

Causeway Coast & Glens Borough Council

To: Audit Committee

Date: 29 June 2015

Internal Audit – Benefits of Co-Sourcing Arrangements

For Decision

Linkage to Corporate Plan	
Strategic Priority	Transition and Transformation
Objective	Establish Audit and Governance Arrangements for the new Causeway Coast and Glens Borough Council
Lead Officer	Moira Quinn
Cost: (If applicable)	Approx. £300 per day.

1.1 Background

The Institute of Internal Auditors (IIA) defines Internal Audit as “... *an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*” Internal Audit is recognised by the Northern Ireland Audit Office and by Local Government as a key part in a Council’s lines of defence in relation to risk management.

There are 3 primary options for how internal audit services are provided within organisations:

1. Internal service
2. External, out-sourced service
3. Co-sourced service – partnership approach which teams an in-house internal service with out-sourced provision to build a full internal audit service.

The former 3 Councils Ballymoney, Limavady and Moyle Council operated a model of external, out-sourced internal audit provision. This would have cost approximately £28,000 for 91 days, whilst the former Coleraine Borough Council operated with a dedicated Internal Auditor. It is expected that the existing in-house arrangements will remain in place in the Causeway Coast and Glens Borough Council but may require supplementation through a co-sourced service. This paper sets out the rationale for and benefits of such an approach.

1.2 Rationale for Co-Sourced Arrangement

As the four Councils have now merged and new functions and services are joined to the new Council (eg Planning Service), the breadth of areas to be covered by an internal audit service will significantly increase over and above those currently delivered by the former Coleraine Borough Council. In line with the Public Sector Internal Audit Standards, all audit work should be undertaken using a risk-based approach (as opposed to the older method of cyclical audit testing that tended to focus on financial controls only). Given the challenges that will be faced by the Causeway Coast and Glens Borough Council in terms of merging functions and cultures and taking on new functions and staff, the level of risk will be high. All legacy Councils have risk management processes in place however there is nonetheless a challenge in ensuring that risk management processes are operating effectively in the new environment post April 2015.

The change management process will also lead to increased need to focus on governance and control processes, particularly in the transition period as the new Council beds in to new ways of working.

Given this, there is a strong case for augmenting the capacity currently available in – house to ensure that there is sufficient focus across the breadth and depth of the new Council’s activities to enable the Head of Internal Audit to provide the necessary level of assurance to the Council Chair and Chief Executive. To increase the number of audit days will require either the direct employment of additional internal audit staff or supplementation of the existing internal audit staff through a co-sourced arrangement. The primary rationale for a co-sourced arrangement (and the reason that this paper focuses on this) is that the arrangement gives the new Council immediate flexibility in its operations whilst it determines and finalises its operating structures and locations. In particular, a contract arrangement ensures that the new Council is not tied in to an indefinite fixed number of audit days or requirement for audit staff (as would be the case if the Council were to employ staff directly) and does not have to bear any associated employer’s costs. It also provided additional skills and knowledge to help the existing staff immediately.

1.3 Benefits of Co-Sourced Arrangement

The benefits of a co-sourced arrangement are as follows:

- Retains knowledge and skills of existing internal audit staff
- Enables the Council to increase the number of internal audit days provided in the year at a scale that is based solely on requirements, rather than having to ensure staff utilisation
- Can provide specialist knowledge and skills through co-sourced auditors who have worked on areas that may not exist within the current staff team (eg IT auditing)
- Can bring additional perspective to audit work through the co-sourced auditors’ experience of working for a range of clients
- Co-sourced provider can deliver a level of independence to the audit assurance and opinions given – recognising that it can be difficult for staff who are employed within an organisation and must work with other staff on a daily basis

to highlight unacceptable or limited risk management, governance and control practices

- Can help to build and develop the expertise and skills of existing internal audit staff through knowledge sharing and transfer with the co-sourced provider
- Co-sourced provider likely to offer opportunities for training and development of Council staff and elected members.

1.4 Conclusion and Future Developments

The traditional model for Councils in Northern Ireland has been to employ either an in-house internal audit team or to out-source the function completely. In the rest of the UK however, co-sourcing arrangements are more common, with the IIA's Governance and Risk Report 2014 showing that approximately 56% of public sector internal audit functions engage in co-sourcing arrangements (based on a survey of Heads of Internal Audit affiliated with the IIA). . The following lists some of the Councils who are currently engaged in a co-sourced internal audit arrangement:

- The City of Edinburgh Council
- Isle of Wight Council
- Dundee City Council
- Staffordshire County Council (for particular audit assignments).

In terms of the future development of internal audit services within the Causeway Coast and Glens Borough Council, there are likely to be opportunities to build on the learning and experience of a co-sourced arrangement. A number of English Councils have moved to develop shared services, whereby one Council acts as the lead and internal audit services are moved into one shared unit. Such units have also extended to provide contracted services to other public sector agencies in the relevant districts (such as Fire Services). It is not likely however that internal audit services within local government in Northern Ireland will be in a position to move to such an arrangement in the short to medium term and co-sourcing therefore is likely to offer the best value (in terms of effectiveness, efficiency and economy) at this time.

1.5 Recommendation

It is recommended that the Audit Committee progress with supplementing the existing Internal audit function through a co-sourced service. This service would be tendered in line with Councils procurement policies and procedures.