

# Thurrock Council

## Standards & Audit Committee

### Service Update Report

Date of Committee: 15<sup>th</sup> November 2016

## **Service Update for Standards & Audit Committee – 15<sup>th</sup> November 2016**

### **Background**

As members are aware, the Internal Audit Service transferred back in to the Council on the 1<sup>st</sup> April 2015. During the previous 8½ years, the service was provided through an outsourced arrangement with a number of private firms of Chartered Accountants (the contractor). The staff were TUPE transferred back into the Council on their existing terms and conditions.

As the decision to bring the team back in-house was made in early February 2015, there was a lot of preparation work to do in a short timeframe. This included:

- Consultation on the terms and conditions of staff on which they would transfer across to the Council;
- The exchange of contracts and records between the contractor and the Council;
- Copying working papers and reports from the contractors laptops to the Council's server to ensure staff could access work in progress and work previously completed once the laptops were returned;
- Developing a short term plan (3 month) so the process would be as smooth as possible and the service could continue to provide business as usual from day 1;
- Finalising all reports as soon as possible after the 1<sup>st</sup> April to ensure they would still be signed off by one of the Directors of the contractor;
- Developing manual working papers and template reports so staff could continue to operate once the contractor's software was removed with the laptops.

Whilst other work had to be carried out, the above were some of the main issues that arose and had to be addressed during the 1½ months' lead up to coming back in-house.

### **Initial Problems**

The contractor turned up on the 1<sup>st</sup> April to remove all of their equipment including mobile phones, laptop computers and Wi-Fi dongles. Fortunately, as the staff were permanently located on-site, they all had access to desktop computers so were able to continue to provide a service.

Whilst the withdrawal of the phones did not present too many problems as all of the team had their own mobiles which they could use in the short term, the contractor had their own audit software which was used to generate electronic audit assignment briefs, working papers and reports. As a result, staff had to resort to going back to manually generated working papers and reports which had to be developed using the Council's corporate branding.

The transfer resulted in the Internal Audit manager carrying out a quotation exercise to look at 3 suppliers of electronic audit software that is commonly used within other local authority internal audit teams, to determine which would provide the best value to the Thurrock team. A decision was made to purchase the TeamMate software suite which not only provided electronic audit assignment briefs, working papers and reports but included modules for time recording, recommendation/follow up tracking, risk recording and annual planning.

### **Staffing**

The transfer of the staff on their existing contracts created a two tier workforce within the team as there were some significant differences around annual leave, working hours per week and pensions when compared against the 1 member of the team who was a permanent secondment from the Council and was on Thurrock terms and conditions. This was discussed with the Director of Finance & IT (previously Head of Corporate Finance) and HR early on in the process and it was agreed that a harmonisation process would be undertaken within 4 months of the transfer to bring those staff who had transferred onto Thurrock's terms and conditions. In September 2015, following consultation with the 3 affected staff, a job evaluation and harmonisation process was undertaken so all staff were put on Thurrock Council's terms and conditions.

Due to the way the contractor operated, the contract was resourced with a small permanent on-site team of 3.15 full-time equivalent staff and additional staff would be sourced by the contractor to carry out specialist IT audits, contract audits and assist with the core audit work. At this time, there was a shortfall of 180 days which had to be resourced using these additional staff to ensure the annual audit plan could be achieved.

With the transfer of the core team back into the Council, this resulted in the need to identify and source the shortfall from another provider in the short-term and to look at options for a more permanent solution in the longer term. On this basis, and following discussions with colleagues in Southend, a decision was made to utilise an existing framework agreement with Croydon Council for the provision of internal audit resources. In 2015/16, internal audit used the framework to resource 4 core financial audits covering Accounts Payable (12 days), Accounts Receivable (12 days), Council Tax (15 days) and NNDR (15 days).

In the longer term, the recruitment of additional staff was considered and a new structure for the service agreed. A business case was prepared and presented to the Director of Finance & IT and a consultation process carried out with the current staff in post. Progress has been made in starting the recruitment process to employ new staff into the posts within the new structure.

## **Processes and Procedures**

The contractor had their own processes and procedures covering all aspects of the internal auditing process which were documented within their Internal Audit Manual. However, as this document reflected the working practices which used their own bespoke audit software, a new Thurrock Council Internal Audit Manual needs to be developed. This will need to cover all aspects of the internal auditing process from the planning of individual assignments through to the issuing of final reports, how to use the internal audit software, the annual plan and 3 year strategy and compliance of the staff with all relevant professional and ethical regulations.

All public sector internal audit functions, whether in-house, outsourced or co-sourced (a mixture of both), have to undertake an internal self-assessment and external assessment of their compliance with the Public Sector Internal Audit Standards (PSIAS) within 5 years. The contractor had already been assessed and had met the standards. With the team coming back in-house, Thurrock's team now have to put in place a process for meeting the standards by March 2020.

At its meeting of the 8<sup>th</sup> December 2015, the Standards & Audit Committee approved the Internal Audit Charter and the Internal Audit Protocol. The Internal Audit Charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes the internal audit activity's position within the Council, including the nature of the Chief Internal Auditor's functional reporting relationship with the Standards & Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Internal Audit Charter lays with the Standards & Audit Committee and having a formally approved Charter meets one element of compliance with the PSIAS. The Internal Audit Protocol gives some general guidance on responsibilities of members, officers and the internal audit team. It also provides detailed guidance on specific issues around the internal audit processes, such as turnaround times for reports and the timeframes for management responses.

## **Moving forward**

The TeamMate software has been installed on machines and we are currently entering a "dummy" audit to allow the supplier to produce template assignment briefs and reports. User training will then be provided with the system anticipated to go live from April 2017. We have purchased the minimum number of licences which is 5.

Once the TeamMate software has been implemented, the Internal Audit Manual will be fully developed to provide the advice and guidance that is required to shape the service. This will ensure there is a consistent approach to the work and we can provide high quality and relevant output to senior and operational management and

give additional assurance to members of the Standards & Audit Committee around the internal control, risk management and governance frameworks.

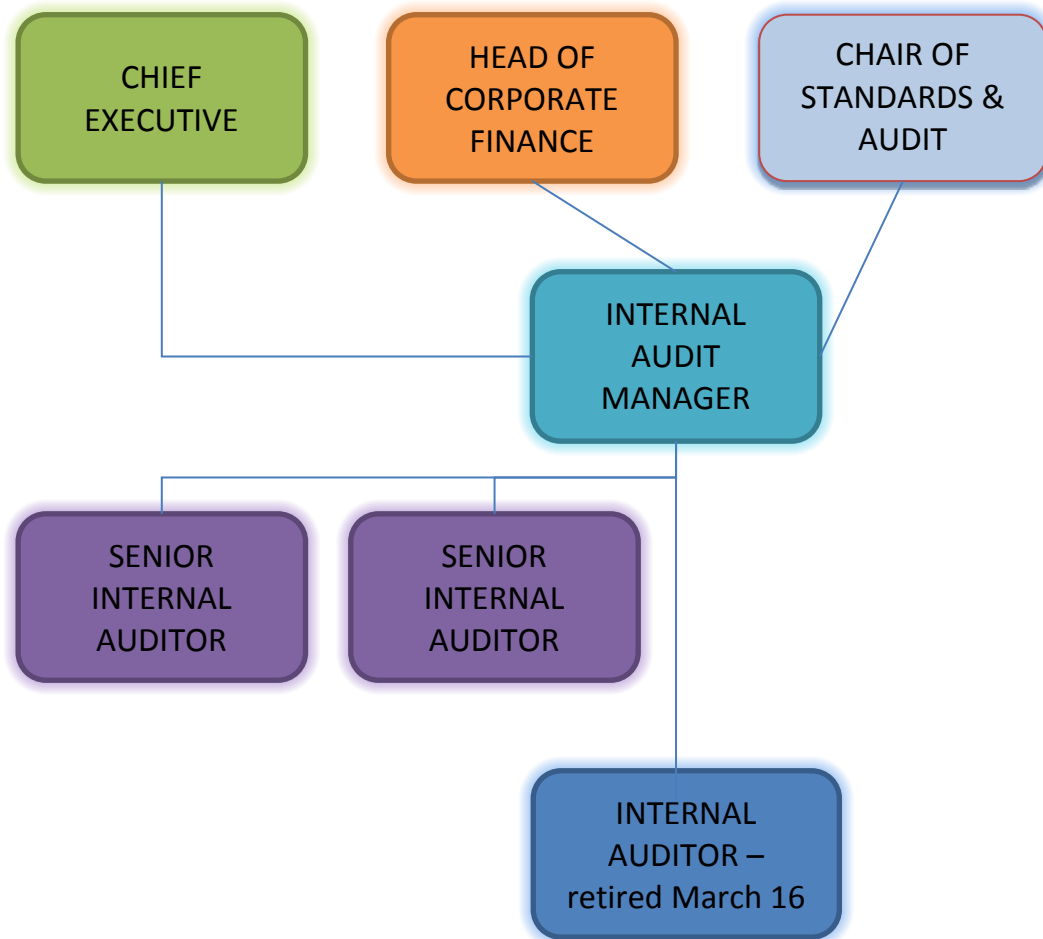
With the service coming back in-house, substantial payments from the “Private Contractor” subjective code within the internal audit budget have now ceased. A review of staffing has been undertaken to determine the best use of resources within the available budget. By careful budget and resource management, we have been able to create 2 full-time Assistant Internal Auditor posts and 1 full-time Trainee Auditor post, including covering the training costs for these roles. This will remove the need to rely on the Croydon Framework to supply any resource other than the specialist IT audit knowledge. Once these staff have been appointed and trained, this should give the Council an additional 400 days of internal audit input with no additional cost and will also offer better continuity of staff resulting in a better service. This greater resilience will allow us to look at additional services we can provide to generate income for the Council e.g. by providing a service to schools that have converted to academies, auditing externally funded grant claims etc.

The process for the recruitment of the 2 Assistant Internal Auditor posts has commenced and 46 completed application forms were received by the closing date. From these completed applications, the Chief Internal Auditor and 2 Senior Auditors independently reviewed the applications to each come up with a shortlist, together with reasons for their decision. A meeting was then held to pull together all of the results and from this, we were able to come up with a final list of 9 applicants who will be invited to a formal interview. It is anticipated the new staff should be in post by no later than 1<sup>st</sup> January 2017. The trainee post has yet to go to job evaluation so will not be advertised for a couple of weeks.

We need to develop the Internal Audit intranet site and raise the profile of the service within the Council. We can do this internally, by raising awareness of the work we can undertake and by becoming more involved in projects and providing assurance to Project Managers around their monitoring and governance arrangements. We can also carry out post implementation reviews on an advisory basis to determine if outcomes are meeting the original expectations.

Externally, the process of raising our profile has already started with the Chief Internal Auditor now attending not only local internal audit groups such as the Essex Audit Group but also regional meetings of the London Audit Group and the Home Counties Chief Internal Auditor’s Group and national meetings such as the Counties Chief Auditor Network. Not only do these meetings provide excellent opportunities to be updated on any new legislation, regulations etc. that we need to consider in carrying out our audit work, but also allow us to network with other local authorities and increase the sources of information we can access through points of practice requests and direct contact requests with other local authority Heads of Internal Audit.

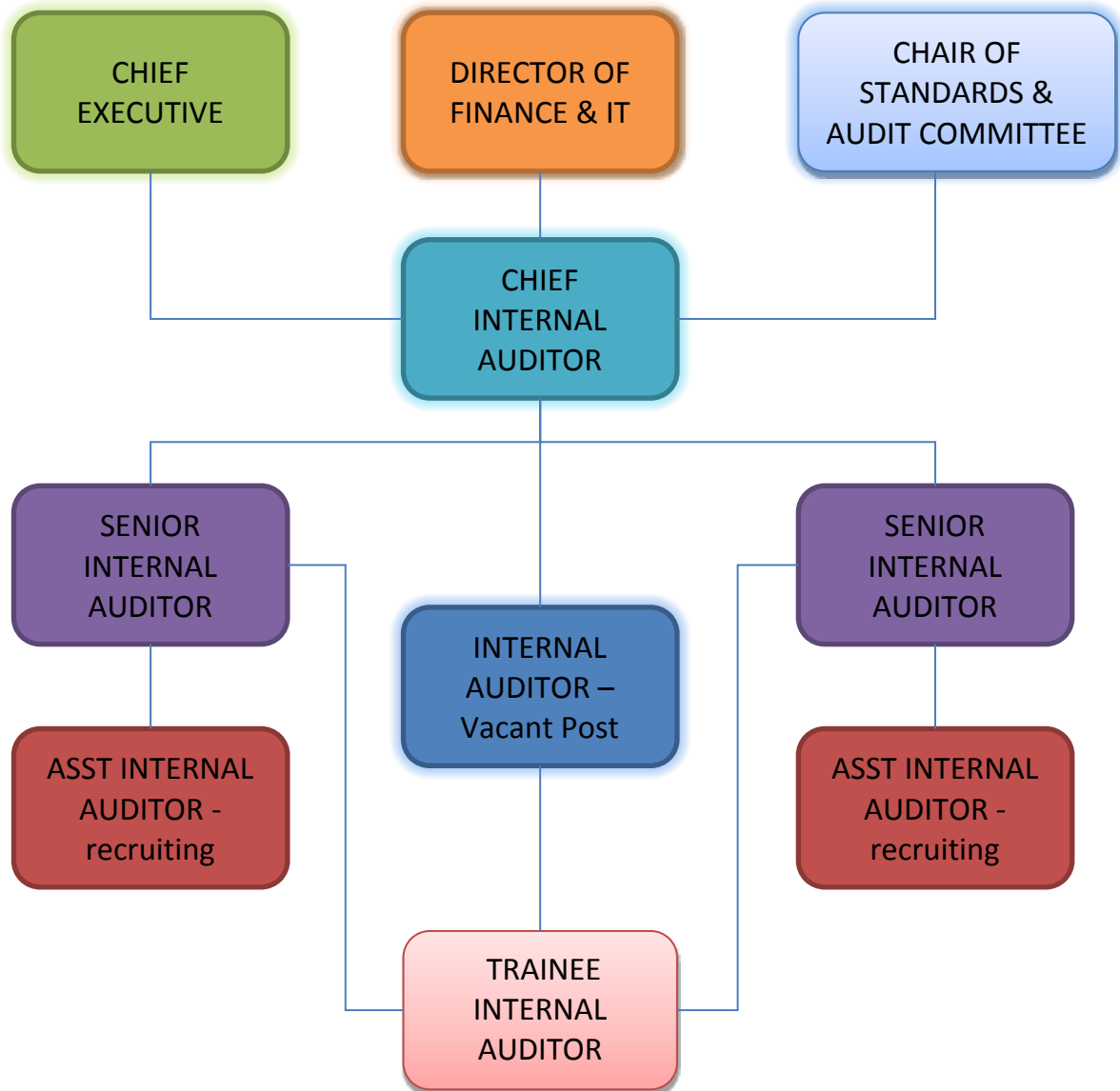
# INTERNAL AUDIT ORGANISATIONAL STRUCTURE CHART ON COMING BACK IN-HOUSE



1 x Senior Internal Auditor post term time only so 0.75 full-time equivalent (fte) and Internal Auditor Monday and Tuesday only so 0.4 fte. Total permanent staff on site 3.15 fte's which reduced to 2.75 fte from April 16 when Internal Auditor retired.

Additional resources were required to be brought in through Croydon Framework Agreement to support specialist IT audits and core financial audits.

# REVISED INTERNAL AUDIT ORGANISATIONAL STRUCTURE CHART



1 x Senior Internal Auditor post term time only so 0.75 fte. Total permanent staff on site 5.75 fte's (including Assistant Auditor and Trainee posts when filled).

Only require additional resources for specialist IT audit. New structure results in an increase of audit days available of approx. 400 days at no additional cost to the Council.

Cost Centre	Subjective Code	Original Budget (2015/16)	Revised Budget (2015/16)	Incremental Increase (2016/17)	Pay award at 1% (2016/17)	Increase in NI rate/ Pension	Sum of Budget Re-alignment	Base budget (2016/17)
DA002 - Internal Audit	0001 - Salary	36826	170000	3817	1700		25779	201296
	0060 - National Insurance	2901	14000		140	6818		20958
	0065 - Superannuation	5266	25000		250	-5648		19602
	0360 - Seminars And Courses	0	0				3000	3000
	1250 - Reimbursement Of Fares	0	360					360
	1300 - Car Allowances	0	240					240
	1683 - Photocopying	300	300					300
	1750 - Professional Fees	0	2000					2000
	1901 - Software Acquisition	0	17000				-12000	5000
	2049 - Subscriptions Prof Bodies	100	270					270
	2600 - Private Contractors	269694	52917				-16779	36138
	3999 - Approved Savings	-33000	0					0
DA002 - Internal Audit	Total	282087	282087	3817	2090	1170	0	289164
	Grand Total	282087	282087	3817	2090	1170	0	289164