

11 September 2019

Agenda Item: 7

REPORT OF SERVICE DIRECTOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

INTERNAL AUDIT RESTRUCTURE PROPOSALS

Purpose of the Report

1. To review the staffing structure for the Internal Audit service and to propose amendments to better meet current and future demand.

Information

Drivers for change

2. The current staffing structure for Internal Audit has been in place since April 2016 and provides for a staffing establishment of 8.6 full time equivalent (FTE) posts (excluding the Group Manager for the service).
3. The establishment of the Assurance Group within the Chief Executive's Department has seen the former Group Manager – Internal Audit enabled into the post of Group Manager – Assurance. As a result, the postholder has assumed wider duties beyond the delivery of the Internal Audit service. With additional responsibility for the Performance, Intelligence & Policy Team and for the Risk & Insurance Team, the workload of the Group Manager – Assurance has been impacted. As a result, a review is needed of management capacity, roles and responsibilities within the Internal Audit team.
4. From 1 April 2019, responsibility for delivery of audits in Local Authority maintained schools transferred to the Children's & Families' Finance Team. This involved the transfer of 0.81 fte Auditor and 0.4 fte Clerical Assistant. This also serves as a prompt to review the remaining internal audit resource against updated and projected assessments of audit need for the Council.
5. At the time of the previous restructure of the Internal Audit Team in April 2016, it was anticipated that demand for advice and assistance on new systems, processes and controls would continue to grow, commensurate with the continuing pace of change in the Council's services. It was identified that Internal Audit's offer in this dynamic and challenging environment would need to be delivered by people with excellent technical knowledge, a good understanding of the Authority's needs, and good inter-personal skills to communicate and

influence effectively. This has proven to be the case. Furthermore, the service is now looking to push forward with developing the new range of analytical and problem-solving skills the modern auditor will need to work in the responsive, agile and insightful way that the Council requires.

6. The past two years have seen significant difficulties in recruiting to the Senior Auditor posts in the current structure. Temporary resource has been brought in through the Council's agency worker contract, but this has only met with partial success. We have found agency auditors to be of variable quality, but the cost of this option has been constantly high. The recruitment issue has also emphasised that the opportunity for career progression within the Team, and within the wider audit profession, is limited.
7. It is opportune to consider those areas of specialist audit provision that are currently delivered from the team's resources, e.g. ICT audit and counter-fraud activities. A revised ICT audit strategy has been drawn up, and this identifies the changing landscape at the Council. The 'Journey to the Cloud' and the range of routine, external assurance the Council now obtains from technically specialist sources are impacting on what the Internal Audit team now needs to deliver. The developing approach to assurance mapping means that the service is likely to have a reducing need to deliver genuinely specialist ICT audit input. Of equal significance is the fact that much of what was once viewed as 'technical' for auditors in regard to ICT now needs to be viewed as 'mainstream'. ICT systems are a feature of most, if not all, Council systems, therefore all auditors need to be comfortable and confident in their grasp of core ICT-based controls. With regard to fraud, the service needs to capitalise on recent progress in developing counter-fraud expertise and to apply this to ensure the team works smarter, giving a sharper focus on pro-action rather than reaction.

Client context

8. The Team's primary duty is to deliver an effective internal audit service to Nottinghamshire County Council. The service currently has an external contract with one local public sector body, which is renewed on a rolling, annual basis. This brings benefits to the Team and to the Council as a whole in terms of the range of experience, reputation and the income it brings in.
9. Capacity to deliver work beyond the team's primary duties is kept under review. In the short term, the intention is to maintain sufficient resources to continue with the team's external contract. It should also be noted that the team is now an active partner in the Assurance Lincolnshire collaboration; it is anticipated that this will bring future opportunities for external work through joint-bidding and joint-delivery with partners.

Restructure proposals to address management & supervision

10. It is proposed to rationalise the overall management capacity in the team, along with the re-allocation of key management duties. This will impact on the activities currently carried out by the Group Manager, Audit Managers and Senior Auditors.
11. The Group Manager – Assurance should continue to be the Chief Audit Executive (Head of Internal Audit), as defined by the Public Sector Internal Audit Standards (PSIAS). Below this, it is proposed to establish a single direct report in the form of a Team Leader for Internal Audit, who would be responsible for the day-to-day direction and management of the team.

12. Compliance with PSIAS is an essential requirement for the service, and core to this is effective supervision to ensure quality standards are maintained. For this reason, it is proposed to introduce an Audit Supervisor, whose primary objective would be to share the workload in supervising the day-to-day delivery of audit assignments. This post would also have capacity to deliver the highest profile and most complex assignments in the audit plans.

13. For the past 5 years or so, attempts have been made to allocate some form of specialism to the individual roles of Senior Auditors. This has entailed taking the lead on areas such as: counter-fraud; contract audit; school audits; external contracts. Proposals here are to re-focus this effort to develop a lead partner role with each of the team’s clients (both NCC departments and external contracts).

14. These proposals for re-focusing roles and responsibilities are illustrated further in the table below :

Post in new structure	Managerial focus	Currently provided by:
Group Manager	Deliver the PSIAS role of Chief Audit Executive: <ul style="list-style-type: none"> - strategy and direction - resourcing and training requirements - key point of contact for senior officers and Members - reviewing all draft and final reports - delivering the annual audit opinion 	Group Manager
Internal Audit Team Manager	Overseeing the update of audit priority assessments Drafting and consulting on the audit plan at Senior Leadership Teams (SLTs), Corporate Leadership Team (CLT) and Governance & Ethics Committee Allocating work to auditors and supervising progress Reviewing draft reports prior to issue to Group Manager Reporting progress to SLTs, CLT & Governance & Ethics Committee Carrying out 1-1 and EPDR meetings with staff Managing the budget for Internal Audit	Group Manager Team Leaders at SLTs, Group Manager at CLT & Governance & Ethics Committee Team Leaders Team Leaders Team Leaders at SLTs, Group Manager at CLT & Governance & Ethics Committee Team Leaders have assumed this from the Group Manager from November 2018 Group Manager
Audit Supervisor	Assisting in drafting and consulting on the audit plan at SLTs, CLT & Governance & Ethics Committee, as directed by the Team Manager	Team Leaders at SLTs, Group Manager at CLT & Governance & Ethics Committee

Post in new structure	Managerial focus	Currently provided by:
	<p>Reviewing draft reports prior to issue to Group Manager</p> <p>Assisting in reporting progress to SLTs, CLT & Governance & Ethics Committee, as directed by the Team Manager</p> <p>Taking the lead on 1:1 supervision of the apprentices and planning and monitoring their training programme</p>	<p>Team Leaders</p> <p>Team Leaders at SLTs, Group Manager at CLT & Governance & Ethics Committee</p> <p>New duty</p>
Senior Auditors	<p>Taking the lead with a designated client department to:</p> <ul style="list-style-type: none"> - keep up to date with service developments in departments and wider horizon scanning - update audit priority assessments - assist in consultation with SLTs on proposed audit plans - assist in reporting progress on plan delivery to SLTs - assist the Team Leader at Governance & Ethics Committee in presenting reports on follow-ups 	Team Leaders

Restructure proposals to deliver audit needs

15. The previous restructure in April 2016 sought to increase Senior Auditor resources and it is proposed to maintain capacity at this level. This is the level of resource that the Council needs to see maximised in the structure. Staff at this level should be capable of delivering the greatest flexibility in terms of addressing the challenging priorities in the audit plan and delivering jobs with insight and innovation. Linked to this, there is no longer a need to retain a permanent resource at the current Auditor level in the structure. There is insufficient demand in audit plans for work requiring a lower level of skills and, if left unaddressed, this would cause difficulty when trying to allocate work appropriately to staff at different grades in the structure.
16. Recent difficulties with recruitment and progression are to be addressed in part through the establishment of a formal Internal Audit apprenticeship programme. This will not be a short-term solution to recruitment problems but, over time, it will build in a healthy balance between recruiting experienced senior auditors and developing our own talent. Once established, this programme should deliver a steady flow of newly qualified internal auditors into the structure and in to the wider audit profession. It is proposed to build in new capacity for this purpose.
17. Discussion with colleagues in Human Resources has determined that the apprenticeship should be proposed as a two-stage programme to work towards the full Chartered Institute of Internal Auditors (IIA) qualification, as follows:



18. Key features of the apprenticeship programme would be the following:
- Recruitment of apprentices on a fixed-term basis to allow the trainees to progress towards the professional qualification
 - New apprentices with the appropriate qualifications would be able to enter the programme at either Stage 1 or Stage 2
 - Apprentices would be required to satisfy gateway requirements to progress through the apprenticeship payscale indicated in the appendix. This would be based on satisfactory completion of Stage 1 within a fixed timescale in order to progress to Stage 2, followed by a fixed timescale to achieve the full Stage 2 qualification
 - On satisfactory completion of the programme, a qualified apprentice would be able to transfer into a vacant post at the Senior Auditor level
 - It is proposed to review the apprenticeship scheme after two years based on experience of how the scheme operates in practice.
19. With regard to audit specialisms, there is a need to maximise all auditors' abilities and confidence in the areas once considered specialist (e.g. ICT audit and counter-fraud). In the case of ICT audit, it is proposed that it is no longer sustainable to retain a post in the structure dedicated to this specialism. The revised ICT audit strategy identifies that the audits required routinely over the medium term should fall within the capability of Senior Auditors. When the need arises for more specialist input, all options for bringing in a suitable resource on a temporary or part-time basis will be considered. This will include opportunities to collaborate with Assurance Lincolnshire for jointly resourcing these requirements, possibly through joint employment or joint procurement from a framework of external providers.

Summary of restructure proposals

20. In order to implement the above, the proposed changes to the Internal Audit structure are set out in **Appendix 1**. The key proposals are the following:
- Dis-establishment of the current 2 fte Audit Manager posts to be replaced by the Internal Audit Team Manager (1 fte) and Audit Supervisor (1 fte) roles
 - Dis-establishment of the ICT Technical Auditor post (1 fte)

- c) Dis-establishment of the remaining Auditor posts (1.1 fte)
- d) Establishment of fixed-term Apprentice Internal Auditor posts (2 fte).

At this stage the grades of the posts in the proposed structure are indicative and will be subject to a full evaluation exercise.

Consultation

- 21. These proposals were presented to current staff in the Internal Audit team in July 2019 and a formal consultation period of four weeks was held. All staff were encouraged to submit their comments on the proposals to the Group Manager – Assurance. The Group Manager was also available to discuss any questions or concerns, and he did this with a number of members of staff. The trade unions were also included in the consultation period and their input was invited.
- 22. At the close of the consultation period, the Group Manager – Assurance fully considered all feedback received. He provided a written summary to the team of submitted comments, along with his response to them. Changes to the original proposals were made as a result of this feedback.

Implementation and timescales

23. The following table sets out key actions and timescales to take the proposals forward.

Action	Sep 2019	Oct 2019	Nov 2019	Dec 2019
Governance & Ethics Committee approval:				
Enabling process				
Dealing with staff at risk of redundancy				
Recruitment to apprentice posts				
Taking forward specialist provision – collaborate with Assurance Lincolnshire				

Other Options Considered

24. Given the drivers for change identified above, retention of the current structure was not considered to be a viable option. In the course of the consultation period, an alternative structure was proposed by some members of staff and full consideration was given to it. It was determined that the alternative would not address the objectives of the restructure in full and also not in the most economic and effective manner.

Reason/s for Recommendation/s

- 25. The proposed restructure will ensure that the Internal Audit service can:
 - adapt to its integration into the Assurance Group of the Chief Executive’s Department
 - retain and develop the diversely skilled workforce it needs to deliver the varied nature of audit work that the Council requires

- begin to address the recruitment difficulties the service has experienced in recent years by providing exciting opportunities for apprentices to commence a rewarding career with a forward-looking employer.

Statutory and Policy Implications

26. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

27. If the existing and proposed structures were fully staffed, the staffing costs including salary, National Insurance and pensions contributions are set out below. This excludes the salary of the Group Manager – Assurance, whose time is now split across three areas of service. For the proposed structure, this assumes one apprentice having completed two years to achieve the Practitioner level, and one apprentice having completed three years to achieve the Professional level.

Current Posts	FTE (scale point)	Salary Costs (incl. oncosts)	Proposed Posts	FTE (scale point)	Salary Costs (incl. oncosts)
Audit Manager	2 (scp41)	116,400	Audit Team Manager	1 (scp41)	58,200
ICT Technical Auditor	1 (scp38)	54,200	Audit Supervisor	1 (scp38)	54,200
Senior Auditor	4.5 (scp33)	214,600	Senior Auditor	4.5 (scp33)	214,600
Auditor	1.1 (scp22)	38,100	Apprentice Auditor - Professional	1 (scp30)	43,500
			Apprentice Auditor - Practitioner	1 (scp16)	30,600
Totals	8.6	423,300		8.5	401,100

28. Under the proposed structure, the number of Senior Auditors in post and anticipated to remain in post over the coming two to three years would largely determine the number and timing of new apprentices to be recruited. Some degree of contingency would also be needed to fund the buy-in of technical ICT audit expertise when required.

Human Resources Implications

29. Paragraph 19 of the report summarises the implications in terms of the posts proposed to be dis-established and those proposed to be established. Should the restructure be approved, the advice of Human Resources colleagues would be followed to implement the Council's

enabling process for the transfer of staff from the existing structure into the new structure. Where this leads to staff being placed at risk of redundancy, the Council's agreed procedures will be followed.

RECOMMENDATION/S

- 1) That the revised staffing structure for Internal Audit, attached at Appendix 1, be approved.

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For any enquiries about this report please contact:
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Constitutional Comments (KK 19/8/2019)

30. The proposal in this report is within the remit of the Governance and Ethics Committee.

Financial Comments (SES 21/08/19)

31. The financial implications are set out in paragraph 26 of the report. The total budget for Internal Audit in 2019/20 is £426,443.

HR Comments (JP 20/8/2019)

32. The proposals have been subject to a formal consultation period with staff and the recognised trade unions. The County Council's agreed enabling process will be applied in making appointments to the posts in the revised structure. Where applicable staff will be supported through the redeployment process.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All