior officers and elected members short on assurances around core governance matters. Ongoing support to the councils change programme would also be impacted.

## **7. FINANCIAL IMPLICATIONS**

The cost of £70,000 discussed above can be financed from staff slippage within the Governance and Consultancy unit budget from the vacant posts (£53K), topped up with carry forward monies from 2015-16 (£17K).

## **8. EQUALITIES IMPLICATIONS**

The issues contained in the report fall within an approved category that has been confirmed as exempt from an equalities perspective.

**NOTE:** No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

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