

Agenda Item No: **11a**

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **7 November 2011**

Originating Service Group(s) **DELIVERY**

Contact Officer(s)/ **P MAIN**

Telephone Number(s) **4410**

Title/Subject Matter **INTERNAL AUDIT MANAGEMENT ARRANGEMENTS**

RECOMMENDATION

That Members note the planned management and leadership arrangements for Internal Audit Services from January 2012 onwards, following the retirement of the current Head of Internal Audit in December 2011.

1. PURPOSE AND BACKGROUND

1. To provide an update on the arrangements that are being implemented in partnership with Sandwell MBC for covering the vacant role of Head of Internal Audit from January 2012 onwards so that Audit Committee is aware of the planned approach and can have an input to its development.
2. To obtain Members' feedback on the plans before they are reported to Cabinet (Resources) Panel in November 2011 ready for commencement in January 2012.
3. To agree to the attendance of the shared Head of Internal Audit at the Committee's December 2011 meeting to participate in discussions about the audit development programme.

2. DETAILS

- 2.1 In an innovative move Sandwell MBC and Wolverhampton City Council are to share the role of the head of audit. The planned arrangement, which follows the retirement of Brian Burgess, head of audit services at Wolverhampton in December 2011, will enable a greater sharing of skills and expertise between both teams. Peter Farrow, who is both Sandwell MBC's and the West Midlands Fire Service's head of audit will take on the dual role in January 2012. The new arrangement will be of benefit to both authorities by creating a wider pool of audit staff, experience and expertise, while also generating opportunities for cost savings and efficiencies.
- 2.2 From January 2012 the current Head of Internal Audit at Sandwell (Peter Farrow) will act as Head of Internal Audit at both authorities (splitting his time approximately 50/50) while keeping both teams separate initially but working closer together and sharing ideas at all levels across both. Some background information on Peter's professional experience is given at Appendix 1.
- 2.3 Peter will take lead responsibility for developing Wolverhampton's internal audit service in line with the recommendations made by PWC in their report on Internal Audit Effectiveness and introducing changes arising from the Systems Thinking review that is currently underway. His dual reporting lines and accountability for delivery of agreed outcomes will be to the Section 151 Officers and Chief Executives at both Sandwell and Wolverhampton. While at Wolverhampton he will be a member of Wolverhampton's Corporate Services Management Team and attend meetings of the Audit Committee and of officer/project groups as required.
- 2.4 This line management arrangement will ensure continued compliance with CIPFA's guidance on the role of the Head of Audit:

....There is a range of guidance concerning line management responsibility for the [Head of Internal Audit – HIA]. What is paramount is that the reporting line must leave the HIA free from interference in setting the scope of internal audit's work, in coming to conclusions and in reporting the results. They must also have unfettered access across the organisation, especially to the Chief Executive, Board and Audit Committee Chair. In practice this is most likely to be achieved by the HIA reporting to the Chief Executive or to the Chief Financial Officer.

- 2.5 Richard Morgan (deputy to Brian Burgess) will assume day to day line management responsibilities for audit staff and ensure continued delivery of 'business as usual'.
- 2.6 The planned approach has been agreed with the Chief Executives of both authorities and discussed with the Leader, the Resources Portfolioholder and the Chair and Vice Chair of Audit Committee. Audit staff have also been briefed. Given the strategic importance of the audit service (and its role in ensuring effective governance and internal control) the plans are to be reported for information to Cabinet (Resources) Panel in November 2011 so that Members are aware of the new arrangements ready for commencement in January 2012.

Priorities for Action

- 2.7 The first priority will be to ensure that Wolverhampton City Council has a focussed risk based audit plan for 2012/13. The objective will be to eliminate low risk areas from the plan and ensure that the internal audit service addresses the areas of real significance, in a focused, effective and risk-based manner.
- 2.8 The greater flexibility of this approach along with proactive advisory work means that internal audit will be able to introduce a wider range of audit techniques in the delivery of assurance and advice. This approach will also offer flexibility to address risks as they arise and establish increased synergy between internal audit activity and the management of the key risks facing the council.
- 2.9 It will also enable audit staff in both teams to build on and extend their skills and experiences, across a wider client base. Other developments that are planned include:
- Establishing closer working relationships between the internal audit team and Directors/Assistant Directors.
 - Ensuring greater relevance to the work of audit by focussing upon higher risk areas.
 - Helping the council further develop its risk management processes.
 - Preparing a strategic assurance map and assurance inventory.
 - Setting up a Counter Fraud Unit within audit.
 - Providing support and guidance to the Members of Audit Committee on how to best focus their workplans.
 - Developing Audit Committee's paid accounts process as part of the wider transparency agenda.
 - Developing the style and content of audit reports.
- 2.10 This will in many ways resemble the journey that Sandwell's internal audit team undertook when Peter joined them from the private sector accountancy firm Bentley Jennison. It was developed from a more traditional compliance-based service, to a modern, cost-effective, risk focussed internal audit, risk and counter-fraud function that has received national recognition for its approach.
- 2.11 Over coming months Peter will be looking at ways to help bring the two audit teams closer together and realise further efficiencies. Steps that could be taken to address the recommendations made by PWC in their recent report, include:

Risk Focus/Audit Plans

- Support the Head of Risk Management & Insurance in developing a streamlined strategic risk register and alignment of the Audit Plan to primarily address these risks.

- Risk assess the current audit universe/auditable areas with a view to begin to remove lower risk audits from the plan, enabling focus to be concentrated on the higher risk areas.
- Developing the overall audit approach and working papers etc. to become more risk-focussed.
- Develop a strategic assurance map, which ultimately would be used to focus some of the work of the Audit Committee.
- Assign responsibility for delivering the Audit Plan for specific service areas (ie. Delivery, Community, Education & Enterprise and Corporate) to individual Principal Auditors. This will enable them to build up a good working knowledge and relationships within distinct areas of the Authority.
- Seek to reduce the focus on 'days' to be spent on the plan (inputs) into what assurance the internal audit function is giving (outputs). Including the reporting of the outcome to managers and the Audit Committee.
- Continue to develop the style, look and focus of internal audit reports and reports to the Audit Committee.
- Integrate the current 'financial monitoring' staff in audit into a more internal audit-based role.

Counter Fraud

- One of the Principal Auditors at Wolverhampton will be identified to lead/establish a Counter Fraud Unit within the internal audit team. The activities for this unit would be driven by the National Fraud Authority's ten point plan for combating fraud within local authorities. The officer identified could possibly obtain CIPFA's CIPQ fraud qualification.
- A fraud risk register would be developed, to help drive pro-active targeted testing of areas susceptible to fraud.
- A series of raising fraud awareness activities would be undertaken, including training seminars for Members and managers, fraud surgeries, a quarterly anti-fraud newsletter, setting up a dedicated anti-fraud website, investigating the possibility of setting up an on-line anti-fraud training exercise for all staff.
- The Counter Fraud Unit at Sandwell MBC would help in setting up the above

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- Support Members of the Audit Committee in their continued development and training.
- Discuss with Members of the Audit Committee their requirements for assurance on the Accounts Payable/Creditor Payments process alongside more detailed Contract Audits.

Collaborative Working

- Peter Farrow will work closely with Richard Morgan in ensuring that any joint

arrangements are introduced as smoothly as possible. The roles of staff at Principal Auditor level will be pivotal in the sharing of knowledge and expertise and this will be actively encouraged through the use of joint events/meetings and team briefs. One example of this would be on the audit of schools and the streamlining of the current processes. Other areas include IT, Contracts and Environmental Audit.

- Overall a wider pool of audit staff across both Authorities would potentially enable the sharing of experience, expertise and examples of good practice.

3. FINANCIAL IMPLICATIONS

- 3.1 Sandwell will charge a contribution of £30,000 per annum towards Pater Farrow's salary and oncosts. This will be funded from salary savings arising from vacancies within the Internal Audit team.
- 3.2 A key objective for the sharing initiative will be to identify opportunities for the delivery of the audit team's contribution to cashable budget savings from 2012/13 onwards. [PM/29102011/X].

4. LEGAL IMPLICATIONS

- 4.1 The Council is under an obligation to maintain an effective internal audit team and the proposals described in this report will underpin the continuation of the work undertaken by the team and ensure that it is more sharply focused. There is no requirement for a formal legal agreement to underpin the proposed sharing arrangement at this stage but consideration will be given to options for formalising the arrangement as the relationship between the two authorities evolves. [MW/01112011/F]

5. EQUAL OPPORTUNITIES IMPLICATIONS

- 5.1 There are no direct equal opportunities implications arising from this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from this report.

7. SCHEDULE OF BACKGROUND PAPERS

PwC Review of Internal Audit Effectiveness, January 2011

Report to Audit Committee, April 2011, *Internal Audit Effectiveness Review*

BRIEF BIOGRAPHY FOR PETER FARROW

As well as the head of audit for both Sandwell MBC and the West Midlands Fire Service, Peter is also an elected member of the National Anti Fraud Network (NAFN) Executive Board, with lead responsibility for governance, risk management and assurance across NAFN.

He is Chair of the Organising Committee for the CIPFA in the Midlands Audit Training Seminars (CATS) and a co-opted Regional CIPFA Council member. He is a Governor, and Finance Committee member (and former Audit Committee member) at The Sixth Form College, Solihull. For a number of years he was invited to be the conference rapporteur at the Annual CIPFA Audit Conference, and in both 2010 and 2011 he was their after dinner speaker.

Peter and his team were the winners of the 2008 Local Government Chronicle (LGC) Finance Risk Management Award, and were finalists for the Best Risk Management Approach in the Public Sector and European Risk Management Team of the Year in the 2009 'StrategicRISK' European Risk Management Awards. Their approach to raising fraud awareness has also been the runner up in the CIPFA Cliff Nicholson Award for innovation and excellence in public sector internal audit.

Prior to his present position, he spent a number of years with Bentley Jennison, the then leading private sector provider of internal audit to the public sector within the UK, and was a member of their Education Sector Technical Group. He has also worked in internal audit within the NHS.

Peter, is a regular speaker on internal audit matters for a number of organisations, including CIPFA and the Chartered Institute of Internal Auditors (CIIA), and has had two articles on the emergence of Environmental Auditing published by the CIIA.