

AUDIT & RISK COMMITTEE

Date 19th June 2012

INTERNAL AUDIT- RESOURCES & COMMITMENTS

Report of the Head of Welland Internal Audit Consortium

STRATEGIC AIM	All
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1. PURPOSE OF THE REPORT

1.1 One of the duties of the Committee – as specified in the CIPFA Code of Practice – is to oversee the activities and performance of the Welland Internal Audit Consortium. The purpose of this report is to provide the Committee with early notice of issues which will impact upon the operation of the Consortium during the remainder of 2012/13. Those issues are:

- impact of a major restructuring exercise on audit days available;
- the need to ensure that the Council and the Consortium operate in full compliance with the revised CIPFA Code of Practice for Internal Audit which has effect from 1st April 2013; and
- the need to respond to the Local Government Fraud Strategy that has been rolled out by the Government

2. RECOMMENDATIONS

2.1 That the report be noted

3. PROGRESS ON RESTRUCTURING

- 3.1** The new structure that the Welland Board approved has required the development of new Job Descriptions for all posts and a consequent Job Evaluation exercise. There have been some difficulties in meeting the Board's expectations about the salary grades of the senior posts in the new structure and it has proved necessary for the Head of Consortium and the Strategic Director – Resources to carry out additional work to ensure that the structure as implemented delivers sufficient audit days to complete the work that the individual clients have commissioned. The results of the completed restructuring exercise will go to the Welland Board for ratification in mid-July: assuming the Board agrees, a recruitment exercise will start immediately. It is unlikely, however, that the post of Audit Manager (deputy to Head of Consortium) could be filled before the early November, although the more junior posts should be filled by the beginning of October.

4. IMPACT ON AUDIT DAYS AVAILABLE

- 4.1** Since 1st April 2012, three of the eight posts in the Consortium – including that of the Audit Manager have been vacant. In light of the timetable suggested in 3.1, this represents a loss of around 300 chargeable days – or about 20% of the total days commissioned by clients.

5. IMPACT OF PREPARATIONS FOR THE NEW CODE OF CONDUCT

- 5.1** The timescale for rolling out the revised Code of Practice for Internal Audit was announced at the CIPFA Audit Conference at the end of May. A draft of the new Code will be issued early in the summer for a short consultative period to allow publication at the end of December 2012. The new Code will have effect from 1st April 2013 and will be used to evaluate all aspects of the Consortium's and the Council's arrangements – including the Audit Plan 2013/14. Indications from CIPFA are that the new Code may place greater emphasis on the role of the Audit Committee (moving further towards the model adopted for PLCs) and look for more evidence of client engagement in risk-based audit planning.

5.2 The only aspect of the Consortium's current arrangements likely to require attention is the way in which the engagement of service and strategic management in the evaluation of audit risk is evidenced. This would have the effect of making the preparation of the 2013/14 Plan a longer and more resource intensive exercise. It is possible that there may also be a requirement to revisit some aspects of the role of the Committee and the training provided for Members. Although the scale is unclear, it seems certain that there will be an increase in the work required of the Consortium's management: some but not all of that work will be chargeable to clients.

6. IMPACT OF PREPARATIONS FOR LOCAL GOVERNMENT FRAUD STRATEGY

6.1 The Local Government Fraud Strategy calls on local authorities to adopt a tougher approach to tackling fraud and makes the assertion that local authorities "...will be realising cashable savings across all areas of spend..." This suggests that external auditors will be looking in a more challenging way at this aspect of performance as part of the work on the 2012/13 Accounts.

6.2 The Audit Plan for 2012/13 already makes provision for the Consortium to support the roll out of a revised Counter-Fraud Strategy through the provision of fraud awareness training. It seems likely that more work will be required to support managers in identifying; evaluating; and mapping the Council's specific fraud risks. It may also be necessary to suggest practical ways to further strengthen the Council's fraud prevention and detection arrangements. Again the scale of additional work is uncertain but it is likely that all such work would be directly chargeable to clients.

7. MITIGATING THE IMPACT OF VACANCIES AND POTENTIAL ADDITIONAL WORK

7.1 In the immediate term, the main issue arising from vacant posts is the lack of support for the Head of Consortium and this is being addressed by: the use of an honorarium paid to the Consortium's only other qualified auditor for taking over some management tasks; and the engagement, for 13 weeks, of an audit contractor to discharge the role of Audit Manager on a half-time basis. These arrangements have made it possible to complete the 2011/12 Plans of all clients and move forward with the restructuring exercise. The costs are broadly in line with the savings on the salary budget for the vacant Audit Manager post.

- 7.2** The Welland Board has accepted the principle of using salary savings to fund the employment of audit contractors. A contractor engaged by the Consortium during 2011/12 and earlier years to deliver audits of fundamental financial systems has agreed – provisionally – to provide the same service in the final quarter of 2012/13: this gives enhanced confidence that the work required by External Audit will be delivered on a timely basis. This engagement – and possible additional work by suitable audit contractors – could be funded using salary savings and the balance of the Consortium’s Reserve.
- 7.3** The remaining opportunities for mitigation involve trying to do more for less using techniques of Assurance Mapping and Lean Auditing.
- 7.4** The 2012/13 Audit Plan already makes provision for work on Assurance Mapping since it is now recognized to be good practice to identify; evaluate; and make use of non-audit sources of assurance that the Council’s risks are being properly managed (an example of such a source of assurance would be the Corporate Health & Safety Officer). It may prove possible to find some third-party assurance in respect of audits planned for 2012/13 that would allow for reductions in the audit days required to deliver those audits.
- 7.5** Lean Auditing is a technique involving – amongst other things - working more closely with clients to determine the key risks about which assurance is required and the level of audit work required to provide a sufficient level of assurance. It would be possible – and might prove necessary – to provide assurance with a more narrow focus in all of the areas identified in the Audit Plan.

8. CONCLUSION

- 8.1** The need to develop a new structure for the Consortium that has the support of the Welland Board has caused significant short-term difficulties and the identification of additional work necessary to maintain the standing of the Council, the Committee and the Consortium compounds those difficulties. However, all reasonable and plausible steps are being taken to ensure that the Council – and the Consortium’s other clients – receives an adequate level of internal audit service during 2012/13.

RISK MANAGEMENT

RISK	IMPACT	COMMENTS
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Time	Low	The report does not prompt or require any time-bound response
Viability	Low	There is no direct impact on future resourcing issues
Finance	Low	There is no direct impact on future finance issues
Profile	Low	There is no evidence of public interest in the routine work of internal audit.
Equality and Diversity	Low	EIA screening indicates no issues arising therefore full Impact Assessment has not been carried out.

Background Papers

None

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A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.