

Report

Cabinet



Part 1

Date: 11 December 2024

Subject Long-term provision of Internal Audit services

Purpose This report sets out the Head of Finance recommendation to the Cabinet for the long-term provision of the Council's internal audit service

Author Head of Finance

Ward N/A

Summary Following a challenging 18-month period for the Council's internal audit service where the role has been undertaken on a temporary basis by an external partner, the Head of Finance has concluded work in identifying long term options in moving forward. The recommendation is to enter a long-term public-sector partnership arrangement and to utilise the South West Audit Partnership (SWAP), who currently provide the Council's interim solution.

Proposal That Cabinet authorises the Head of Finance, in consultation with the Council Leader as Cabinet Member for Finance, to establish the Council as a full partner with the South West Audit Partnership (SWAP) for the long term provision of internal audit services.

Action by -Head of Finance – establish the Council as a full partner with the SWAP under acceptable terms.
-To enter formal consultation with affected staff.

Timetable Immediate

This report was prepared after consultation with:

- Statutory Officers
- Executive Board
- CM for Finance / Leader
- Governance & Audit Committee

Signed

Background

The Council's challenge – provision of internal audit services

The last 18 months have been challenging for the internal audit function. The team has been reduced over several years and in April 2023 had an establishment of 6.5 staff and led by a part time Chief Internal Auditor, shared with a neighbouring Council. The team has always operated with vacancies given challenges in recruitment but over a 6-month period at the beginning of the 2023/24 financial year, it also lost a further 5 (4.5 staff) members of the team, mainly for promotional opportunities in other Councils and WG. These roles included the most senior levels within the team, including the Chief Internal Auditor.

As a short term solution, an external organisation (South-West Audit Partnerships – 'SWAP') were asked to deliver resources to fulfil the 2023/24 audit plan and a chief internal auditor role. SWAP was well known to the Council as they had delivered parts of the council's internal audit plan to cover vacancies in the team in previous years. This short term solution worked very well and their efficiency in fulfilling most of the plan, starting later in the year as they did, was impressive. The Chief Internal Auditor also developed and agreed the current year, 2024/25 audit plan and that was approved by the Governance & Audit committee last March, the earliest the plan has been prepared, finalised and approved.

Over the last 18 months, two junior auditor roles have been recruited but two attempts to recruit into the middle and senior roles have not been successful, often with no applicants. The team has always struggled to recruit staff given the small team and limited opportunities this affords, in terms of experience and opportunities. There have been no specialists' roles within the team for several years and this cannot be developed in the current structure given its size. In the meantime, our neighbouring Council with whom we shared the Chief Internal Role have recruited into that role full time and no longer wish to share that role.

The future provision of the internal audit function

Given the small size of the team with the problems and limitations this creates around opportunities and career progression, the inability to develop broader experiences and technical specialisms within the service; the resulting lack of resilience within the service and the on-going difficulties in recruiting; it was decided that the Council's interests were better served by securing external arrangement for its internal audit provision. It was also influenced by our experience in using a larger internal audit organisation where they were able to quickly 'get up to speed' on our challenges and bring in experienced resources as needed, including specialists in fraud related work and a new and fresh approach which has worked well.

In terms of securing an external service, there are two broad options available to the Council

1. Tender a service to the private sector
2. Enter into a public sector partnership arrangement

In terms of the first option in pursuing a service with the private sector, likely through a tendering process; whilst it would potentially provide solutions to the drivers for change outlined above, it was not pursued because:

- It is not a route which the Council has historically pursued in other areas e.g. education achievement service, NORSE, Leisure Trust. In all cases, the Council has sought to retain a significant interest through shareholding/partnering arrangements with a focus on strong public sector ethos.
- Profit motive is potentially problematic as is managing a more contractual based relationship
- Time consuming process to develop a tender with limited experience in this area
- Potentially more issues to consider for staff transferring e.g. pensions etc

In terms of the second option in pursuing membership into a partnership arrangement; it too would provide solutions to the drivers for change outlined above, plus the following benefits:

- Council retains interest via full partner status
- Strong public sector ethos and ideally, Local Government focus
- No profit motive leads to re-investment in service improvements and focus on quality and needs of audits/partners
- Likely to be less or little to no staff transfer issues

Significantly, there are two ready-made options available to the Council, being the SWAP partnership and a developing partnership in South Wales. The availability of these partnership options was also a contributor in the decision to pursue a public sector partnership provision.

Appendix One has a summary of the organisations.

Approach

The HoF has been reviewing the services that are available from both partnerships and has had discussions as needed to understand which option would likely best serve the Council's interests. Whilst not a formal 'tender style approach', the information gathered and discussed with both partnerships has still followed a consistent, robust and formal approach with areas of interest explored and information gathered being:

- Core service and providing annual assessment (planning, audit input, reporting, management)
- Added value and specialisms
- Innovation / different approaches
- Impact on staff members
- Governance arrangements

In addition, a standardised return on audit staff and days input was requested. The current budget was used to inform this and there is no reduction in the budget for 2025/26 as we implement this change. Only SWAP returned this data request.

The Council's requirements

The core requirement in pursuing this solution was to have a service which:

- Is efficient (maximising audit days available) and effective (robust in scope and completion of reviews and their timely reporting)
- Allows for an overall assurance opinion to be given annually.
- Is compliant as a minimum with relevant professional standards for the services delivered, currently the International Professional Practices Framework of the Institute of Internal Auditors, as detailed in the Public Sector Internal Audit Standards (PSIAS) which are assessed externally every 5 years.
- Which is visible and where the service understands the Council and its services well. That is, the Council would seek 'fixed individuals' for the Chief Internal Auditor and Audit Manager (or similar/equivalent) roles as a minimum and ideally, principal auditor (or similar/equivalent) roles too and they should, as appropriate, be active members of the Council's wider staff arrangements and forums e.g. managers network, management team members, all Wales chief internal auditor's forum etc.
- Which incorporates capacity and skills/knowledge for (i) fraud related work including investigations where needed, NFI co-ordination/reporting/some checks, periodic fraud risk assessments and (ii) data driven analysis and investigations (ii) IT related audits.
- Which is flexible to meet changing needs or issues as they arise

Review conclusions

The areas explored are summarised here

Service - input

Based on the budget available, both partnerships were asked to complete an analysis of audit days available for the Council based on the existing budget available. Only SWAP returned the more detailed analysis with the South Wales partnership providing less information but with some indications of resources.

The information returned was therefore not consistent from both and not comparable but sufficient to confirm that the audit days/input at least equals the current days of audit effort in the in-house team structure (c1,000) but with more information and therefore certainty from SWAP.

Whilst not an objective analysis, the senior management view of the SWAP partnership, following their experience over the last 18 months, is that they are efficient in maximising the days available into individual audits and completion of the plan. As already noted, whilst they started their interim role late in 2023/24; they still completed a large percentage of the audit plan. Clearly, this can't be compared to the South Wales partnership as the Council has not used their services, but the SWAP partnership is a known entity with the Council's experience of their work and approach being positive.

Service – resilience

Both partnerships offer improvements over the current arrangements given their larger size and wider opportunities for development. The South Wales partnership has 16 staff and is led by the Chief Internal Auditor, supported by an Audit Manager. The Chief Internal Auditor fulfils that role in all of its three partner clients. The SWAP partnership has 80 staff and is led by an Executive Board including – Chief Executive, Operations Director, Continuous Improvement Director and supported by a Chief Technical Adviser; with senior managers then fulfilling Chief Internal Auditor roles at partner clients. The SWAP Partnership is considerably larger, and this provides a greater level of sustainability and resilience.

In addition, the SWAP partnership has one team of nine staff who are not linked to any single partner client and who fulfil external income generation roles, usually to other audit teams with vacancies. In this context here though, they provide added resilience to their partner clients by being also deployed to fill resourcing gaps across all their partners to ensure continuity of delivery, where needed.

Service - specialist services

Given the maturity of the SWAP partnership, it has a well-developed 'added value' offer from specialists, including IT audit, a separate strategic / operational fraud team and a data analysis team who work across all partners as needed.

The South Wales partnership have an IT auditor specialist only. Audits / partners have retained their own fraud officers though these are transactional roles in areas like Housing Benefits etc but the partnership co-ordinate and work closely with them. There is no strategic fraud focus and capacity currently, nor data analysis capacity.

The Council has a need to develop its approach to identify and manage its fraud risk profile and this was the subject of an Audit Wales review in 2023. The Council has already taken steps to begin this work, utilising the SWAP partnership expertise and experience in this area.

Service - reporting

The SWAP Partnership has a highly developed approach to managing and sharing its audit plan, the delivery of those and reporting on conclusions and subsequent implementation of any recommendations.

It utilises specific audit management and reporting software which audit/partners can access in real-time – partner client’s access to the system is available to share documents, provide feedback, access reports and update agreed actions. Audit dashboards in real-time are being rolled out to Governance & Audit committees in their partner audit clients.

The South Wales partnership use audit management and reporting software but is a tool for the internal audit management only. It does not have real-time access by audits/partners and G&A’s committees.

Both partnerships would attend Governance & Audit committees, Executive, Corporate and Directorate Management Team meetings as needed to report on their work.

Service – innovation and development capacity

The SWAP Partnership has more capacity, scope and prospect for leveraging developments, improvements and innovation to the Council in its services. It has a bigger resource base / capacity to do this with an experienced and developed management team who are leaders in this field, which include:

- (i) A Chief Technical Advisor role. Formally Chief Professional Practice Advisor at the Chartered Institute of Internal Auditors UK and Ireland.
- (ii) A Chief Executive role. SWAP’s former Chief Executive was on the board that developed the Public Sector Internal Audit Standards (PSIAS). The current Chief Executive is a former member of the Global Institute of Internal Auditors Guidance Committee and currently Chair of the Chief Auditors Network (a local authority run networking group).
- (iii) A Continuous Improvement Director role
- (iv) An Operations Director role. A former deputy president of the Institute of Internal Auditors UK and occasional speaker at the South-West and Wales Institute of Internal Auditors

Some recent development and innovation in services delivered and offered include:

- “Developing and rolling out a one-page audit report, across Partners. This looks to summarise all the audit findings on a single page, to provide greater focus and deliver key messages more effectively”.
- “Emerging Technology – use of more advanced, emerging technologies. We can share our experiences with the early adoption of Automation, Natural Language Processing (NLP) and continuous assurance provision. Our Generative AI Assistant (GAIA) has been shortlisted for Audit & Risk award this year.”
- Working with our Partners we have developed and implemented “Combined Assurance and Healthy Organisation Reviews checks as a highly effective way to identify critical areas where assurance or procedures could be improved in their businesses, as well as recognising areas where potential efficiency savings could be made”.
- SWAP undertakes numerous external peer assessment of external quality assessments against the PSIAS for other partnerships, and clients (including Welsh Government and Welsh Parliament). Performance of these assessments are used to challenges their own assumptions and interpretations and helps to improve themselves and their services.

The above senior management roles are not involved in individual audits; who have their own senior managers who fulfil the Chief Internal Auditor roles in partner clients.

The South Wales partnership in contrast has one Chief Internal Auditor who fulfils this role in each of their existing three clients as well as leading the partnership organisation, alongside and under the Vale of Glamorgan’s s151 officer. It therefore has a more traditional ‘offer’ in relative terms.

The differences in this area are significant and are largely due to the maturity of the SWAP Partnership and the fact it is the largest public sector audit partnership in the UK.

Staffing matters

Both partnerships operated similar senior staff arrangement with a fixed chief internal auditor and an audit manager (both 0.5 staff equivalent) and a pool of audit staff who could potentially work across a number of other audits/partners.

SWAP confirmed they would have a team primarily focussed on Newport City Council, but they could be asked to work on other audits as needed. They would be able to utilise an existing Chief Internal Auditor who was based relatively locally. The South Wales partnership operated a pool only beyond the senior management roles. In essence, both options are similar in their approach.

Both partners offer (i) membership / continuing membership of the Local Government Pension Scheme (ii) recognition of 'service to date' in any terms and conditions (iii) use of the NJC pay scales, the same as Newport City Council

Individuals transferring can stay on Newport City Council terms or transfer to the Vale of Glamorgan/ SWAP terms & conditions.

Both Partnerships are committed to training. SWAP provided a lot of detail on their activities, which includes not only individual training offers but also wider organisational conferences and development days.

Governance

Audits

Both options have similar governance around the quality assurance of their audit plans and individual audits, utilising their senior officers to manage most aspects of these and reviewing work. They also ask those audited to feedback on their work and this is reported. They also are externally assessed against the Public Sector Internal Audit Standards.

Both partnerships report on their work and are accountable for performance to their partner organisations (Executive Board) and their Governance and Audit Committees who oversee the delivery of the audit service.

Organisation

Appendix A explains the background to each partnership and where/how partners sit on their governance arrangement. Their different sizes require a different approach but both allow the Council to participate fully and influence the partnerships.

Governance & Audit Committee

The details here were reported to the Council's Audit & Governance Committee at their meeting on 28th November

In their meeting, the Committee were generally supportive of the proposed arrangement around joining a wider partnership arrangement in that it met the needs of the Council and made the following specific comments and questions:

- i. Was there not a legal requirement to tender the work?

HoF response: Because Newport City Council are joining South-West Partnership as a partner, then there is no need to tender this, as this type of arrangement is outside the scope of the Public Contract Regulations (PCR) 2015.

Regulation 12. of PCR 2015 allows contracting authorities to trade with 'teckal' companies that they are controlling entities over, and the new Procurement Act 2023 which should come into force in late February 2025 also has similar exemptions known as 'vertical' and 'horizontal' arrangements

- ii. To seek clarity on the lawfulness of TUPE transferring staff staying on existing Terms & Conditions, to ensure staff affected are engaged and given advice on transferring and that Unions are engaged

HoF response: The South-West Partnership have confirmed that they have several employees who have opted to stay on their existing Terms & Conditions when they transferred. This will be explored further as part of the transfer and HR/Legal colleagues will be involved and supporting the process.

Team members have already been kept up to speed informally and a more formal approach, in line with the Council's policies and procedures in relation to this will be taken now as we move to regularising the Council as a Partner. HR colleagues are supporting the project, and Unions will be involved in line with the Council's policies and procedures.

- iii. To ensure that the Council receives a good service and at least the same level of service for the budget/cost

HoF response: HoF has confirmed that the number of days input to the service will be at least at the current level which the budget can resource. There will be quality monitoring processes put in place and many of them operate already e.g. evaluation questionnaire sent to all audits completed, a range of PI's monitored and reported to HoF, Scrutiny and Governance & Audit Committee.

- iv. The Partnership agreement will need to meet the needs of the Council including any future decision to exit the partnership

HoF response: As with all partnerships and contracts, the Council will review and ensure that the terms are acceptable and HR/Legal colleagues will be supporting this project, including this aspect as needed.

Summary/Conclusion

The review of the 'offer' from each partnership reflected strongly their different stages of maturity as internal audit organisations and this was a key distinction which gave rise to notable differences the two partnerships.

The SWAP option is very mature, having been established 20 years ago with c25 clients, 80 staff and have grown to be the largest local government specialist internal audit provider in England/Wales. In contrast, the South Wales partnership is young and keen to grow. There is relatively low capacity and resilience. They have three clients only, having lost one client about 12-18 months ago.

- Many of the issues explored in both options meet the core requirements for the service.
- The maturity of the SWAP partnership provides more added value services from specialists, and they have developed better reporting and can potentially leverage more innovation in audit approaches to the Council.
- The South Wales partnership could not provide the depth and breadth of specialist work, some of which, fraud work in particular, the Council have a requirement for.
- The SWAP option would be relatively seamless given they are providing the service currently. They have a locally based manager.
- The track record of the SWAP Partnership is impressive with steady growth in partners and 100% retention. The Council's own experience to date has been positive.

From a service perspective, the SWAP partnership very clearly provides the better option to the Council currently though the Cabinet needs to balance that against the potential to support a developing partnership in the region locally.

Cabinet are recommended to authorise the HoF to establish the Council as a full partner with the SWAP Partnership who will provide internal audit services.

Financial Summary (Capital and Revenue)

There are no financial impacts. There is no change in the internal audit budget resulting from this.

Risks

Risk Title / Description	Risk Impact score of Risk if it occurs* (H/M/L)	Risk Probability of risk occurring (H/M/L)	Risk Mitigation Action(s) What is the Council doing or what has it done to avoid the risk or reduce its effect?	Risk Owner Officer(s) responsible for dealing with the risk?
Unable to agree partnership terms	M	L	Key terms discussed and is well known to the Council at this point Other public sector organisations operate within the terms	HoF
Staff transfer terms are unacceptable			As above Internal staff kept updated on developments Formal staff consultation to begin after the decision, as appropriate	HoF supported by HR business Partner

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

The internal audit function contributes to the good use and management of resources, and this is a key requirement for the Council as resources become more challenging.

Options Available and considered

The report sets out the drivers for change in the provision of internal audit services and moving to a partnership model which is more sustainable. A decision could be taken to retain an in-house team.

In terms of a partnership, there were two known organisations considered and these have been reviewed on a consistent basis. There are large differences between both, stemming from their different size and period of existence. From a service perspective, the SWASP partnership is clearly the stronger option, but this could be considered next to the potential to support the longer-term development of a South Wales partnership.

Preferred Option and Why

Experience has consistently shown that sustaining an in-house team would be difficult, if not impossible to achieve given its inherent challenges, in particular, recruiting staff and developing audit specialisms. Service sustainability would be a high risk. Moving to a larger partnership model is the preferred option.

In terms of the partnership itself, the SWAP option is clearly well developed and mature and would provide, from the very beginning, a stronger service with more specialisms to call upon and a more developed approach. This is not a strategic partnership or service and alongside the ease of transition that retaining SWAP would entail; it is the preferred choice and recommendation.

Comments of Chief Financial Officer

There are no direct financial impacts related to this decision. There is no change proposed to the internal audit budget going into 2025/26 and the audit resources/input resulting from this change will be at least the same / similar as the in-house team, if fully staffed.

The options identified in going forward allow for a more resilient service.

Comments of Monitoring Officer

It is for the Cabinet to decide on the provision arrangements for this service, with the recommendation being an external public sector partnership. In this report, the Head of Finance sets out the various options for the provision of the internal audit function going forward. All of the options put forward are lawful and appropriate and it is therefore ultimately a matter for the Cabinet to decide which would be preferable. In considering this, the Cabinet will note the comments of the Governance and Audit Committee which are, as set out above, generally favourable towards what is being proposed.

Comments of Head of People, Policy and Transformation

This report asks the Cabinet to decide on the long-term provision of the Council's internal audit service, with the Council establishing itself as a full partner with the SWAP Partnership who will provide internal audit services.

The proposal is in line with the Council's Corporate Plan 2022-27 vision of 'an ambitious, fairer, greener Newport for everyone', and supports its four Well-being Objectives, including 'An inclusive, fair and sustainable council'. The principles of the Well-being of Future Generations (Wales) Act 2015 and its five ways of working are supported, with this proposal looking to ensure that the internal audit function is sustainable both in the short and long-term preventing the issues faced by the council over recent years with resource and capacity. This can be achieved through collaboration with the SWAP Partnership and via the consultation of existing staff.

A Fairness and Equalities Impact Assessment was not required for this report. There are potential staffing implications for three staff members who may be subject to transfer to the SWAP Partnership, and these will be subject to staff consultation in accordance with Council policies

Scrutiny Committees

N/A

Fairness and Equality Impact Assessment:

• Wellbeing of Future Generation (Wales) Act

- Long term – The proposal looks to ensure the internal audit function is sustainable both in the short and long-term through the establishment of the Council as a full partner with the SWAP partnership.
- Prevention – The Council's internal audit function has been challenging over the last 18 months, with reduced resource and capacity. Establishing a more resilient service will prevent these issues from occurring ensuring the council can deliver on this important function.
- Integration – This proposal supports the National Well-being Goals (e.g. A Globally Responsible Wales) and is in line with the Council's Corporate Plan 2022-27 vision of 'an ambitious, fairer, greener Newport for everyone', and its four Well-being Objectives, including 'An inclusive, fair and sustainable council'.

- Collaboration – The proposal has been developed in collaboration with the Council’s Executive Team; the Council’s Governance & Audit Committee; and the SWAP/South Wales Partnerships.

Involvement – Staff potentially impacted by this proposal have been informally consulted and kept up to date with developments, while formal staff consultation arrangements and policies will be followed during implementation

- **Equality Act 2010**
- **Socio-economic Duty**
- **Welsh Language (Wales) Measure 2011**

Given the nature of the proposal here, no FEIA was required and there are no changes proposed which impact on these duties. The paper deals with the permanent options to deliver existing services

Consultation

The recommendation here has been consulted on with the Council’s Executive Team who have considered it alongside the opportunity to assist in developing, over the longer term, a South Wales partnership. Similarly, the Council’s Governance & Audit Committee have been consulted and their comments are included in this report.

Current staff employed by the Council (three) have been informally consulted and kept up to date with developments and the Council’s formal staff consultation arrangements and policies will be followed during implementation.

Background Papers

N/A

Dated:

APPENDIX A

Partnerships Background

South-West Audit Partnership – ‘SWAP’

- Came out of a collaboration of district councils in Somerset. Now has 24 partners / audits, predominantly local government and all public sector. They have retained all audits/partners over their 20yr existence and have c80 staff. They are the largest local Government internal partnership in England and Wales.
- Has 1 partner in Wales (Powys) with balance predominantly in South-West and the Welsh borders
- Is a private company limited by guarantee, without share capital and is a Teckal compliant organisation which is Local Authority controlled through Partners representation on its governance structure. Not for Profit organisation.
- Small team within SWAP provides interim solutions to resourcing challenges at various South Wales Councils including the Regional Internal Audit Service itself. Vast majority of staff focussed on working on partners audits. External income generated, in context of not-for-profit organisation, is used for wider benefit of the partnership
- Owner's Board represented by Councillors nomination by Partners – meet 6 monthly and make decisions on governance structure, budgets and assets.
- Board of Directors made up of officers nominated by each member of the Board (usually HoF/ similar) – focus on implementing strategy and monitors performance
- Management Team runs company on a day-to-day basis
- No minimum period of membership but 12 months' notice required for leaving

Regional Internal Audit Service

- Came into existence in 2019 based on four South Wales Councils and now reduced to three following one Council departure. They have 16 staff, led by a Chief Internal auditor role.
- A developing partnership and keen to grow
- Hosted by the Vale of Glamorgan with 16 staff, led by a Chief Internal Auditor Role and supported by one Deputy/Audit Manager
- Partnership Board consist of the s151 officers of each audit/partner
- Head and Deputy head of RIAS manage operational matters and allocation of work