

22 February 2016**Agenda Item: 9****REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT AND
IMPROVEMENT****RESTRUCTURE OF THE INTERNAL AUDIT SECTION****Purpose of the Report**

1. This report sets out proposals for a new structure for the Internal Audit Section. The purpose of the proposed structure is to ensure that it is fit for purpose and meets the changing requirements of the County Council whilst reducing net expenditure by £75k.

Information and Advice

2. The Internal Audit structure was last amended in December 2013 and is detailed in Appendix A. Since then the level of change at the County Council has been significant and it continues to develop in the face of reducing government financial support, changes in legislation, including the introduction of the Care Act, and closer working with partners and the development of Alternative Service Delivery Models.
3. As part of the outline business case process for 2016/17, an agreed savings proposal for Internal Audit set a target reduction in its budget of £75k. The Service Director for Finance, Procurement and Improvement has, until recently, been in discussion with the Finance Officers of other Nottinghamshire authorities, with a view to establishing a Shared Service for Internal Audit. Unfortunately, these discussions have ultimately proved unsuccessful. One of the key reasons for exploring a shared service, was to improve the resilience of the service; by developing a pool of experienced staff over a range of authorities, the impact of vacancies, turnover and sickness would be reduced.
4. The work of Internal Audit is carried out in compliance with the Public Sector Internal Audit Standards. The Standards set out the requirements of an effective Internal Audit function. As part of these changes, the Internal Audit Section needs to continue to be able to deliver three things.
 - Deliver an effective Audit Plan by adopting a systematic and disciplined approach, that enables an informed judgement to be made on the effectiveness of the Authority's level of internal control, risk management and governance arrangements
 - Add value to the Authority by carrying out work that helps the Authority progress in delivering effective services to the people of Nottinghamshire
 - Helps the Authority to minimise loss and waste through tackling inefficiency, error and fraud

5. The size of the County Council is continuing to reduce as budget reductions continue to impact on the scale of services that can be provided. The current Government are keen to encourage schools to convert to Academy schools, removing them from Local Authority influence. The Internal Audit Section currently generates income of approximately £75k by selling services to schools. As more schools convert to Academy status, the level of income is likely to reduce.
6. At the same time, the demand for advice and assistance on new systems, processes and controls has been significant. It is anticipated that the demand will continue to grow, as the pace of change in systems increases and the need for advice and guidance on internal controls on new systems is on-going. In addition, the complexity of new systems is such that the provision of advice needs to be carried out at a senior level. The advice needs to be provided by people who have excellent technical knowledge, a good understanding of the Authority's needs, and good inter-personal skills to communicate effectively and influence the final solution.
7. The Internal Audit service currently generates approximately £100,000 income from services to schools, Academies and the Nottinghamshire Fire and Rescue Service. The service has maintained good working relationships with these clients and it is intended to continue to provide this work in the future. However, this work is not "core" to the purpose of the function as set out in paragraph 4.
8. The new structure proposed will involve a further reduction in staffing and this will impact on the resilience of the service. One way to address this would be to enter into a partnership with another Internal Audit service provider, either local authority or private sector. Following this restructure it is intended to develop such a partnership.
9. In addition, the service has effectively used the CIPFA trainee scheme to provide audit resource, whilst simultaneously providing a good grounding for trainees in audit work. This will also be used to augment audit resource wherever possible.
10. Given the continuing need to minimise expenditure on "back-office" services, the proposals would generate a substantial reduction in the cost of the Internal Audit Service. This will be achieved by reducing the number of employees, but maintaining the number of more senior employees, so that the high priority, high risk areas can still be completed. This will inevitably have an impact on the volume of work that can be carried out by the Section. In particular, it will require some requests for audit work to be rejected. Indeed, this has already happened over the last 12 months. Requests for additional work that will not contribute to the "core" work set out in paragraph 4 have had to be declined.
11. There are currently a number of vacancies within the Internal Audit Section, so it is not anticipated that any compulsory redundancies would be required to implement the new proposed structure.
12. The current and proposed structures are set out in Table 1 below.

Table 1: Internal Audit Section current structure and proposed structure

Job Title	Grade	Current Structure (FTE's)	Vacant posts	Proposed Structure
Head of Internal Audit	Band F	1	0	1
Team Leader / Audit Manager	Band D	2	0	2
ICT Auditor	Band C	1	0	1
Senior Auditor	Band B	4.5	0.5	4.5
Auditor	Scale 5	4.82	2.8	2
Clerical Assistant	Scale 2	0.4	0	0.4
Total		13.72	3.3	10.9

13. The current structure is not split into teams. A matrix structure is used, with the Audit Managers responsible to a distinct set of clients. This provides departments with clarity over the contact point for their services, but individual auditors work across all services. Audit Managers will continue to supervise Audit Section employees on a range of audits and will sign off audit files to confirm their compliance with the Public Sector Internal Audit Standards. The proposed structure is set out in Appendix B.

14. The financial implications of the proposed changes have been calculated and are set out in Table 2. The Table sets out the salary costs of the current and proposed structures, but not the on-costs relating to Employers National Insurance contributions and Employers Pension contribution. The on-costs increase salary costs by approximately 27%.

Table 2: Financial Implications of the Proposed Restructure of the Internal Audit Section

Job Title	Salary 2015/16	Current Structure (FTE's)	Current Structure Cost (£)	Proposed Structure (FTE's)	Proposed Structure Cost (£)
Head of Internal Audit	54,913	1	54,913	1	54,913
Team Leaders / Audit Managers	41,140	2	82,280	2	82,280
ICT Auditor	38,405	1	38,405	1	38,405
Senior Auditor	33,857	4.5	152,357	4.5	152,357
Auditor	24,472	4.82	117,955	2	48,944
Clerical Assistant	15,941	0.4	6,376	0.4	6,376
Total		13.72	452,286	10.9	383,275

The proposed restructure would result in a significant reduction in the budget for the Internal Audit Section of approximately £88k, comprising direct salary cost reductions of £69k plus reductions in on-costs of £19k. This is higher than the targeted saving, but the additional reduction will be used to offset anticipated reduced income in future years.

15. The proposals have been subject to a formal consultation with the employees concerned and reviewed in light of the comments made.

Other Options Considered

16. The current structure could be retained, or alternative models of delivering the service could be considered.

Reason/s for Recommendation/s

17. To provide Members with the opportunity to review and approve changes to the structure of the Internal Audit section and reduce expenditure for 2016/17 onwards as set out in the savings proposals approved in February 2015.

Statutory and Policy Implications

18. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

1) That Committee approve the proposed new structure for the Internal Audit Section.

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For any enquiries about this report please contact:

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Constitutional Comments (KK 28/01/16)

The proposal in the report is within the remit of the Finance and Property Committee.

Financial Comments (SES 29/01/16)

The financial implications are set out in the report.

Background Papers

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