

WATFORD BOROUGH COUNCIL

AUDIT COMMITTEE

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INTRODUCTION TO THE SHARED INTERNAL AUDIT SERVICE

Report of the Head of Assurance Services

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1 Introduction

1.1 From 1 April 2013 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, which was originally established in July 2011:

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

1.2 From April 2013 Watford Borough Council and Three Rivers District Council will join SIAS as partner members. This paper introduces the Watford BC 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 Hertfordshire County Council 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. SIAS meets the requirements defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit 2006, and as from April 2013 the Public Sector Internal Audit Standards which replace these as required practice.

2.2 Effective internal audit services have a vital role to play in helping Councils achieve 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 arrangements, by giving continuity combined with the potential new insight that comes from the opportunity to rotate staff over a wider group of authorities.
- 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 initially of the order of £300,000 per annum across the original participating Councils.
- 2.6 Within this context, however, quality remains 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 is 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
- support 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 SIAS is a collaborative arrangement 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 Hertfordshire County Council to offer an internal audit service to the other Councils and allows those other Councils to commission Hertfordshire County Council to provide this service for a fee.
- 4.2 SIAS is governed through a detailed partnership agreement between the 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 Hertfordshire County Council and each partner for the delivery of service against an agreed specification.
- 4.3 Oversight of the SIAS is 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 meets on a quarterly basis and monitors the performance of SIAS to ensure that it delivers the standards and expectations set out in the partnership agreement.
- 4.4 Whilst the partners 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 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. Appendix 3 contains the SIAS Annual Report 2011/12 which gives additional information to the Committee on the performance of SIAS during its initial period of operation, and reports on an evaluation of SIAS carried out by an independent peer reviewer in March 2012.

5 Structures

- 5.1 Appendix 2 shows the expected structure of the SIAS team as from 1 April 2013. The Head of SIAS role is accountable for the overall performance of SIAS, ensuring that the service is focussed on the right things, and, as expected of any Head of Audit, working alongside officers to lead continual improvement in wider governance, risk and compliance matters in each council.
- 5.3 There are three Audit Manager posts in the SIAS structure. Each Audit Manager acts as lead for two or more partner authorities. The Audit Managers have responsibility and accountability for ensuring the delivery of the audit plan for the partners on which they lead. They 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 other members of the audit team 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 District partner has nominated a Local Champion who is a senior officer within the Council. 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. We have asked Watford BC to nominate a Local Champion.

6 Transition

- 6.1 Detailed planning will take place so that the transition to SIAS can be achieved successfully.
- 6.2 Comprehensive induction arrangements will be put in place for transferring staff including training on the SIAS audit methodology.
- 6.3 SIAS will prepare the 2013/14 audit plan for Watford BC in advance of April 2013 and will assist in reviewing audit work if required during the interim period after the departure of the current Audit Manager.

7 Implications for the Audit Committee

- 7.1 The aim is for the 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 Committees in respect of responsibilities for oversight of Council governance, risk management and control arrangements.
- 7.2 It will be important for SIAS officers to build good relations with Committees as key stakeholders, and to gain a good understanding of the Committee requirements.
- 7.3 SIAS will continue to prepare the present range of reports that Committees receive on internal audit matters. However the Audit Committees may see some changes to the format and content of reports as the standard SIAS template is implemented. However any changes of this nature will be developed in consultation with Section 151 officers and the Committee to ensure they meet needs and requirements.

8 Recommendation

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

