

Agenda Item 10

Audit and Governance Committee

5 July 2010

DJP



Internal Audit service

Exempt Information

Para 3 Schedule 12A Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Summary

With the uncertainty of local government review now receded the Council should consider the future the delivery of the internal audit plan. Having first found it difficult to retain and recruit qualified staff the service has failed to retain the two trainees appointed in 2008. As a consequence the Authority has had to rely on agency and contract staff to meet its requirements. The Committee have previously been advised by its external auditors to consider the longer term provision of the Internal Audit service.

With the Council progressing a shared services agenda with South Somerset District Council, with the aim of driving down management and service costs, it is considered appropriate to seek an arrangement for the audit service that complements that programme,

The report proposes the Council looks to become a member of the South West Audit Partnership (SWAP), and comments on the related staffing issues.

Recommendation

That the Committee recommends to Council that it approves the transfer of the delivery of the Internal Audit function to the South West Audit Partnership, through participation in a joint committee, and that the approval of the partnership agreement be delegated to the Council's section 151 officer in consultation with the Chairman of the Audit and Governance Committee.

That Contract Standing Orders be waived to allow the Council to seek an internal audit service from SWAP without competitive competition.

a) Reasons for Recommendation

To put in place a longer term solution for the provision of an internal audit service.

b) Alternative Options

The Council could look to recruit staff to vacant positions or continue to use agency and contract staff to deliver the service.

A further option would be to look to join a different existing partnership, to join with one or more other councils to form a new alliance or to seek competitive tenders from private sector firms.

c) Risk Considerations

The council will relinquish direct control over the appointment and management of staff employed to undertake the internal audit function although it will be a member of the Partnership and have an officer on the management board.

d) Policy and Budgetary Considerations

The proposal to go with SWAP will potentially cost the Council more for a similar number of audit days than that which would be incurred through buying in agency and contract staff on a needs basis. Joining a sustainable internal audit team will provide the Council with true service resilience and allow it to drive down the future cost of the service as the shared service programme with South Somerset develops.

e) Date for Review of Decision

The Council will the opportunity on an annual basis to consider remaining a partner of SWAP.

Body of Report

1. In their Interim Audit Report for 2009-10, which has yet to be published, Grant Thornton have concluded '...that the internal audit service provided an adequate service to the Council in 2009-10 and that we can take assurance from their work in contributing to an effective internal control environment at the Council'.
2. The Committee will be aware that this has not always been the case from reports presented by officers and by our external auditors. A brief synopsis of these follows.
3. In their 2007-08 report Grant Thornton (Audit and Governance Committee 26 June 2008) having noted there had been slippage from the audit plan recommended that:

'...the Council ensures that its Internal Audit function is adequately resourced in order to be able to deliver the annual audit plan', and

'the Council should consider the future resourcing of the internal audit function including:

- Relative expectations to attract and retain internal audit staff
- Outsourcing
- Formal partnership with other district councils, and
- Call off arrangements with other providers

4. These matters were picked up by the Audit and Governance TaFF which had been established earlier in the year to review a number of issues including the structure and conditions of the internal audit and governance team. In their report to the September 2008 meeting of the Committee members recommended that of the resourcing options considered two trainees be taken on and that the service continued to use contract staff to fill the skills gap.
5. In the Internal Audit Annual Report for 2008/09, presented to the Committee in June 2009, it was noted the service had suffered from a lack of resources throughout 2008/09, which has meant that the original audit plans for 2008/09 (and 2009/10) were revised to focus on 'high risk' areas only and despite this action the revised audit plan was only then (in June 2009) being finalised.
6. At the same meeting the Grant Thornton reported their observations on the action being taken by the Council to address the short term resource issues relating to the internal audit service and of their involvement in discussions around the longer term delivery of the service. Similar to their report of a year earlier they recommended;

The Council should consider the longer term provision of the Internal Audit service and how it can provide suitable assurance together with any additional advisory or value for money services.

7. The June Committee received yet a further report considering service delivery options. Here the recommendation was for an interim solution in the light of the continuing uncertainty over the Council's future as a district council with the engagement of an external supplier for one year to supplement internal resources. That report is attached for reference.
8. As noted at the head of the report, the internal audit service provided an adequate service to the Council delivering the majority of the 2009-10 audit plan on time. This was achieved with the full time employment of a contract auditor, who in addition supervised the work of the remaining trainee auditor, together with staff from Exeter City Council (50 days) and a specialist ICT auditor (40 days).
9. Of those engaged during the year the contract auditor has been released, to be replaced by other contract staff working part time and for lower rates, and the second of the two trainees appointed on the recommendation of the TaFF has now resigned.
10. Picking up the messages previously given, and now the threat of Local Government Reorganisation has passed, it is again appropriate for the Council to consider the longer term provision of an internal audit service. The objective is for the Council to ensure that it finds a sustainable and robust service delivery model which provides stability and service resilience. Clearly, our ongoing issue with attracting and retaining staff presents a continued risk.
11. With one external influence gone there is however another factor which should have a significant bearing on any decision. That is the recent agreement to share a Chief Executive with South Somerset DC and to consider opportunities to merge management teams and service delivery units.
12. Whilst that agenda has yet to be developed it is not considered appropriate to actually merge our audit team with South Somerset's. Instead it is proposed that consideration be given to separately joining the partnership which currently provides that council with an internal audit service.
13. South West Audit Partnership (SWAP) provides a managed audit service to 11 authorities of whom 9 are district councils and 2 county councils (Somerset and Dorset). The partnership employs over 40 staff including a range of specialists as would be required to undertake ICT and contract audits.
14. There would be a number of advantages to the Council of joining the partnership:
 - Working across a range of councils the partnership is in a position to adopt best practice and to improve the quality of the Internal Audit and Risk Management Services they provide.
 - Time savings in the operational delivery of key and complementary audits by making more effective and efficient use of staff resources across the Partnership.
 - As with many professions, experienced internal auditors and risk managers are in great demand. By joining the partnership responsibility for attracting and retaining qualified staff into the service will pass to SWAP thereby reducing council costs.
 - Additional resources, including specialists, would be available from within the partnership without the requirement to obtain quotes.
 - Staff will still be based at the Council Offices and therefore will still be accessible.

15. On the downside:
 - There is no direct control of staff, including recruitment.
 - Internal Audit is a staff intensive service and it is therefore important that morale is maintained, both during the transition period and into the future.

16. In all but one of the Councils SWAP maintain a permanent presence and will look to maintain the same team on site to provide their clients with continuity of service. This would often mean SWAP looking to recruit staff living close to the organisation they will be required to audit.

17. The partnership model used by SWAP is that of a joint committee. A joint committee is a formal local authority committee constructed under Section 101 of the Local Government Act 1972. If the Council agree to the formation of the partnership, then the authority would have a member on the joint committee. In addition the Council's Section 151 Officer will join the Partnership Management Board to oversee the operational activities.

18. The cost of delivering the audit plan of 422 days will be dependent upon prices obtained for employing contract and agency staff. This will fluctuate depending upon the market demand as will the quality of the auditors available. Working to a figure of £217 per day (mid point between two contract staff currently employed), together with other anticipated sums, the cost could be in the order of:

	£
197 agency/contract days @ £217	42,749
Principal auditor 135 days	25,210
Audit and Governance Manager	16,085
Contract audits (EDDC and Lakespan)	<u>22,000</u>
	<u>106,044</u>

It should be noted that these costs do not include notional and actual costs of re-recruiting and training staff.

19. A managed audit service provided by SWAP at £280 per audit day (422 days) would cost £118,160. In addition to the 422 audit days the cost of managing the audit team, attending committees and providing additional resources should the need arise and the partnership able to meet the demand, would be provided at no extra cost to the agreed fee.

20. Both costs are likely to vary on an annual basis. With regard to the latter the decision to share services (for example payroll, revenues and benefits) with South Somerset will allow the two councils to commission a single audit of the activity resulting in a reduction in the number of audit days and cost.

21. The internal service currently employs two members of staff: the Internal Audit and Governance Manager and Principal Auditor. The latter works part time, 3 days per week, and is due to return from maternity leave in early July.

22. In the opinion of the Manager, she spends somewhere in the order of 70% of time on risk management and governance responsibilities with only 30% spent on managing the internal audit function. The Principal Auditor is 100% devoted to the audit plan.

23. The partnership is established on the basis of one hosting Authority (South Somerset District Council) to act as employer, for 'pay and rations', for the partnership. Should the Council choose to go down the SWAP route this will result in the Principal Auditor being subject to TUPE transfer to the hosting Council.

24. With responsibility for a managed audit service placed with SWAP then the Council would need to consider the future stewardship of its risk management and governance arrangements. As advised above these represent 70% of the current manager's post.
25. The options to the council would be to:
 - Spread the responsibility across a number of posts (SSDC approach).
 - Offer the existing manager a part time position on a salary commensurate with the new job description.
 - Look to create a new position within the council combining risk management and governance with similar, related activities such as fraud management. This new post would need to be job evaluated and it is possible that it would not achieve the same grade as the current post.
26. With the Joint Integration Committee due to consider a report in September, on a shared management team, it might be considered appropriate to delay further thought on the role until it is clear what positions will be established in the new structure.
27. Clearly if these proposals are recommended consultation with existing staff must take place due to the potential TUPE or redundancy implications.
28. For a number of years our External Auditor has been promoting the idea of the Council making arrangements for the long term delivery of the internal audit service. Joining an established internal audit partnership would address their concerns about providing specialist audit skills and of the Council being vulnerable to staff changes. The current opportunity to join the SWAP partnership presents that real opportunity to join a sustainable internal audit team and provide the Council with true service resilience.

Legal Implications

Establishing a joint committee under section 102 Local Government Act 1972 under which this council would join the SWAP will require the agreement of full Council. The number of members of a joint committee, their term of office, and the area (if restricted) within which the committee are to exercise their authority shall be fixed by the appointing authority or authorities or, in the case of a sub-committee, by the appointing committee. In reality, it is expected that EDDC will be offered membership of the joint committee (the Partnership) on the same terms as those applying to existing local authorities, but this is subject to the agreement of all members of the Partnership.

Financial Implications

As advised in the report transferring responsibility for the audit function to SWAP could cost more than delivering the service using internal staff, contract and agency staff. Much will depend on the number of audit days required to deliver the plan and progress made in sharing services with South Somerset District Council. The report does not deal with the cost of staff not transferred to the Partnership.

Consultation on Reports to the Executive

Reports to the Executive re the budget/policy framework must detail the nature, extend and outcome of consultation with stakeholders and relevant Overview Committees. Reports about other matters must give details and outcome of consultation as appropriate.

Background Papers

- Audit & Governance Committee 23 June 2009 Agenda Item 6