

# Governance, Risk and Best Value Committee

10.00am, Thursday 12 November 2015

## Internal audit & risk service delivery model

Item number 7.4  
Report number  
Executive/routine  
Wards

### Executive summary

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The Council is operating in a challenging environment and the Council transformation programme aims to ensure a continued focus on outcomes whilst supporting key initiatives and achieving required financial savings.

As the Council moves through a period of transformation it is critical that internal controls continue to be a focus. However, it is important to recognise the constraints on service delivery as a result of the savings that require to be achieved.

The contract between the Council and PwC for the co-sourced delivery of internal audit and risk management services runs for an initial period of three years, ending on 31 March 2016, with an option to extend for a further 12 months on giving notice by 31 December 2015.

This report sets out officer recommendations in relation to the contract and future service delivery.

### Links

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Coalition pledges [PO30](#)  
Council outcomes [CO25](#)  
Single Outcome Agreement

## Internal audit & risk service delivery model

### Recommendations

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- 1.1 To note the proposals for future service provision for internal audit and risk services; and
- 1.2 To refer the report to Council, with a recommendation to exercise the Council's option to extend the existing co-source partnership arrangements with PwC for a further 12 months from 31 March 2016 in relation to the provision of audit services.

### Background

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#### **Current service provision - co-source partnership with PwC**

- 2.1 Internal audit services are currently provided through a co-source partnership with PwC. The Council's Chief Internal Auditor is provided by PwC under the co-source arrangements and further capacity and capability is provided by PwC colleagues working in partnership with Council staff in a 'one team' approach.
- 2.2 In addition, specialist risk management input has been drawn down under the co-source contract to assist the Council in developing a risk management framework and methodology. A Chief Risk Officer role is presently undertaken by a PwC member of staff. The primary ongoing purpose of this role is to continuously improve the risk management system, set overall direction and ensure smooth operation of the various senior risk committees.
- 2.2 The contract between the Council and PwC commenced on 1 April 2013 and runs for an initial period of three years, ending on 31 March 2016, with an option to extend for a further 12 months with Council approval. If the Council wishes to extend, it must give notice to PwC by 31 December 2015.

### Main report

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#### **Current environment**

- 3.1 The improvements made in the Council's internal audit function, as well as its risk management arrangements under the co-source partnership with PwC have been well documented and are outlined in previous reports to Committee in May and October 2013, May 2014, March 2015 and June 2015.

- 3.2 It is clear that the Council's internal control environment will be critical over the next 18-24 months, as the Council moves through a period of major change. However, it is important to recognise the constraints on service delivery as a result of the savings that require to be achieved.

### **Future service provision**

- 3.3 The Council is operating in a challenging environment with increased demand for services and continuing financial constraints. As a result, the existing arrangements for internal audit and risk cannot be brought within the available financial envelope. The internal audit function is clearly critical to the Council's internal control and assurance framework. Within the reduced budget available, it will be important to maintain the integrity of this core service. The risk management arrangements have brought considerable benefits in engaging discussion and linkage between risk and the provision of assurance but in light of the need to prioritise the internal audit service it is no longer possible to continue with the PwC arrangements as they currently stand.
- 3.4 There is now a formal risk management framework and methodology in place. A corporate risk function is needed to help embed risk across the organisation. In this context, and given the size and complexity of CEC, the Chief Risk Officer role presently undertaken by PwC is considered key.
- 3.5 It is proposed to recruit a Chief Risk Officer as an in-house lead to replace the PwC colleague currently undertaking the role. In addition, it is proposed that any roles within directorates across the Council with a focus on risk will be brought together centrally to support a Council-wide corporate risk function. It is estimated that savings of up to £125,000 could be achieved by adopting this approach when compared with the current arrangements.
- 3.6 It is envisaged that PwC could be asked to provide some assistance on a transitional basis during the period of recruitment and bedding in of the in-house senior risk management resource as well as generating early momentum in the development of the in-house service.
- 3.7 Although there have been significant improvements in the internal audit service, the quality standards and development of value-added activities are still relatively embryonic and require to be further embedded across the internal audit function. In addition, the Council internal audit team members do not yet have the full capacity or full capability to provide for all our internal audit needs without drawing down support from a partner.
- 3.8 Given the major programme of change within the Council, it will be important to maintain stability and continuity in the internal audit service and to continue the journey of transformation of the service to become a leading edge function. PwC has established a significant understanding of the Council and its challenges over the course of the last few years and in light of this there are considerable benefits in continuing to work with PwC for an additional 12 months:

- 3.8.1 this would allow current CEC staff to continue to develop and build their skill sets in a supportive environment as well as allowing any new recruits to bed into the team while maintaining support from PwC;
- 3.8.2 there would be stability to allow the internal audit quality programme to move further towards maturity;
- 3.8.3 the Council would benefit from continued support in helping senior management develop a more cohesive approach between existing pockets of assurance, including health and safety;
- 3.8.4 in addition, there would be continued access to PwC's pool of deep specialists, as deployed in the areas of pensions, health & safety and information/data audits in the last audit year;
- 3.8.5 a further 12 months of the stability and continuity provided by the existing contract would allow for fuller and more informed consideration of the optimal arrangements for future internal audit service delivery in light of the transformed Council; and
- 3.8.6 options thereafter to be considered range from a fully outsourced model, the current model of a co-sourced service with provision of a Chief Internal Auditor by an external partner, a co-source 'light' arrangement with an in-house Chief Internal Auditor drawing down additional capacity and specialist expertise from an external partner as needed, and a fully in-house service. This would allow stability and continuity during the period of transformation of the Council's services whilst considering future service delivery options.

## **Conclusion**

- 3.9 The existing arrangements for internal audit and risk cannot be brought within the available financial envelope. The internal audit function is clearly critical to the Council's internal control and assurance framework. The initial three year term of the co-source contract will end on 31 March 2016, with the Council having the option to extend for a further 12 month period.
- 3.10 It is critical that the key control environment of the organisation is not compromised during a period of major change for the Council. In order to maintain a degree of stability and continuity within the internal audit function, the Council would benefit from extending its current partnership with PwC for a further 12 months to allow service delivery to be developed as outlined in this report.
- 3.11 It is proposed to bring the risk function in-house by recruiting a Chief Risk Officer as an in-house lead to replace the PwC colleague currently undertaking the role. In addition, it is proposed that any roles within directorates across the Council

with a focus on risk will be brought together centrally to support a Council-wide corporate risk function.

## Measures of success

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- 4.1 Maintaining the effectiveness of the Council's control environment during a period of major change.

## Financial impact

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- 5.1 Potential savings in the region of £125,000 could be achieved.

## Risk, policy, compliance and governance impact

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- 6.1 A strong internal audit function will play a significant role in providing assurance over the controls in place to mitigate the Council's most significant risks.
- 6.2 Efficient and effective risk management arrangements will help ensure that the Council's key risk areas are identified and monitored.

## Equalities impact

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- 7.1 No full ERIA is required.

## Sustainability impact

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- 8.1 None.

## Consultation and engagement

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- 9.1 None.

## Background reading/external references

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None.

### **Alastair Maclean**

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## Links

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<b>Coalition pledges</b>	PO30 - Continue to maintain a sound financial position including long-term financial planning
<b>Council outcomes</b>	CO25 - The Council has efficient and effective services that deliver on objectives
<b>Single Outcome Agreement</b>	Our public services are high quality, continually improving, efficient and responsive to local people's needs