

Meeting: AUDIT COMMITTEE

Agenda Item: 5

Portfolio Area: Resources

Date: 15 JUNE 2011

NON KEY DECISION

Author – Head of Assurance (Shared Internal Audit Service)

INTRODUCTION TO THE SHARED INTERNAL AUDIT SERVICE

1 Introduction

1.1 From 1 June 2011 the Council's internal audit function will be provided by the Shared Internal Audit Service (SIAS). SIAS is formed of a partnership between the following Councils:

- East Hertfordshire District Council
- Hertfordshire County Council (HCC)
- Hertsmere Borough Council
- North Hertfordshire District Council
- Stevenage Borough Council (SBC)
- Welwyn Hatfield Borough Council.

1.2 This paper introduces the Audit Committee to SIAS.

2 Drivers for Change

2.1 In Hertfordshire the Pathfinder Programme worked to establish shared services in a range of areas. From this, a proposal for a shared internal audit service hosted by HCC was developed. In the proposal, the participating Councils agreed jointly to establish a shared service to deliver a full, professional internal audit service to meet the needs of the Councils and the requirements defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit 2006.

2.2 The SBC internal audit service is well regarded and has had a vital role to play in helping the Council achieve its objectives by ensuring the soundness of governance, risk management and control arrangements.

2.3 To remain effective in the increasingly challenging backdrop, internal audit teams need to be fit for purpose and provide assurance of the necessary quality, depth and coverage. Often this will mean giving assurance on complex and risky issues and using specialist resources when necessary. In response, an increasing number of internal audit partnerships and consortia are emerging across the public sector and the development of the SIAS within Hertfordshire is in line with these wider trends.

2.4 The partners decided that sharing services will increase resilience in internal audit and give a greater economy of scale to allow for access to specialist audit skills.

The partnership approach builds on the strengths of current in-house arrangements, by giving continuity combined with the potential new insight that comes from the opportunity to rotate staff.

- 2.5 It is also envisaged that SIAS will deliver efficiencies by standardising approaches and removing duplication, allowing reductions in the number of audit days required by each Council and consequent cost savings. The total cost saving envisaged after initial set up costs have been met is of the order of £300,000 per annum across participating Councils.
- 2.6 Within this context however quality will remain a key objective. The service will have a strong commitment to professional development and training, and clear quality assurance arrangements in order to ensure this.
- 2.7 Equally, SIAS will be committed to continuing work on continuous improvement in governance, risk management, control and compliance arrangements, in support of the work of this Committee and the achievement of the Council's objectives.

3 Objectives

- 3.1 Reflecting the drivers for change, the objectives of the Shared Internal Audit Service are to:
- Deliver a programme of high quality and reliable assurance on all key governance, risk and control systems to each Council, operating in accordance with statutory requirements, professional standards, and recognised best practice methodology
 - Deliver high standards of customer service and be responsive and flexible in its approach, offering the benefits of a 'close' in-house team
 - Offer a wide base of experience, resilience, specialisms and skills, taking advantage of the economy of scale available to larger audit teams
 - Deliver efficiencies through exploiting opportunities for joined up working, adopting a common methodology and service standards, sharing knowledge, skills and expertise
 - Provide a supportive and stimulating working environment for those staff working in SIAS with opportunities for career development
 - Be open to future opportunities to expand SIAS thus enabling greater efficiencies to be achieved
 - Supporting the broader drive for continual improvement in the control arrangements of Councils which it serves.

4 Governance roles in respect of internal audit and SIAS

- 4.1 It has been agreed that the arrangement will be a collaboration falling within the scope of Section 1 of the Local Authorities (Goods and Services) Act 1970 which allows authorities to collaborate in relation to administrative, professional or technical assistance. This permits HCC to offer an internal audit service to the other Councils and allows those other Councils to commission HCC to provide this service for a fee.
- 4.2 The arrangement is to be governed through a detailed partnership agreement between the six participating Councils which sets out the arrangements in place to govern relations between the partners, and the performance, standards and expectations required of SIAS. The partnership agreement is complemented by individual contracts between HCC and each partner for the delivery of service against an agreed specification.
- 4.3 Oversight of the SIAS will be through a joint officer board of participating Chief Financial Officers, given their particular interest in ensuring the adequacy and effectiveness of internal audit arrangements. The Board will meet on a quarterly basis and monitor the performance of SIAS to ensure that it delivers the standards and expectations set out in the partnership agreement.
- 4.4 Whilst the partners will jointly oversee the performance of SIAS as a whole, the responsibility for the adequacy of the whole system of internal audit at each Council remains firmly with the Councils themselves, who will continue to:
- be responsible for overseeing the effectiveness of the internal audit function at Council level, and holding the SIAS Head of Assurance to account for delivery
 - be responsible for the effectiveness of their respective governance, risk management and control arrangements, holding managers to account for delivery
 - receive regular progress updates on internal audit work, consider key themes and issues, and take them forward as necessary.
- 4.5 Appendix 1 depicts the allocation of roles and responsibilities between Councils, Section 151 officers and the SIAS Board.

5 Structures

- 5.1 Following a consultation process in which no objections were raised, Internal Audit staff in District Councils TUPE transferred to HCC on 1 June; an interim structure will initially be in place. Appendix 2 of the report sets out the permanent structure in place for SIAS from 1 July. Appointments to the structure at Audit Manager level and below will take place during weeks commencing 13 and 20 June.
- 5.2 The Head of Assurance is Helen Maneuf, the author of this report. I was appointed in March 2011 and have held Head of Audit roles in both a District and a County Council before taking up my role in Hertfordshire. As Head of Assurance I will be accountable for the overall performance of SIAS, ensure that the service is focussed on the right things, and, as expected of any Head of Audit, work alongside officers to

lead continual improvement in wider governance, risk and compliance matters in each council. I will also lead on the Scrutiny and Health and Safety functions for HCC.

- 5.3 There are four Audit Manager posts in the SIAS structure. Each Audit Manager will also act as lead for one or two partner authorities. The Audit Managers will have responsibility and accountability for ensuring the delivery of the audit plan for the partners on which they lead. They will quality assure and sign off reports for these clients within the overall methodology and quality framework set by the Head of Assurance.
- 5.4 The Senior Auditors, Auditors and Trainee Auditors all form a resource pool that can be drawn from to deliver audit work to partners. The permanent roles in the partnership are to be supplemented by resource from an external provider of internal audit services. The procurement for this resource is currently in progress. This will allow the service a degree of flexibility and access to additional very specialist resource if required.
- 5.5 Each partner has nominated a Local Champion who is a senior officer within the Council. The SBC Local Champion is Clare Fletcher, Head of Finance. The Local Champion is tasked with helping SIAS deliver its work as seamlessly, easily and efficiently as possible and to represent the Council's interest in the efficient provision of the Internal Audit Service.

6 Transition

- 6.1 Detailed planning has taken place so that the transition to SIAS can be achieved successfully. There is currently a focus on introducing SIAS to key stakeholders such as Audit Committees, External Audit, and Senior Managers.
- 6.2 Comprehensive induction arrangements are in place for transferring staff. When appointments to the new structure are complete there will be a phase of organisational development work aimed at building the new team. Work to establish a single audit methodology and reporting arrangements is in progress. The ethos will be to take forward what is best about all the services that are being brought together.
- 6.3 The risk of audit plan slippage during the transitional period is being monitored closely by the Head of Assurance and Chief Financial Officers.

7 Implications for the Audit Committee

- 7.1 The aim is for Audit Committee to experience a significant level of continuity in respect of internal audit arrangements and for SIAS to continue to support the work of the Committee in respect of its responsibilities for oversight of the Council's governance, risk management and control arrangements.

- 7.2 It will be important for SIAS officers to build good relations with the Committee as a key stakeholder, and to gain a good understanding of the Committee's requirements. The SIAS Audit Manager will attend each meeting of the Committee, and the SIAS Head of Assurance will attend twice yearly. Both of these officers will be available for any member queries relating to internal audit, training events and any additional meetings that may be required.
- 7.3 SIAS will continue to prepare the present range of reports that the Committee receives on internal audit matters. However, as with all the Audit Committees to which SIAS will now report, the Committee may see some changes to the format and content of reports as SIAS develops standardised approaches. For some Committees the degree of any change will be greater than for others, depending on current working arrangements. However, any changes of this nature will be developed in consultation with Section 151 officers and Committees to ensure they meet needs and requirements.

8 Recommendations

- 8.1 The Audit Committee is asked to note this report.

Appendix 1 – Governance roles in respect of Internal Audit and SIAS

Audit Committee

Monitor delivery of SBC Audit Plan and local Key Performance Indicators for SIAS

Receive SBC audit plan and progress updates against it

Receive outcomes of audit work including annual Head of Audit opinion

HBC Section 151 officer

Key liaison point for information and intelligence on SBC

Monitor delivery of SBC Audit Plan and local Key Performance Indicators for SIAS

Receive SBC audit plan and progress updates against it

Advised of outcomes of audit work including annual Head of Audit opinion

SIAS Board

Formed of Chief Financial Officers of all partners

Monitors overall performance of SIAS

Agrees SIAS business plan

Agree opportunities for any joint work, e.g. development of common policies

Appendix 2: SIAS Structure from 1 July with grades

