

SUBJECT:	INTERNAL AUDIT Future Delivery Models
DIRECTORATE:	Resources
MEETING:	Governance & Audit Committee
DATE:	March 2024
DIVISION/WARDS AFFECTED:	All

1. PURPOSE

To consider the future delivery of Internal Audit services at Monmouthshire County Council.

2. RECOMMENDATION(S)

That the Committee consider and note the options appraisal providing comment on the proposed delivery model for Internal Audit.

The Committee supports the strengthening of Counter-Fraud arrangements within Monmouthshire County Council creating a new post within the Internal Audit team dedicated to fraud response and training.

3. KEY ISSUES

- 3.1 The Internal Audit service at Monmouthshire County Council is currently operated in house with a dedicated team. The current establishment is 5.5 FTE.
- 3.2 The team has historically been managed by a shared services arrangement for the provision of a Chief Internal Auditor. The shared service was with Newport City Council and allowed for a 50/50 split between the 2 Councils. In April 2023 the Chief Internal Auditor left Newport City Council / Monmouthshire County Council to become the Head of the Regional Internal Audit Service hosted by the Vale of Glamorgan Council.
- 3.3 Interim arrangements have since been put in place to manage the Internal Audit service to ensure continuity of service and compliance with the Public Sector Internal Audit Standards. The Audit Manager has been acting up to cover the vacant Chief Internal Auditor position since

April 2023. No further back fill arrangements are in place to cover the Audit Manager.

- 3.4 Discussions have taken place between various stakeholders to develop a future vision for the service. This report acts as an options appraisal for the opportunities which now exist for Internal Audit within Monmouthshire. A number of different options have been considered;
- a) Consolidate an in-house Internal Audit function
 - b) Outsourced Internal Audit function with an external provider
 - c) Renew collaboration with Newport City Council for the shared Chief Internal Auditor provision
 - d) Explore a collaboration with other Gwent Local Authorities
 - e) Shared Service - join the Regional Internal Audit Service hosted by the Vale of Glamorgan.
- 3.5 In addition to reviewing the structure of the Internal Audit team, there is a further identified need to consider and enhance the fraud prevention and detection arrangements at Monmouthshire County Council. This will be incorporated into the review of Internal Audit delivery.

4. REASONS

Internal Audit Delivery Model

- 4.1 Internal audit is an essential function that provides independent and objective assurance and advice on the effectiveness and efficiency of an organization's governance, risk management, and internal control processes. Internal audit helps an organization achieve its strategic goals, improve its performance, and enhance its accountability and transparency.
- 4.2 Based on data received via the Welsh Chief Auditors Group (January 2024) the average IA team across Wales consists of 6.7FTE. The Monmouthshire audit team currently has 5 FTE employed out of a structure of 5.5 FTE. The budget available however, does not fully account for the current number of employed staff.
- 4.3 A number of different operating models have been considered as listed within 3.4 above. Two of these models (c) & (d) were discounted as the potential partners had shown an interest in pursuing other operating models.
- 4.4 The three main options for delivering the internal audit service therefore were;
- a) In-house: The internal audit function is fully staffed and managed by the organisation's own employees. The internal audit staff report to the Chief Internal Auditor who reports to the Governance & Audit Committee and the senior management. The in-house option provides the organisation with full control

and ownership of the internal audit function and allows for a close alignment with the organisation's culture, values, and objectives.

- b) Outsourced: The internal audit function is fully staffed and managed by an external service provider, who reports to the Governance & Audit committee and the senior management. The outsourced option enables the organisation to access a wide range of specialized skills, knowledge, and experience from the external service provider, and to reduce the fixed costs and administrative burden of maintaining an internal audit function.
- c) Shared service: The internal audit function is shared among a group of Local Authorities which have similar or related activities, risks, and objectives. The shared service option allows the participating Councils to pool their internal audit resources, expertise, and best practices, and to achieve economies of scale and scope in delivering internal audit services.

4.5 The three options for delivering internal audit services were evaluated based on the following criteria: cost, independence, and flexibility. The evaluation is based on a qualitative analysis of the advantages and disadvantages of each option, as well as a comparison of the options against each other. The evaluation is summarized in the table below, where a score of 1 indicates the lowest performance and a score of 4 indicates the highest performance on each criterion.

Option	Cost	Independence	Flexibility	Total
In-house	4	3	4	11
Outsourced	2	2	2	6
Shared service	3	3	2	8

4.6 The following paragraphs explain the rationale behind the scores assigned to each option on each criterion.

Cost

4.7 Cost refers to the amount of financial resources required to maintain and operate the internal audit function. Cost is influenced by factors such as the size, complexity, and frequency of the internal audit work, the number, qualifications, and remuneration of the internal audit staff, the overhead and administrative expenses of the internal audit function, and the fees and charges of the external service providers.

4.8 The outsourced and shared service options score the lowest on cost, as although the Council will only pay only for the services that are needed and used, the fee model provided by the Regional Internal Audit Service indicated an additional cost pressure based on the status quo. The daily rate of external Internal Audit providers also mean that this would not be seen as a viable option.

Independence

- 4.9 Independence refers to the extent to which the internal audit function is free from any undue influence, interference, or bias that may impair its objectivity and credibility. Independence is influenced by factors such as the reporting and governance structure of the internal audit function, the relationship and communication between the internal audit function and the Governance & Audit committee, senior management, and external stakeholders, and the conflicts of interest and ethical issues that may arise in the internal audit work.
- 4.10 The in-house model scored moderately on independence, as it allows the organization to have a direct and close relationship and communication with the internal audit function, and to ensure that the internal audit function is aligned with the organisation's culture, values, and objectives. However, the in-house option may also expose the internal audit function to the risk of losing its independence and objectivity, due to the pressure, influence, or interference from senior management or the external stakeholders, or due to the familiarity, complacency, or self-interest of the internal audit staff.
- 4.11 The outsourced and shared service options score the lowest on independence, as they may create a distance and detachment between the organisation and the internal audit function, and may weaken the accountability and transparency of the internal audit function. The outsourced and shared service options may also pose a threat to the independence and objectivity of the internal audit function, due to the potential conflicts of interest or ethical issues that may arise from the relationship or involvement of the external service providers with the organisation or the other participating organisations.

Flexibility

- 4.12 Flexibility refers to the ability of the internal audit function to adapt and respond to the changing needs and priorities of the organisation, and to the emerging risks and opportunities in the internal and external environment. Flexibility is influenced by factors such as the availability and accessibility of the internal audit resources, the scalability and variability of the internal audit work, the responsiveness and agility of the internal audit function, and the innovation and creativity of the internal audit staff.
- 4.13 The in-house option scores highly on flexibility, as it allows the organisation to have a full control and ownership of the internal audit function, and to tailor the internal audit work to the specific needs and objectives of the organisation. This includes the ability to conduct responsive unplanned investigative work at short notice.
- 4.14 The outsourced and shared service options score the lowest on flexibility, as they may restrict the organisation's control and ownership

of the internal audit function and may reduce the customization and relevance of the internal audit work. The outsourced and shared service options may also face difficulties in accessing and mobilizing the internal audit resources, and in ensuring the responsiveness and agility of the internal audit function.

4.15 It is therefore proposed that Internal Audit is delivered via an in-house delivery model.

Responding to Allegations of Fraud, Corruption & Bribery

4.16 In January 2024 Cabinet approved a revised Anti-Fraud, Corruption & Bribery Policy for Monmouthshire County Council.

4.17 As part of the review of the policy and in light of recent reports from the Auditor General for Wales it was identified that the Council does not currently have a specific resource dedicated to reviewing any allegations of fraud, corruption or bribery or pro-actively conducting investigations where concerns may exist by senior management.

4.18 A number of options are presented to Local Authorities to strengthen their fraud response arrangements;

Option	Current Status
Implementing a risk management policy and guidance to identify, evaluate, and manage risks that threaten the achievement of the local authority's objectives and delivery of services to the community.	The Councils Strategic Risk Management Policy is currently being reviewed.
Establishing a strong internal audit function to review and assess the effectiveness of internal controls and risk management processes.	This report seeks to further establish the Internal Audit team.
Collaborating with external agencies and organisations to share information and best practices for fraud prevention and detection.	Collaboration already takes place with various external agencies and organisations.
Providing training and education to employees to raise awareness of fraud risks and encourage the reporting of suspicious activities.	This report seeks to further strengthen this area by providing additional resource.
Implementing robust financial controls and procedures to prevent and detect fraudulent activities.	The Council has recently updated its Anti-Fraud, Corruption & Bribery Policy. Robust controls are in place which are reviewed by management and Internal Audit.
Conducting regular reviews and	A commitment has been made to

assessments of the local authority's operations to identify potential areas of vulnerability to fraud.	the Governance & Audit Committee to conduct at least an annual Fraud Risk Assessment.
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- 4.19 Within their report 'Raising Our Game' Tackling Fraud in Wales, Audit Wales recommended that;
- R8** All public bodies need to build sufficient capacity to ensure that counter-fraud work is resourced effectively, so that investigations are undertaken professionally and in a manner that results in successful sanctions against the perpetrators and the recovery of losses.
- R9** All public bodies should have access to trained counter-fraud staff that meet recognised professional standards.
- 4.20 As part of reviewing the delivery models of the Internal Audit function, it is proposed to create a post dedicated to Fraud Investigation and Training to strength Monmouthshire County Councils response to this area. This officer would be responsible for investigating and preventing fraudulent activities within the local authority. They would work closely with other departments and agencies to ensure that the local authority's resources are being used appropriately and that any fraudulent activities are detected and addressed promptly.
- 4.21 Additional resource would also be provided to ensure that members of the Internal Audit team have been sufficiently trained in when and how to respond to allegations and have knowledge in how to complete these investigations to the required professional standards.
- 4.22 Across Wales, a number of other Councils have already attempted to strengthen their fraud management and response arrangements through allocating a specific resource and capacity in this area.

Proposed Internal Audit Structure

- 4.23 The current Internal Audit team structure (5.5 FTE) is detailed within Appendix 1. Due to the previous Chief Internal Auditor leaving the Council in April 2023, interim arrangements have been put in place with the Audit Manager assuming the duties of the Chief Internal Auditor with their substantive post remaining vacant.
- 4.24 The proposed team structure will consist of 6 FTE and be headed by a Chief Internal Auditor on a 1 FTE basis.
- 4.25 It is proposed that the current Audit Manager post (1 FTE) is subsequently deleted from the structure with the Principal Auditor post (1 FTE) being re-graded (Grade H to Grade I) to support the Chief Internal Auditor. This regrading of post will bring the salary of the post inline with the average across Wales for an experienced and qualified Internal Auditor.

- 4.26 As detailed above, the structure would be strengthened with the creation of a Fraud Officer Post (1 FTE, Grade I). This post will report directly to the Chief Internal Auditor and will also provide management support in addition to the regraded Principal Auditor.
- 4.27 The Senior Auditor (2 FTE) and Auditor (1 FTE) posts will remain within the structure at the existing grades.

5. EVALUATION CRITERIA

- 5.1 The revised delivery model proposed will be assessed and evaluated on an ongoing basis. The annual cycle of reporting into Governance and Audit Committee will naturally lend itself to that.
- 5.2 Ongoing feedback is and will be captured from key stakeholders and that includes the committee itself, alongside regulators (principally Audit Wales), senior leadership and principal officer leads who engage with the service.
- 5.3 A future opportunity to review service delivery options will be undertaken at an appropriate time and guided by the ongoing assessments above as well as through wider networks and in understanding the maturity and appetite to explore any such strengthened collaborative solutions. However, it is important to recognise that the proposed in-house delivery model needs appropriate time to establish itself fully and therefore such a review would not be anticipated within the next two years.

6. RESOURCE IMPLICATIONS

Staffing Structure & Budget Models

a) Consolidate an in-house Internal Audit function

This is the most cost-effective option although due to the current shortfall within the Internal Audit budget along with the restructure as detailed above there will be a financial impact of £45k.

b) Outsourced Internal Audit function with an external provider.

The costs of utilising an outsourced Internal Audit provider are significant and the highest of the options available. There would also be TUPE or potential redundancy implications for existing staff where they transfer to a 3rd party private organisation.

c) Renew collaboration with Newport City Council for the shared Chief Internal Auditor provision.

As the potential partner had shown an interest in pursuing other operating models the resource implications for this option was not considered.

d) Explore a collaboration with other Gwent Local Authorities

As the potential partners had shown an interest in pursuing other operating models the resource implications for this option was not considered.

e) Shared Service - join the Regional Internal Audit Service hosted by the Vale of Glamorgan.

If this model was selected, current MCC Internal Audit staff would be assessed against the Regional Internal Audit Service job descriptions and become employees of the Vale of Glamorgan Council by means of TUPE transfer. The RIAS model has been considered and based upon the current budget shortfall and existing staff transferring onto the rates of pay utilised by the RIAS there would be a further budget pressure. In addition, if MCC were still to want a Fraud Officer role, this would be a further direct cost. The analysis highlighted a budget impact for this option of £71k which is likely understated.

Overall, option (a) to consolidate an in-house Internal Audit function appears to be the most cost-effective option in terms of resource implications although there will be a budget pressure which will need to be addressed. The new and regraded post remain subject to job evaluation and that might impact on the budget pressure. However, roles have already been benchmarked against comparable roles within other Welsh local authorities. This shortfall will need to be found from either existing budgets within the Resources portfolio or presented as a budget pressure to Cabinet. Option (a) also avoids the need for staff to TUPE transfer to a new organisation and will remain employees of MCC on their existing terms & conditions.

7. CONSULTTEES

Chair of Governance & Audit Committee
Strategic Leadership Team
HR
Accountancy

Results of Consultation:

N/A

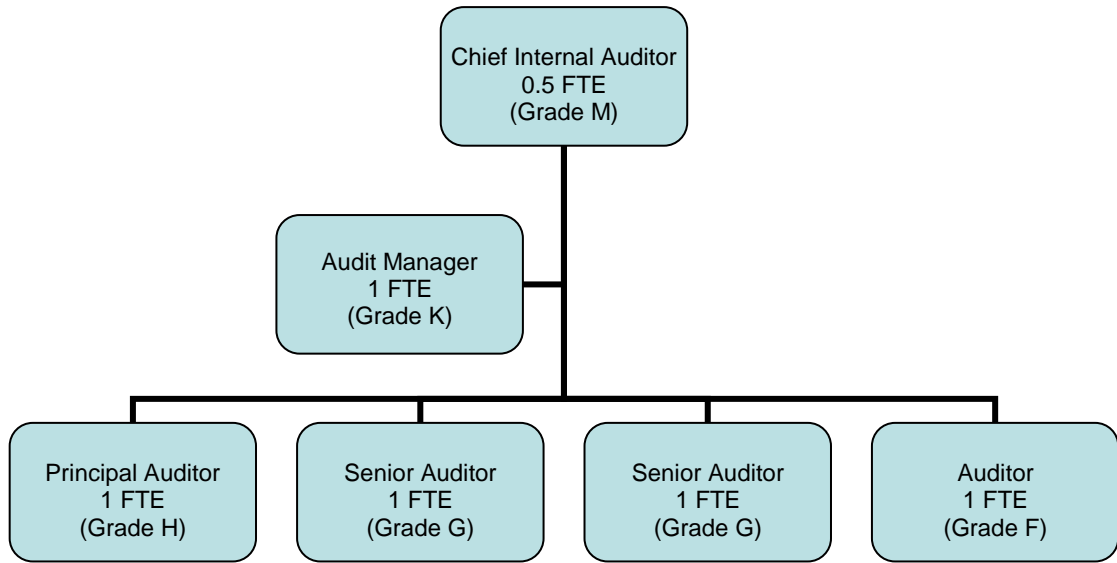
8. BACKGROUND PAPERS

Staffing Structure & Budget Models
'Raising Our Game' Tackling Fraud in Wales Report of the Auditor General for Wales July 2020

9. AUTHORS AND CONTACT DETAILS

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Current Internal Audit Delivery Model



Proposed Delivery Model

