

# An Internal Audit View

**Welcome to the second edition of the 'An Internal Audit View'.**

The benefits of effective Partnership working is plain to see, but in order to maximise the opportunity to add value to their Partner organisations, seven major Internal Audit Partnerships have come together from around the Country to share development ideas and best practice.

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## Joining Up Health and Social Care Audit – Are we getting integrated assurance?

Many organisations are keen to maximise operational and organisational efficiencies by joining with Health partners in providing (and delivering) integrated health and social care, providing a better service, centred around the individual.

For some organisations this will be through greater partnership arrangements, joint management structures and a greater understanding of costs and budget issues.

However, for other organisations a far greater level of integration is being designed, with Health and Social care teams, budgets and responsibilities being delivered by a single team, which is often led by Health service colleagues.

Whilst finances and service delivery can be transferred to other organisations, it is important to remember that accountability and responsibility will remain with your local authority.

For this reason it is important that you receive independent assurance that the money you have passed over to Health colleagues is being used effectively and efficiently and that service delivery meets your expectations. Obviously performance management information and updates from key managers will provide some assurance, but is that “independent” enough for you? Are you sure that those hard working managers are well placed to scrutinise data; ensure your risks are being managed and ensure that expected procedures are being complied with?



You may be expecting Health internal audit staff to provide you with the independent assurance you need, but have you seen the proposed internal audit coverage? Are you sure that your risks (which may be low risk compared to wider Health issues) are being addressed and subject to audit?

Are you clear about the reports you will receive to provide assurance? Do you get regular, well informed updates, or are you limited to an annual assurance letter? (don't forget this can be three months after the end of the year).

Finally, are you reporting your assurance requirements and how these are being met to your audit committee?

We appreciate that when new ways of working are being set up the emphasis (quite rightly) is on getting things working well and as soon as possible – but don't forget your ongoing need for independent assurance. Please speak to your internal audit team if you are in any way unsure.

# Devolution – The Future for Public Services?

Many organisations are making key decisions around how they will serve the public in the future; one of the current choices is around the benefits that can be gained from devolution.

What does this mean to you? – Is it a great opportunity that you wish to grab with both hands, or do you feel it is out of your comfort zone ?

As with any journey we take there will be risks; if we want to get somewhere quickly we will often drive, however, our speed will be determined by our assurance that we have effective safety measures i.e. brakes, seat belt etc. (controls) in place. Would we drive at 70mph if we were not assured such safety measures were in place and working effectively? It is our confidence in such measurers that enable us to drive forward quickly and safely and arrive at the destination we desire.

We have seen a number of devolution bids that set out a very creative and rewarding journey with the destination arrived at very quickly.

However, are the risks and controls (brakes) well known and developed to ensure a safe arrival?

Can your Internal Audit team help guide your journey?

How well developed is your road map? Internal Audit is a valuable, informed and independent service that can help you develop and test your brakes.



## Unity of Purpose

- Your bid will set out the key objectives you expect to achieve from Devolution – are these clearly defined and signed up to?

Is your organisation well placed to achieve these? Some partners will find these easy to do – others will require more work – with your bid moving at the pace of the slowest party, do you know where the pressure points lie? Can we help?

## Robustness of the Bid

- Your bid will identify key benefits for citizens and local businesses – are these backed up by sound evidence?



Now the bid is progressing, you may want independent assurance that the benefits will be realised in the timeframes expected? Things change very quickly – will these benefits still be achievable tomorrow and through the project cycle?



## Governance Arrangements

- Your bid will outline your proposals to deliver the project. In most cases this will represent a significant change to current governance arrangements – what are your plans for delivering and embedding such proposals?

Well thought out and planned Governance is vital to ensuring the smooth delivery of the project and a new way of working.

Why not get an expert view at this early stage?

## Project Set-up

- Moving from current arrangements to new ways of working will take significant planning and resource input.



Are you sure you have the right skills available to successfully deliver in the envisaged timeframes? Would a skills and resources audit reassure you?

## Deliverability and Accountability

Your project is crucial to your organisational success.

- How will you monitor the delivery and success of your proposals?
- What will key stakeholders be looking for?
- How will you manage their expectations?

Your Internal Audit team can help you develop effective and efficient reporting systems.



# An Effective Audit Committee

In our last bulletin we listed 10 ways to get the most from Internal Audit. In this follow on article we hope to outline the key elements and assurance links which we think will contribute to a successful Audit Committee. A good starting point is for the Audit Committee to have its own Audit Committee Charter which clearly outlines its role and responsibilities; it is key that Committee Members receive periodic training in the areas of key responsibilities.

- **Purpose** - the purpose of the Audit Committee is to assist the organisation in its oversight of financial reporting, the systems of internal control, the audit process and compliance with laws and regulations.

In addition to stating its purpose, the Audit Committee Charter should cover:

- **Authority** – what authority does the Committee have and what is its remit. It is important that the members of the Committee understand this and do not spend time straying into matters of a ‘political’ nature, on things of specific interest to individual members or activities within the remit of other established committees.
- **Composition** – the Audit Committee should have no fewer than 3 members. The Council should appoint members to the Committee and the Committee Chairman. Committee members should be independent and to a degree be financially literate. Good practice suggests that at least one member of the Committee should be designated as the ‘financial expert’.

- **Meetings** – the Committee should meet at least four times a year, with the authority to convene additional meetings as they determine necessary. The Committee or the Chairman should hold executive sessions and private meetings with auditors; at least once per year.

- **Responsibilities** – the Committees role is varied but in general focusses on the corporate governance of the organisation and should include:

- **Financial Statements** – review significant accounting and reporting issues. Review the annual financial statement and consider the report of the external auditors in relation to it.
- **Risk Management** – understand fully the corporate risks, understand how risks have been assessed and challenge risk score movement.
- **Internal Control** – consider the effectiveness of the organisations internal control environment including ICT, seeking adequate assurance as to its effectiveness. This should include receiving and considering reports from other assurance bodies.
- **Recommendation Monitoring** – ensure that recommendations to mitigate risk are implemented in a timely and effective manner.
- **Internal Audit** – approve the Charter, be satisfied that internal audit is adequately resourced, consider and approve the annual plan, monitor progress against the plan delivery and annually review the effectiveness of the internal audit function.

All of the above coupled with challenging minds, a focus on the wider picture and higher risks facing the organisation (not getting pulled into the weeds) will contribute to the effectiveness of your Audit Committee. The following image demonstrates the Audit Committee’s Assurance links; your Internal Audit provider can assist your Committee with training.



# Audit Panels and the Procurement of External Audit

The Local Audit & Accountability Act 2014 put in place the framework which will allow local authorities to appoint their own external auditors. Prior to 2010, the Audit Commission was responsible for appointments with the work either being undertaken by their in-house auditors or by a limited number of private firms. The Audit Commission was also responsible for standard setting and overseeing the National Fraud Initiative. In August 2010, the then Secretary of State for Communities and Local Government, Eric Pickles announced that the Audit Commission would be abolished. His stated aims were to reduce costs and improve local democratic accountability by allowing local authorities to appoint their own external auditors from a more competitive market.

As part of the transitional arrangements, the Audit Commission undertook a competitive exercise which resulted in a series of regional contracts being awarded to Grant Thornton, KPMG, Ernst & Young and Mazars. The new contracts commenced in 2012 and will save approximately £24m in audit fees each year. The Audit Commission itself closed in March 2015 with responsibility for the existing appointments transferring to Public Sector Audit Appointments Limited (PSAA) an independent company established by the Local Government Association.

The government recently announced that the transitional arrangements for principal authorities would be extended for a further year until April 2018. Health bodies and smaller local government bodies will however still need to appoint their own external auditors from April 2017.

The one year extension is welcome. Also welcome is the government's decision to allow councils to come together to continue to procure audit services through a sector led organisation. Whilst the Act allows councils to appoint their own auditor or to make a joint appointment with neighbouring councils, this change in approach by the government is likely to mean the majority of councils avoid the need to establish an auditor panel and undertake their own procurement exercise. Some bodies will however see advantages in making their own arrangements. These include full control and ownership over the process and the ability to reflect local circumstances. Larger councils may also feel they will be able to secure a better price if they can attract a high level of interest.

Those councils who wish to make their own appointment whether jointly or on their own will need to start planning within the next few months. Any appointment must be confirmed by December 2017 and it will be necessary to

establish an auditor panel and complete a procurement exercise.

Auditor panels can take various forms. Options include:

- Establishing a new dedicated auditor panel for the sole benefit of the council
- Establishing a new joint panel with other councils or bodies
- Using an existing committee
- Using another council's panel

The minimum number of members for an auditor panel is three and the majority of these must be independent of the council. The chair of the panel must also be independent. There are a number of specific rules designed to avoid any perception that a panel member might have their independence impaired. Panel members will also need to demonstrate relevant skills, knowledge and experience. One of the first challenges will therefore be attracting a sufficient number of suitable candidates. Councils will also need to decide the level of any allowances to be paid to panel members.

The auditor panel is responsible for advising the authority on the selection and appointment of the audit firm, any proposal to remove an auditor from office or to understand the reasons should an auditor resign. The auditor panel will also take a view on whether the audit firm should be allowed to provide non-audit services and whether the council should agree to limit the firm's potential liabilities in respect of negligence, default or breach of trust.

Responsibility for monitoring the contract between the council and the firm will rest with the council but the auditor panel is likely to request ongoing performance information to ensure the auditor's independence is protected.

## Key messages:

- Councils can choose to appoint their own auditor or join a sector led exercise.
- Councils will need to involve audit committee members, statutory officers and other stakeholders in deciding which route to take.
- Councils who wish to appoint their own auditor should be starting to plan now.
- The value of any contract is likely to exceed the OJEU threshold so any timetable needs to take account of the EU procurement rules.

See the CIPFA 'Guide to Auditor Panels' for further information – [www.cipfa.org/policy-and-guidance/publications](http://www.cipfa.org/policy-and-guidance/publications)

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The group meets quarterly and we circulate periodic bulletins to our Partner organisations with the aim of sharing information and best practice.

We hope that you find the bulletins useful. If you have any comments or feedback on this bulletin or have suggestions for future articles then please contact one of the individuals above.