

Agenda Item 6

Audit and Governance Committee

25 June 2009

DP and TC



Internal Audit – Options for Service Delivery

Summary

In its meeting of the 26th March 2009 the Audit & Governance Committee approved a revised audit plan for 2009-10 in recognition of the internal audit resources available to the Council. Recently one of the two trainee auditors has resigned and, the Principal Auditor has left on maternity leave.

The service has struggled to recruit professional audit staff and has relied on external contractors. The team is currently supplemented by two contractors who have provided support to the Audit & Governance Manager.

Recognising the importance of the internal audit function and the previous problems experienced in recruiting and retaining staff and suitable contractors the Committee requested a report on the options for the long term provision of the audit service.

Recommendation

To supplement the limited resources of the in-house team an external provider be engaged for one year to undertake an agreed schedule of audits.

a) Reasons for Recommendation

The Council's internal audit team is now virtually depleted, with one remaining trainee auditor and the Audit & Governance Manager currently supplemented by 2 agency staff on temporary short term contracts. A viable solution needs to be found in order that the governance arrangements of the Council are maintained. In view of the continuing uncertainty over Local Government Reorganisation in Devon, and the anticipated return of the Principal Auditor from maternity leave at a future date, it is proposed that the contract be for an initial period of 1 year. During the course of that contract consideration will then be given to the delivery of the service beyond 12 months.

b) Alternative Options

The report contains a number of options that need to be considered.

c) Risk Considerations

It is imperative that for the Council to provide an appropriate level of resources to maintain an Internal audit service, capable of delivering the work plans approved. Failure to do so will impact on the governance arrangements of the Council and will lead to criticism by our external auditors.

d) Policy and Budgetary Considerations

Outsourcing of all or part of the service will have budgetary implications.

e) Date for Review of Decision

N/a

Background

The Council has found it difficult to recruit qualified internal auditors and, when it has taken the initiative to train junior officers, to then retain them.

In 2003, having failed to attract qualified staff, three trainees were appointed to the team. Whilst one of the initial batch left in 2005 a replacement was soon found and with a stable and maturing workforce the team successfully completed audits in accordance with the approved Work Plan. All 3 trainees attended external audit courses, were successful in attaining profession qualifications, were promoted and reimbursed accordingly.

In 2007 one of the new recruits left and a second, having passed their final exams, departed in 2008. Despite a number of attempts and the addition of a market supplement the Council again failed to attract suitably qualified auditors to the vacant positions so was obliged to appoint staff from recruitment agencies on short term contracts.

In 2008 the Audit and Governance TaFF recognised the advantages that accrued from maintaining an in-house audit service, as opposed to buying expertise in or joining a consortium of other councils. Members, noting the previous difficulties and the shortage of auditors in the labour market, agreed to seek the appointment of 2 new trainees and continue to use contract staff to fill the skills gap. At the time of that decision the one remaining principal auditor was due to return from maternity leave.

Once again failure to retain one of the two newly appointed trainees and the inability to consistently attract competent contract staff (several have come and gone during 2008/09 leaving behind unfinished audits and disappointed audit clients) contributed to the service failing to complete the 2008-09 Audit Plan. Further a number of the feedback reports completed by auditees have recorded dissatisfaction with the continued use of audit contractors.

The non the delivery of the Work Plan and the negative reaction to the use of audit contractors received from service managers is an obvious a concern to all parties including Members of the Audit and Governance Committee and our external auditors. The latter place reliance on the work undertaken by the internal audit team when reviewing and assessing the adequacy of our internal control and risk management arrangements.

In recognition of the resources issue, and as an interim measure, the March 2009 Audit & Governance Committee approved a revised Internal Audit Work Plan for the 2009/10 year. Dropping lower level audits the Committee agreed resources are to be devoted to the audit of the core financial systems (203 days), on a computer audit (55 days) and other deemed essential audit activities (219 days for contract and service audits, checking national performance indicators and other activities), plus the delivery of the governance work plan.

The Committee was advised that with regard to the core systems a prescribed level of testing had to be undertaken annually and that this external imposed requirement had an influence on the number of audit days required. With only the Manager, a trainee plus a number of days from the Principal Auditor (maternity leave) it would require a further 260 contract days to complete this shortened Work Plan. The cost of the latter was estimated at £59.2k.

Whilst Members were prepared to support the proposition that a replacement Principal Auditor be recruited they did request a report, dealing with the options for the future delivery the service, for consideration at their next meeting.

Of neighbouring councils West Devon audit plan for the last financial envisaged only 87 audit days and that for North Devon 290 days, including 50 contingency days. Whilst there is a big difference between the two the latter is still significantly lower than our proposals and although this can be partly attributed to differences in structure and service delivery (for

example neither have retained their council housing stock) that is only half the answer.

Both councils have outsourced the internal audit and from a brief analysis of the work plans it is apparent neither is undertaking reviews of each of the core systems on an annual basis and where reviews were scheduled the number of days being devoted did not correlate to that which Members were being advised was appropriate for East Devon.

In order to gain a better understanding of the position a meeting was arranged with Grant Thornton, our external auditor. The views expressed at that meeting, on core system audits, were very different from those expressed by our previous external auditors (the Audit commission). Here we were advised that it was appropriate to undertake a 'walk through' assessment first and then to undertake a more detailed audit of only those elements of the system where a risk was identified with a full audit being undertaken say every 2nd or 3rd year. There was no expectation of the internal audit service undertaking a full review of each core system annually.

Options for the future delivery of the Internal Audit Service.

The first issue to consider is how to resource the service. Basically there are 2 options, to provide an internal audit service using council employed staff or to appoint an external service provider.

The perceived advantages of internal and external provision are set out in the appendix to this report. In summary there are strong arguments in favour of a stable, loyal, qualified in-house team but this option has previously proved hard to deliver.

The alternative approach, the appointment of an external service provider, shifts responsibility for sourcing the service to the preferred supplier but can result in frequent changes in personnel; however there is the potential to benefit from having access to a pool of skilled auditors and to learn from best practice elsewhere.

The latter option has the potential to be more expensive of the two but this cost can be controlled through the annual assessment of the service required. Here it would be easier to achieve, say a 10-15%, reduction in the number of audit days with an external supplier than would be the case with staff directly employed by the Council.

The second issue, assuming external provision is considered the appropriate way forward, is whether to look for some form of partnership, perhaps with one or more councils, or the appointment of a recognised private sector firm.

In summary partnering with one or more neighbouring district councils could provide the opportunity to share specialist skills, of say a computer auditor although it has to be recognised a small partnership, formed say with one other district council, could suffer the same recruitment problems currently experienced. Larger partnerships on the other hand, such as the Devon Audit Partnership (serving Devon CC Plymouth and Torbay unitaries), have the potential to attract and retain staff with the full range of specialisms.

A contract with a private sector firm could mean limited or no onsite presence at certain times as staff move between contracts. This would obviously be the case for specialist staff and could result in important issues, which will arise during the course of the year, being 'shelved' until the resource becomes available. Firms with a cross section of clients have the potential to bring new thoughts and methods of working to the council.

Issues such as attendance on site and continuity of staff would be dealt with in service level agreements or within contract documentation.

A hybrid, of part internal/part external supply, would be an alternative approach. Again the option of whether the external element is delivered through a local authority partnership or private firm is open for consideration. With this option the Council would retain an in-house presence, a level of expertise to deal with day to day issues, whilst

outsourcing that part of the audit work plan for which resources were not available or where specialist knowledge was deemed appropriate.

Staffing issues

As previously advised the Council currently employs a manager, 1 principal (parttime) auditor and 1 trainee auditor. In addition 1 trainee and 1 principal auditor post remain vacant. With the principal auditor on maternity leave for the next 12 months the skills gaps is such that the Council would need external support to complete the specialist ICT audit and the more complex core financial systems audits.

Proposal

As previously advised the Council currently employs agency staff to fill the skills gap. Other than the appointment of an ICT specialist and for the BVPI audit these officers are not taken for specific audits.

In light of the continuing Local Government Review process, the work being undertaken by the Service Transformation Group and present staffing it is considered appropriate to adopt a halfway house option for 2009-10 of seeking an external supplier to complete the audit of an agreed schedule of work including the core financial systems and the ICT audit. The exact composition of the specification will be dependent upon the level and range of audits the Internal Audit and Risk Manager, working with the Trainee, are capable of conducting. At this stage it is further proposed that the external provision be an initial period for one year. Buying time in this manner would allow the Council to take stock of the options available to it for 2010-11 onwards once it has a better understanding of both internal and external factors.

It is further proposed that until the appointment of an external supplier to undertake the core system, ICT other audits to be tendered the service continues to use agency staff as necessary. Approval for such to be delegated to the Chief Executive.

Legal Implications

Financial Implications

The options for consideration have been provided without taking into account any financial implications, where possible we have provided our opinion as to whether an option is likely to be cheap or expensive, but this needs to be clarified and will form part of the continuing work to be done on this project.

Consultation on Reports to the Executive

N/A

Background Papers

Appendix attached setting out advantages and disadvantages of various options.