

## Report

**Report subject:** Internal Audit Resources

**Report to:** Audit Committee

**Date:** 20th October 2005

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### 1. Background

- 1.1 At the last meeting of the Audit Committee a report was requested on Internal Audit Resources, specifically to outline the case to increase the establishment of the internal audit team from 3 to 3.3. The rationale for this was that it would enable the current vacancy of 0.2 to be combined with the additional 0.3 to allow a post of 0.5 to be filled.

### 2. Current Position

- 2.1 Since the last meeting there have been two changes affecting internal audit resources: the Chief Internal Auditor has reduced her hours temporarily to 35 per week for childcare reasons and one of the Senior Auditors has announced that she will be taking a period of maternity leave from March 2006. As a result there is a need to arrange temporary cover for this period.
- 2.2 The council is facing a number of financial challenges on its revenue account, which makes it difficult to increase expenditure.

### 3 Assessment of audit resources

- 3.1 CIPFA benchmarking data is available for the last 3 years to compare the size of Salisbury's audit establishment with approximately 40 district councils. The benchmarking data also takes into account the financial size of councils. This shows that for the financial size of the council our establishment is one of the lowest in the country. A detailed comparison with 18 of the larger district councils in the benchmarking club is shown in the following table for 2005/6.

Councils	Gross Revenue Turnover £m	FTE auditors	Days bought in
Average of 18 district councils with turnover from £49m to £129m	82.4	4.5	21.6
Salisbury	95	2.8	16

- 3.2 The other area for comparison is the level of audit coverage of IT audit. Technical IT audit is bought-in from a fixed budget of £9590 per annum. This is supplemented by more basic IT audit and support for implementation of IT projects such as Agresso carried out in-house. The level of audit for 2005/6 has been kept low because of the e-government work, but a new risk assessment will be carried out for the 2006/7 plan and the level of IT audit will need to be considered then.
- 3.3 Overall the council has been rated as good under CPA and the internal audit opinion on the control environment has identified that there are some good systems and controls operating effectively within the council. There have also been some problem areas, where it is taking time for effective controls to work consistently. There are also continuing developments in internal audit and increasing expectations that increase the demand for internal audit – for example to support the value for money agenda. Another source of pressure is the increasing range and sophistication of IT systems. A risk-based approach to planning is undertaken to target audit resources most effectively. Inevitably some areas are excluded from the plan that traditionally might have been included. Whilst these are judged to be low risk, it should be recognized that none is risk-free. Taking all these factors into account, there is a prima facie case for expanding the resources of Internal Audit.
- 3.4 Longer term developments in the council, principally the possible transfer of the housing stock and the creation of a leisure trust will have implications for the provision of internal audit services in-house. If these changes take place then the financial size of the council would be considerably smaller and internal audit resources would look proportionately greater. These transfers would reduce the volume of work, however the percentage of the audit plan directly attributable to housing services or the leisure facilities is relatively low (7.5 per cent of current year's plan). Taking these factors into account the current demand is probably not equal to future demand. As a result a permanent change to the establishment of Internal Audit at this stage may not be appropriate.

#### **4 Proposals**

- 4.1 The forthcoming maternity leave of the senior auditor provides an opportunity to fill the current vacancy of 0.25 along with the 0.8 post for the period of maternity leave. The proposal is to recruit a full time Senior Auditor on temporary contract from January 2006 until March 2007. This will cover both maternity leave and the current vacancy for 2005/6 and 2006/7. By this time it will be clear as to the effect of significant structural change within the council and any permanent decisions on establishment can be made at that time. As a result there would be no change to the existing budget or establishment. If the vacancy can be filled with effect from January 2006 then some of the audits identified as 'reserve' on the approved audit plan can be scheduled.
- 4.2 At the next audit plan the level of IT audit will be carefully considered. If there is felt to be a need for IT audit in excess of the days that can be bought in from the existing budget then this will be notified to the committee.

#### **5 Recommendation**

- 5.1 It is recommended that there is no change to the establishment of Internal Audit at this stage but that steps should be taken to maximize the availability of internal audit resources in 2005/6 and 2006/7 within the existing establishment.

##### **Implications:**

- **Financial:** If the recommendation is followed the additional resources can be contained within existing budgets.
- **Legal:** None
- **Human Rights:** None

- **Personnel:** Recruitment of a temporary Senior Auditor for a 15 month period will mean that the individual recruited will accrue employment rights in respect of consideration needing to be given to redeployment within the council prior to the contract ending. Whilst, even if the contract is kept below a full year, there will still be employment rights issues to consider when terminating the contract, the risks in relation to this position will be minimised if the employment contract term is limited to 51 weeks.
- **Community Safety:** None
- **Environmental Impact:** None
- **Council's Core Values:** Excellent service