

South Ayrshire Council

**Report by Chief Executive
to Leadership Panel
of 13 June 2017**

Subject: Review of Internal Audit Structure

1. Purpose

- 1.1 To seek approval for revisions to staffing structures within the Internal Audit service to reflect operational changes and to achieve the budget saving included in 2016/17 Revenue Budget.

2. Recommendation

2.1 It is recommended that the Panel

- 2.1.1 Approve deletion of 1 FTE post of Auditor, graded Level 10;**
2.1.2 Approve re-designation of Programme Review Manager as Chief Internal Auditor;
2.1.3 Approve creation of a training budget of £2,000;
2.1.4 Note that the post of Chief Internal Auditor will now be advertised internally and externally; and
2.1.5 Note that day to day management of the Internal Audit team will be undertaken by the Head of Policy and Performance with the Chief Internal Auditor having direct and unequivocal access to the Chief Executive.

3. Background

- 3.1 The Programme Review Manager (Chief Internal Auditor) retired in August 2015 and it was felt that this was an opportunity to consider the role and responsibilities of Internal Audit within the Council. The introduction of Public Sector Internal Audit Standards in April 2013 encouraged public sector organisations to consider the ways in which Internal Audit, in addition to providing an assurance role, can add value to the Council, through initiatives and support, help improve organisational processes and operations. A number of Councils have expanded the role of Internal Audit to align it more closely with service planning and performance and to include other functions, while retaining the critical independent audit role. These alternative arrangements appear to be both effective and conducive to the wider organisational ambitions and priorities.

- 3.2 The DWP established the Single Fraud Investigation Service in October 2014 to investigate Housing Benefit Fraud, which resulted the employees, directly associated with the transferring activities, transferring to the new Single Fraud Investigation Service. The Council retained 2 FTE Fraud Investigation posts (and employees) in order to investigate alleged fraud error within Council Tax reduction; Council Tax Discounts and Exemptions; and Non-Domestic Rates Relief, and, more generally, to assist with Corporate Fraud initiatives across the Council. The Chief Auditor is the key contact for National Fraud Initiative.

Recognising the benefits of more effectively utilising the Internal Audit capacity to progress and support corporate issues such as fraud prevention and detection, the remaining 2FTE Fraud Investigation posts were integrated into the Internal Audit team. This reflected the benefit of utilising such a corporate team to undertake work to support wider service performance improvements, as well as the formal programmed and ad hoc audits.

- 3.3 The Council's Chief Internal Auditor has been appointed as Chief Auditor of the Integration Joint Board.

- 3.4 The Chief Internal Auditor reports directly to Chief Executive. This reflects the traditional approach to Internal Audit, which considers it necessary for the function to be entirely independent of all Council services and reportable directly to the Chief Executive. For a number of reasons, including the wider corporate drivers outlined at 3.1 above, a number of Councils have successfully introduced revised arrangements where Internal Audit retains the critical independent audit function, but also assumes other functions and, on a day to day basis, reports to another Chief Officer. At a more practical level, this also reflects the significant changes that have occurred within local government over the last 10 years or so and the associated increased requirement for Chief Executives to work at a strategic, rather than operational management, level. These changes have made it much less viable to have a small team of staff (headed by a third tier officer) reporting directly to the Chief Executive.

For this Council, these challenges are exacerbated by the fact that a number of the Internal Audit team are not qualified – this was highlighted by Audit Scotland as a potential weakness. As a result of this position, there is a greater requirement for day to day operational management supervision and support, which is inconsistent with the required strategic role of the Chief Executive.

In recognition of the unique and important role of Internal Audit, some other Councils that have adopted new arrangements where responsibility for the day to day management of the team lies with another Chief Officer but the Chief Internal Auditor retains direct and unequivocal access to the Chief Executive.

- 3.5 A saving of £45,000 from a structural review of Internal Audit was approved by the Council on 3 March 2016, which, as outlined to Elected members at that time, equated to a reduction of 1 FTE post.

- 3.6 Audit Scotland considered the Internal Audit service as part of a review of governance and transparency within the Council. Overall Internal Audit was found to be operating effectively and Audit Scotland placed reliance on their work in a number of areas. They did however recommend that a permanent structure be put in place and that a comparison of structures and staffing at similar sized councils should be considered. A commitment was made to undertaking this review by 31 March 2017.
- 3.7 A draft report was prepared for discussion with Elected Members in March 2017 but it was felt that alternative options should be developed before being formally considered. The section currently has 2 vacant posts – Programme Review Manager (permanent) and Auditor (temporary)
- 3.8 The former external chair of the Audit and Governance Panel offered to share information on the structure, reporting lines and responsibilities of audit sections in other local authorities which had been obtained as part of independent academic research. This information is detailed in Appendix 1.
- 3.9 All public sector internal audit services were required to adopt Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. An internal assessment of compliance with PSIAS was undertaken and reported to Audit and Governance Panel in February 2016. Audit Scotland were satisfied that Internal Audit were working towards full compliance and that the areas of non-conformance did not relate to the range and quality of work carried out. An external assessment is being undertaken by East Renfrewshire Council and the results will be submitted to a future meeting of the Audit and Governance Panel.
- 3.10 The current structure of Internal Audit and Counter Fraud teams are detailed in Appendix 2. One member of staff holds a formal audit qualification with a number holding other qualifications/work experience..

4. Proposals

- 4.1 The proposed structure of Internal Audit is detailed in Appendix 3. It is proposed to delete 1 FTE post of Auditor, graded Level 10 and re-designate the post of Programme Review Manager as Chief Internal Auditor..
- 4.2 To augment the support for the Chief Internal Auditor, it is proposed to transfer responsibility for the day to day management of the Internal Audit team to Head of Policy and Performance (who reports directly to Chief Executive), with the Chief Internal Auditor retaining direct and unequivocal access to the Chief Executive in cases where either the Chief Executive or Chief Internal Auditor considers it necessary or appropriate. The Chief Executive will continue to meet regularly with the Chief Internal Auditor.
- 4.3 The structural staffing changes will be implemented in line with the provisions of the Council's Managing Workforce Change Framework
- 4.4 A training budget to allow unqualified staff to be trained and become qualified, particularly in respect of Corporate Fraud, should be established to address Audit Scotland's recommendations

4.5 At present the post of Auditor does not require a formal qualification, it is proposed that if the remaining post of Auditor becomes vacant in the future, any new appointee will require a formal qualification.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 The revised structure proposals deliver the budgeted saving of £45,000 and allows for the creation of a training budget of £2,000 to improve the qualifications of the team.

7. Human Resources Implications

7.1 There will be a reduction on 1 FTE if the revised structure is implemented. The Council's Managing Change Framework will apply, however, it should be noted, that 1 FTE post of Auditor is currently temporarily vacant as the job holder is seconded to the Programme Management Office in support of the Transform South Ayrshire programme until August 2018, so no displacement will be required at this stage. Recruitment of the Chief Internal Auditor will be progressed before the Council's Managing Change Framework is applied in respect of the reduction in posts.

8. Risk

8.1 Risk Implications of Adopting the Recommendations

8.1.1 There are no risks associated with adopting the recommendations.

8.2 Risk Implications of Rejecting the Recommendations

8.2.1 The risks associated with rejecting the recommendations are that the External Auditors do not place reliance on the work on Internal Audit resulting in an increased audit fee.

9. Equalities

9.1 The proposals in this report have been assessed through the Equality Impact Assessment Scoping process. There are no significant potential positive or negative equality impacts of agreeing the recommendations and therefore an Equalities Impact Assessment is not required.

10. Sustainable Development Implications

10.1 ***Considering Strategic Environmental Assessment (SEA)*** - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12 Link to Council Plan

12.1 The proposals contained in this report link to the Council Plan strategic objective: 'Improve the way that we work as a Council'.

13. Results of Consultation

- (1) There has been no public consultation on the contents of this paper.
- (2) Consultation has taken place with Councillor Douglas Campbell, Portfolio Holder for Corporate, Strategic and Community Planning Portfolio and Councillor Peter Convery, Chair of the Audit and Governance Panel
- (3) Consultation has taken place with staff concerned and the Trade Unions. The Trade Union wish the post of Chief Internal Auditor to be filled before consideration is given to the restructure proposals

14. Next Steps for Decision Tracking

14.1 If the recommendations above are approved by Members, the Chief Executive will ensure that all necessary steps are taken to ensure full implementation of the decision within the following timescales, with the completion status reported to the Leadership Panel in the 'Council and Leadership Panel Decision Log' at each of its meetings until such time as the decision is fully implemented:

<i>Implementation</i>	<i>Due date</i>	<i>Managed by</i>
Implement new structural arrangements	31 August 2017	Eileen Howat

Background Papers [2015/16 Annual Audit Report and Report to Those Charged with Governance – AGP 28 September 2016](#)

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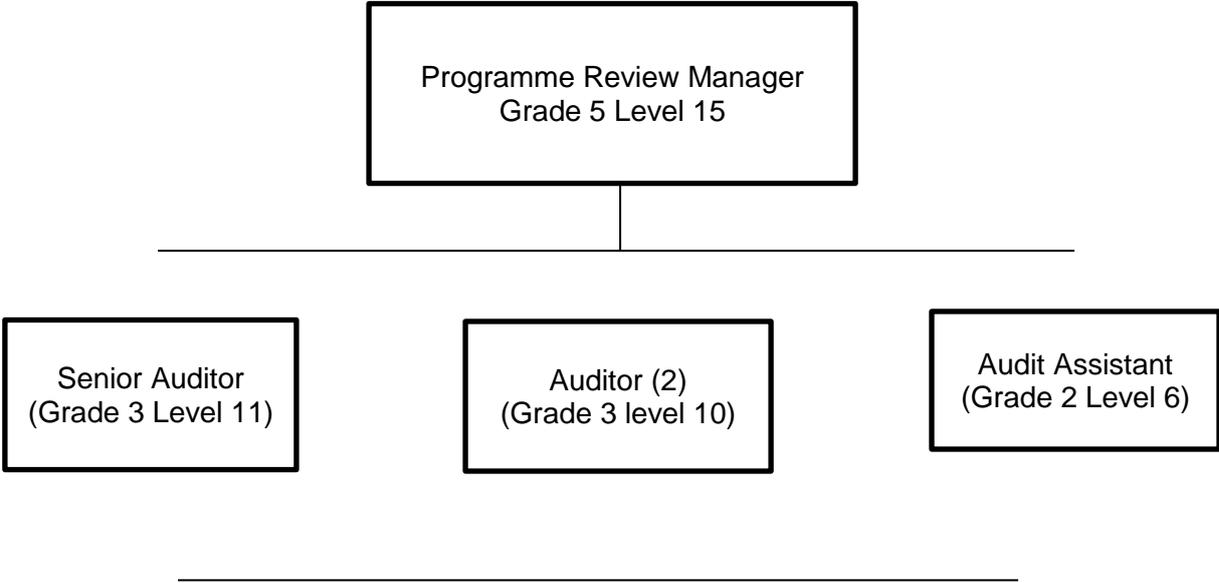
Date: 1 June 2017

Appendix 1

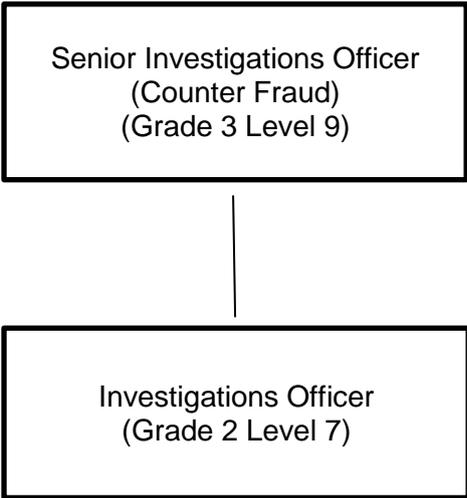
Local Authority	Title of individual with overall responsibility for Internal Audit	Size (fte)	Internal Audit Responsibilities	Reporting Lines
A	Executive Manager – Audit, Risk & Improvement	3.8	Local authority internal audits Corporate reviews Investigations	Audit staff report to Executive Manager - Audit, Risk & Improvement
B	Chief Internal Auditor	3	Referred to the Council’s Internal Audit Charter	Part of Corporate Services
C	Internal Audit and Fraud Team Leader	4.8	Delivering internal audit and counter-fraud activities	Part of Governance Service within Resources and Governance Service
D	Chief Internal Auditor	3	Organisational governance, Risk Manager review, regularity, contract and computer audit; fraud and fraud risk awareness; special investigations; organisational controls	Director of Finance & Corporate Services with reporting lines to Chief Executive
E	Chief Officer Audit & Risk	5.25	Review of internal control systems	Integrated alongside Risk Manager and Counter-Fraud functions within ‘Audit & risk Service’ within Regulatory Services
F	Chief Internal Auditor	6	All of the PSIAS requirements	Chief Internal Auditor reports to Head of Finance who reports to Deputy Chief Executive – Housing and Community Care and Chief Operating Officer
G	Audit, Risk and Counter Fraud Manager	7	Internal audit, counter-fraud, risk management	Audit, Risk and Counter Fraud Manager reports to Head of Finance and property Services who reports to Chief Executive
H	Head of Audit and Inspection	24.4	Examine and evaluate internal control systems and governance arrangements within the organisation	Head of Audit and Inspection
I	Chief Internal Auditor	5.5	Normal Internal Audit duties plus partnership support from private firm	Internal Audit sits within Strategic Finance within the Chief Executives Unit
J	Chief Internal Auditor	13	Internal Audit to two Councils as well as Integrated Joint Boards & Pension Fund	Internal Audit is a separate reporting unit to the Director of Business Services

K	Chief Internal Auditor	As above	As above	Provided by Aberdeenshire Council as a shared service with line reporting to Director of Corporate Governance
L	Audit & Risk Manager	5	CIA for Council and associated Partnership Direct Management of Internal Audit, Corporate Performance and Research, Health Safety & Risk Teams, including Risk Manager	Assistant Risk Manager responsible for Internal Audit function Assistant Risk Manager's reporting line is to Chief Financial Officer who then reports to Depute Chief Exec-Education, People and Business Assistant Risk Manager also has unrestricted access to Chief Executive and Audit Committee Chair
M	Internal Audit Manager	2.8	Internal audit services	Internal Audit reports to Director of Corporate Services then to Chief Executive
N	Internal Audit Manager	4	Audit reviews and testing	Internal Audit reports to Deputy Chief Executive – Resources & people Services
O	Head of Audit & Inspection	NR	Internal Audit and corporate fraud	Head of Audit & Inspection reports directly to the Chief Executive
p	Audit Services/Programme Review Manager	3.75	Internal Audit and corporate fraud	Reports directly to Chief Executive
Q	Senior Manager – Internal Audit	7.675	Internal Audit plus corporate fraud staff – Delivery of the Internal Audit Plan plus corporate fraud	Internal Audit is within Corporate Finance, part of Corporate Services
R	Audit & Risk Manager	NR	NR	Within Resources (effectively Finance)
S	Audit and Compliance Manager	17	14 in Internal Audit and 3 in Funding & Compliance Delivery of IA plan, annual opinion, grants claim process	Sits as an independent function within Finance & Corporate Resources reporting directly to Executive Director of Finance & Corporate Services

Internal Audit – Current Structure



Counter Fraud



Internal Audit – Proposed Structure

