

CYNGOR SIR POWYS COUNTY COUNCIL

AUDIT COMMITTEE
30th September 2016

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SUBJECT: Future Delivery Model for Internal Audit Services

REPORT FOR: Information

1. **Background and Introduction**

- 1.1 Internal Audit represents a key source of assurance for the Council and is essential in ensuring that officer and members are provided with a clear and independent assessment of the effectiveness of controls. An effective Internal Audit function enables the Authority to make informed decisions about improvements required to the control environment. It also assists in the management's and the Audit Committee's responsibility to ensure that a sound system of control is in operation.
- 1.2 The provision of internal audit services to the public sector, including local authorities, is required to comply with the provisions of the Public Sector Internal Audit Standards (PSIAS), as supplemented by CIPFA's Local Government Application Note (LGAN). These standards are based upon the International Standards for the Professional Practice of Internal Auditing as developed by the Chartered Institute of Internal Auditors.
- 1.3 One of the key requirements of the PSIAS is that an internal audit service is subjected to an independent and external assessment of its compliance with the standards every five years. In late 2014, KPMG were commissioned to conduct this assessment of the Council's Internal Audit service. The Council was one of the first in Wales to commission an assessment of its compliance with the standards. The review identified that the service was generally compliant with the Standards but there were a number of areas where further improvements needed to be made in order to achieve full compliance.
- 1.4 One of the key findings was the need for the audit plan to be more closely linked to the Council's key risks, both to support the need for the work and to consider if there are areas of assurance need that are not being addressed. At the time of the review there was an absence of a robust risk management process within the Council. The Council's risk management practices are now at a sufficiently mature level to inform future internal audit activity.
- 1.5 The review identified that the Internal Audit Plan comprised a significant amount of recurrent activity and a limited amount of activity that provided any strategic value (although this could be partially attributed to the lack of maturity of the Council's risk management practices). The rapidly changing context in which the Council is operating in and the consequent need to explore and secure more efficient methods of service delivery

means that support for providing assurance that the processes in place will help the Council to meet its strategic targets is becoming more acute.

- 1.6 Whilst the Internal Audit team are highly experienced in delivering compliance based assessments, the review found that a significant move away from such work towards activity that provides assurance around the Council's transformation agenda and consequently supports the delivery of its strategic priorities may necessitate staffing changes, require significant training needs or the need to source additional skills externally.
- 1.7 A follow up review of the Internal Audit service was conducted in 2015 in order to ascertain the level of progress that it had made against the review's recommendations. It found that the Service has made substantial progress towards the implementation of the recommendations; of the 17 recommendations raised, 11 had been fully implemented with the remaining six being in progress. Where recommendations were in progress, the remaining actions to be taken generally required input and action from the wider Council and were no longer solely within the control of the Service. The review follow up review found that compliance had been achieved in relation to 194 of the 209 (93%) PSIAS standards.
- 1.8 One specific area where the follow up review found that further progress was required was in relation to the Service assuming a more strategic role by providing timely assurance on the completion of key projects. It was however noted that this represented a substantial change from the historic role of the Service and was one which was being seen across the sector, both as a development of internal auditing and as a result of funding reductions. This means that the internal audit resources were having to be more carefully targeted in order to maximise value.
- 1.9 The Council's Internal Audit Service comprises 7.1 Full Time Equivalent (FTE) staff. It is led by The Internal Audit Manager who reports to the Head of Professional Services and in his capacity as Head of Internal Audit to the Audit Committee. The team is made up of some fully qualified staff, some partly qualified and some that are qualified to undertake the role by virtue of experience. As previously mentioned, they form a highly experienced team that are skilled at conducting compliance based audit work.
- 1.10 In common with a number of other areas, the service has found it difficult to attract suitably qualified staff to fill vacancies. This challenges the service's ability to deliver the audit plan within agreed timescales and to provide capacity to focus upon service development. As a consequence, it has been necessary for the service to employ interim contractors with varying degrees of success.
- 1.11 With a view to developing service resilience and a model that provides a greater level of support to strategic decision making, the Strategic Director of Resources and the Head of Professional Service recently conducted a 'Soft Market Test' to assess the interest and options surrounding an alternative provider or partner in delivering Internal Audit Services. The Council invited proposals that offered a greater level of service resilience whilst at the same time providing access to ad-hoc specialist support.
- 1.12 The Council received indicative proposals from a range of public and private sector organisations, all of whom were subsequently invited to a discussion with the Strategic Director of Resources and the Head of Professional Services.

2. Next Steps

- 2.1 The proposals that came forward as part of the 'soft market testing' exercise presented a number of options and opportunities to strengthen the Council's Internal Audit Service. Some of the proposals offered a better fit with the requirements of the Council than others, both in terms service development expectations and organisational fit.
- 2.2 Some of the proposals would necessitate a full competitive tender process whereas others offer the opportunity to partner with other providers through a shared service arrangement.
- 2.3 An evaluation of the proposals has been undertaken by the Strategic Director of Resources and the Head of Professional Services and a report will be presented to Cabinet in early October outlining the options available and making recommendations on the future delivery model for Internal Audit Services.
- 2.4 The next steps of the process very much depend upon the decision taken by Cabinet. Once that decision is made, a further report will be presented to Audit Committee confirming the new delivery model and outlining the process and timescales for implementation.
- 2.5 Whilst Internal Audit staff have been kept informed about progress, the uncertainty has inevitably led to a degree of anxiety amongst staff. It is therefore planned to conduct a workshop with Internal Audit staff once a decision on the future model of service delivery is reached.