

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 20 FEBRUARY 2018

PROVISION OF INTERNAL AUDIT SERVICES

REPORT BY MARGO WILLIAMSON, CHIEF EXECUTIVE

ABSTRACT

This report seeks authority to revert to a full time, directly employed management arrangement for internal audit at the cessation of the current co-sourced contract.

1. RECOMMENDATIONS

It is recommended that the Scrutiny and Audit Committee:

- (i) approve the move to a directly employed Service Leader – Internal Audit to fulfil the role of Chief Audit Executive.
- (ii) approve the commencement of an external recruitment exercise for this post.

2. ALIGNMENT TO ANGUS LOCAL OUTCOMES IMPROVEMENT PLAN / COUNCIL PLAN

The proposals set out in this report will contribute to the outcomes outlined in the Local Outcomes Improvement Plan, Locality Plans and Council Plan, which focus on the economy, people and place.

3. BACKGROUND

In December 2011, the Strategic Policy committee authorised the procurement of an internal audit co-source arrangement to address the resourcing issue arising from a vacant auditor post. (Report 728/11 refers.) Following a competitive tender exercise, the contract was awarded to Scott Moncrieff for a period of 18 months from 1 February 2012, with an option to extend for a further year.

As part of the management restructure in 2013, the council's in-house Chief Internal Auditor was matched into the post of Service Manager Governance, a role which included responsibility for governance and assurance, with the result that the post holder was no longer able to provide an **independent** opinion on the corporate governance arrangements of the council, which is a core requirement for conformance with the Public Sector Internal Audit Standards. To address this, the co-source contract was revised to bring in a part-time Audit Manager responsible for providing a full independent core assurance internal audit service to the council. The contract was also extended for a year. (Report 380/13 refers.)

In January 2014, it was agreed that the contract should be extended for a further 6 months, to 31 January 2015, to allow time for an external quality assessment (EQA) of the council's internal auditing service to be carried out (Report 51/14 refers.)

The EQA was carried out by CIPFA during 2014. The findings were very positive in respect of the co-source arrangement:

- *“The co-sourcing arrangement with Scott-Moncrieff, whereby the Audit Manager is contracted to the Council for 80 days per annum works (typically five days on-site every three weeks) well in terms of the robustness of management oversight and accessibility/availability.”*
- *“This arrangement currently works well for the Council in terms of the management of the internal audit activity and it fully complies with PSIAS. Of course, it is difficult to*

determine how much of the success of this arrangement can be attributed to the personal qualities of the present incumbent, which must be a factor to some extent.”

In November 2014, the co-source contract was extended for a further 3 months under chief officer delegated authority and the Service Manager Governance was authorised to procure internal auditing co-sourcing services by direct negotiation with the current provider for a period of 3 years from 1 May 2015 to 30 April 2018. (Report 479/14 refers.) An exemption from financial regulations was approved to allow direct negotiation to proceed, but report 479/14 notes that the Corporate Procurement Manager considered the proposal for direct negotiation to be “at the limits of acceptability in terms of the period between formal market re-testing”.

4. CURRENT POSITION

The Local Authority Accounts (Scotland) Regulations 2014 require all Scottish Local Authorities to operate a professional and objective internal auditing service, which must be delivered in accordance with recognised standards. The standards and practices applied in the UK for all public sector internal audit providers, in-house, shared or outsourced, are the Public Sector Internal Audit Standards (PSIAS). The Standards set out the responsibilities of the ‘Chief Audit Executive’ (CAE) and state that the CAE must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The council’s CAE is currently the co-source Audit Manager.

The council has a team of internal auditors who report functionally to the co-source Audit Manager and a separate team of counter-fraud officers who report to the Service Manager Governance.

The new management structure, established following the recent Managers Review, brings both teams together, reporting to the Service Leader Internal Audit – this post would be required to comply with the PSIAS requirements for the Chief Audit Executive. Until the end of the current co-source contract, the post will be filled by the co-source Audit Manager, with the Counter-Fraud staff supported by the Acting Service Manager Governance & Consultancy.

5. PROPOSAL

The current co-source arrangement has worked very well for the council to date. However, it only allows for 80 days of a Chief Audit Executive and, while adequate in the past, is not considered adequate for the future in terms of:

- The expansion of the role to include responsibility for the Counter-Fraud service
- The increased governance risk profile of the council in terms of smaller, flatter management structure and more streamlined processes, systems and authorisation functions
- The pace of change of the organisation
- The size and complexity of the change programme bringing increasing independent programme assurance needs which require senior and experienced audit resource

Given the above it is proposed that the Internal Audit management be brought back in house at the conclusion of the current co-source contract (30 April 2018). Provision has been made within the managers review for a full time Service Leader – Internal Audit post to accommodate this. This post will fulfil the duties of the Chief Audit Executive in terms of the PSIAS.

Given that the post will require formal professional qualification and considerable experience of both strategic and operational audit and governance, it is proposed the post be advertised externally. This will not exclude internal applicants.

It should be noted that there would likely still be a requirement for the external procurement of specialist internal audit support in terms of computer audit. A proportion of the current bought in services would be retained for this purpose and a tender exercise will be undertaken by the new Service Leader to source the specialist services.

6. FINANCIAL IMPLICATIONS

The Service Leader – Internal Auditor post is included within the new senior management structure developed within the Manager review and was budgeted within this exercise.

The current co-source budget of £50k will be reduced to £20K to cover the costs for any specialist computer audit requirements, thus releasing circa £30K per annum.

NOTE: No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

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