

<b>15 November 2016</b>		<b>ITEM: 8</b>
<b>Standards &amp; Audit Committee</b>		
<b>Internal Audit Service Update 2016/17</b>		
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> Non-key	
<b>Report of:</b> Gary Clifford – Chief Internal Auditor		
<b>Accountable Head of Service:</b> N/A		
<b>Accountable Director:</b> Sean Clark – Director of Finance & IT		
<b>This report is public</b>		

## **Executive Summary**

This is the first service update that has been presented to the Standards & Audit Committee and provides a high level summary of the progress that the service has made since it was brought back in-house from the 1<sup>st</sup> April 2015. This report will be presented to members of the Committee on an annual basis to provide them with an update on how the service is developing in the long term.

### **1. Recommendation(s)**

#### **1.1 That the Standards & Audit Committee:**

**Agree that the new structure will improve the service being provided by internal audit and give additional assurance around the internal control, risk management and governance frameworks to senior management and members.**

### **2. Introduction and Background**

2.1 The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of Thurrock Council's internal control system and integral to the framework of assurance that the Standards & Audit Committee can place reliance on to assess its internal control system.

2.2 The Accounts and Audit Regulations 2015 require that a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. This responsibility has

been delegated to the Director of Finance & IT (Section 151 Officer) under the Council's Executive Scheme of Delegation and is delivered through the Head of Audit in consultation with the Director of Finance & IT.

- 2.3 The contract with the external provider of internal audit services ended on 31<sup>st</sup> March 2015, with the staff being brought back in-house from the 1<sup>st</sup> April. As the decision was left until early February of that year, there was only a short lead in time to carry out the relevant consultations and exchange information with the contractor. As a result, a short-term plan was developed to ensure continuity of service but the service had little time to implement identified changes that were needed to working practices and procedures.
- 2.4 In addition, it was identified that with all of the budgetary pressures being put on local authorities to make savings, do more with less and look for additional ways to generate income, having a robust, well-resourced internal audit service was becoming more important as a means to provide senior management and members with additional assurance around the internal control, risk management and governance frameworks.

### **3. Issues, Options and Analysis of Options**

- 3.1 Following the service coming back in-house, a review was undertaken to identify areas where there were gaps in the service the internal audit team could provide as it currently stood, compared to the service being provided pre-transfer, by the contractor. Some of these issues included:
- Bespoke internal audit software removed by the contractor.
  - Availability of resources previously provided by the contractor to carry out specialist audit work and support the on-site team in undertaking core reviews.
  - Technical support provided by the contractor.
  - The staff who were TUPE transferred back in-house were on different terms and conditions creating a two tier workforce within the same department and team.
  - Reports, audit working papers and other documentation were all generated using the contractors branding which was not specific to Thurrock.
- 3.2 To address some of these issues, the Internal Audit Manager entered into a framework agreement with Croydon Council who had undertaken a procurement exercise for the provision of internal audit services. The framework operates under a call off arrangement so there is no commitment by the Council on how much or little it is used.
- 3.3 A review of the budget and resources was also undertaken and a business case was presented to the Director of Finance & IT in February 2016. This made it clear that by utilising the payments previously paid to the contractor and with the retirement of the Internal Auditor in March 16, then the service

could support 2 additional Assistant Internal Auditors and a Trainee Auditor. Recruitment for the 2 Assistant posts is currently underway.

3.4 It is acknowledged that there is still much to do in getting the service to a position where it will be compliant with the Public Sector Internal Audit Standards (PSIAS) but progress has, and continues to be made, in developing the service. The service update at Appendix 1 provides more detail on this.

3.5 The service needs to undertake a self-assessment and have a full external assessment against the PSIAS by 31<sup>st</sup> March 2020 i.e. within 5 years of it being brought back in-house. It is anticipated the self-assessment process will be carried out towards the end of 2017/18 with the external assessment being undertaken in 2018/19.

#### **4. Reasons for Recommendation**

4.1 To assist the Standards & Audit Committee in satisfying itself that the internal audit service is making progress in being able to provide additional assurance through its new structure and will meet the PSIAS within the required timeframe.

#### **5. Consultation (including Overview and Scrutiny, if applicable)**

5.1 The review of the structure was consulted on with the Director of Finance & IT, senior HR Advisors and staff within the internal audit team.

#### **6. Impact on corporate policies, priorities, performance and community impact**

6.1 The Council's corporate priorities are used to inform the annual audit plan and the internal audit service makes recommendations which are designed to further the implementation of these corporate priorities.

#### **7. Implications**

##### **7.1 Financial**

Implications verified by: **L Last**  
**Senior Finance Officer - Management Accounts**

This report is for information purposes only so there are no direct financial implications arising from the report. Any financial decisions made around staffing levels have been considered and will be contained within the existing budget.

## 7.2 Legal

Implications verified by: **P Field**  
**Senior Corporate Governance Lawyer**

This report is for information purposes only so there are no direct legal implications arising from the report

## 7.3 Diversity and Equality

Implications verified by: **R Price**  
**Community Development Officer**

This report is for information purposes only so there are no direct diversity and equality implications arising from the report

## 7.4 Other implications (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

This report is for information purposes only so there are no other implications arising from the report.

## 8. Background papers used in preparing the report:

- Internal Audit budget reports
- Business case for restructure.

## 9. Appendices to the report

- Appendix 1 – Service Update.

## Report Author:

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