

## Appendix 1 - Internal audit due diligence

This appendix considers the progress made in assessing whether an internal audit function delivered through Orbis would provide the council with an effective internal audit function. Please note that this analysis is based on issues raised by members of the Audit & Standards Committee and will need to be considered as part of the due diligence for the wider council's support functions joining Orbis.

Key issues	Assessment as at 12 February 2016	Does the initial analysis indicate that Orbis can provide BHCC with an effective IA function?	Rationale	Further work required
<p>How will the chief finance officer and the Audit &amp; Standards Committee be able to discharge their responsibilities for ensuring that BHCC has an effective internal audit (IA) that complies with proper practice? Includes:</p> <ul style="list-style-type: none"> <li>- appointment and removal of head of IA</li> <li>- influence over the plan</li> <li>- receiving reports and updates</li> <li>- dealing with under-performance</li> </ul>	<p>Orbis is founded on principle of partner sovereignty so that whilst the delivery and management of services is managed within the Orbis Joint Committee, overall ownership and accountability is retained by individual partners.</p> <p>Orbis has established a "target operating model" which expects each service to have a "locality manager" for each partner reporting to a single overall head of service. For IA the locality manager is expected to be the council's head of IA who would be accountable to the s151 officer and the BHCC Audit &amp; Standards Committee for ensuring an effective IA service that complies with proper</p>	<p>Yes</p>	<p>The Orbis principle of sovereignty and the target operating model lends itself to providing a service for which the chief finance officer and Audit &amp; Standards Committee retains its responsibilities for an effective IA function that complies with proper practice.</p>	<p>As part of the development of the IA target operating model, complete a comparison of the proposed arrangements with proper practice for IA (published by CIPFA).</p>

	<p>practice.</p> <p>There may be some issues to address on, for example, the appointment and dismissal of the Head of IA where there may be a tension between the responsibilities of management (exercised through Orbis) and the responsibilities of the Audit &amp; Standards Committee (as envisaged by proper practice). However, these tensions are also reflected in the current (in-house) provision of IA.</p>			
<p>How will the council be assured that there are sufficient efficiency reductions to ensure that IA can deliver sufficient work at BHCC within budget? Includes consideration of:</p> <ul style="list-style-type: none"> <li>- Structure</li> <li>- Pay differentials</li> <li>- Efficiency/growth savings</li> <li>- Expected budget savings of 28% over four years</li> <li>- Additional travel costs</li> </ul>	<p>Our initial analysis of expected costs and third party income indicates that we would expect to achieve an 8% net efficiency saving without impacting on audit days. This would mean that a 28% reduction in budget would result in a reduction in audit days of only 20% (ie from 1400 days to 1100 days). This is a smaller reduction than would be achieved through reducing budgets using other models (eg retain in-house or outsource) and, in the opinion of the Head of IA, is sufficient to deliver an effective IA function at BHCC.</p> <p>The initial review is based on assumptions about:</p> <ul style="list-style-type: none"> <li>- the management structure for IA</li> <li>- the charging mechanism for</li> </ul>	Yes	Our initial analysis indicates that Orbis provides the best opportunity to mitigate the impact of budget reductions.	Update the initial analysis of expected costs and third party income as part of the development of the target operating model to ensure that Orbis is capable of delivering expected efficiencies.

	<p>allocating costs to member authorities</p> <ul style="list-style-type: none"> <li>- estimates for additional income and efficiency savings</li> <li>- estimates for additional non-pay costs arising from working in partnership (including travel).</li> </ul> <p>Monitoring of the efficiencies would be reported to and managed by the joint committee rather than the s151 officer or the Audit &amp; Standards Committee.</p> <p>The s151 officer would retain responsibility for ensuring an effective IA function and in consultation with the head of internal audit would be responsible for commissioning and resourcing additional audit days if these were required.</p> <p>The Audit &amp; Standards Committee would retain responsibility for approving and monitoring the audit plan and if it considered that an increase in the budget were needed to enable IA to deliver additional audit days it could make a recommendation to the Policy &amp; Resources Committee to do so.</p>			
How will the council be assured	The Head of IA is taking the lead on	Yes	Arrangements have been	Consider the learning from

<p>that the audit team will continue to be focussed on the needs of BHCC during the transition?</p>	<p>transition for audit and is supported by:</p> <ul style="list-style-type: none"> <li>- an Orbis programme manager (to reduce the burden of transition work)</li> <li>- an experienced Audit Manager (to support the Head of Internal Audit in delivering an effective IA to BHCC).</li> </ul> <p>The due diligence arrangements for the Orbis project as a whole will consider the wider transitional arrangements.</p>		<p>put in place to support the transition.</p>	<p>the wider Orbis project and continue to monitor.</p>
<p>How will the council be able to ensure that the anticipated qualitative benefits of Orbis are realised?</p>	<p>Based on discussions within the BHCC audit team and with the teams from East Sussex County Council and Surrey County Council, the following potential qualitative benefits for BHCC have been identified anticipated:</p> <ul style="list-style-type: none"> <li>• BHCC auditors with broader range of wider knowledge and experience</li> <li>• wider use of best practice and specialist insights to BHCC internal audit</li> <li>• increased resilience of the audit resource available to deliver BHCC audit work</li> </ul>	<p>Yes</p>	<p>Initial work suggests that there is a significant scope for qualitative benefits.</p>	<p>Development and implementation of a detailed project plan.</p>

	<ul style="list-style-type: none"> <li>increased ability for BHCC (with Orbis partners) to retain and recruit high quality audit staff</li> </ul> <p>Early liaison between the teams has already identified some gains, for example the sharing of issues and how to audit specific risk areas.</p>			
How will the council ensure that BHCC has sufficient influence in the development of Orbis IA?	<p>The Heads of Internal Audit from BHCC, ESCC and Surrey are working effectively together to develop a joint management project plan.</p> <p>The due diligence arrangements for the Orbis project as a whole will consider the influence of BHCC.</p>	Yes	To date the Head of Internal Audit has had a significant influence in the development of Orbis IA.	Consider the learning from the wider Orbis project and continue to monitor.
How would the council be able to withdraw from Orbis IA if alternative delivery vehicles would better meet the needs of BHCC?	This will be addressed as part of the wider Orbis project.	tbc		
How will the council ensure that employment issues will be properly considered?	This will be addressed as part of the wider Orbis project.	tbc		

