

Report

Governance & Audit Committee

Part 1

Date: 28th September 2023

Subject Internal Audit Team update

Purpose To update the committee on actions being taken and potential impact of the current retention issues within the Council's Internal Audit Team.

Author Head of Finance

Ward N/A

Summary The loss of most team members from the Council's Internal Audit Team introduces potential risk to the level of assurance and governance arrangements at the Council. The report identifies the action taken to date to manage the position and sets out a range of likely impacts on the achievement of the approved Audit Plan.

Proposal That Audit & Governance committee note the position and impacts described in this report and action being taken to mitigate, both short and longer term.

Action by Head of Finance

Timetable Immediate and on-going

This report was prepared after consultation with:

- Director of Corporate Services
- Head of Law and Standards
- Head of People, Policy and Transformation

Signed

Background

1. Governance & Audit committee will be aware that over a short time period of about 4 months between mid-April – August 2023, we saw 5 members of the Internal Audit Team leave the Council/Section for other roles, including the Chief Internal Auditor, Audit Manager and a Principal Auditor, leaving only one member of staff left; at Principal Auditor level.

The team's establishment was made up of:

- 0.5 wte Chief Internal Auditor
- 1 wte Audit Manager
- 3 wte Principal Auditor
- 2 wte Auditors

6.5 total.

2. The Chief Internal Auditor left in mid-April 2023 for a promotion opportunity and in conjunction with Monmouthshire Council who shared this role; it was decided to leave vacant whilst we reviewed a strategic regional collaboration opportunity for the services at both Councils.

One of our two Auditors and a Principal Auditor then left for promotional opportunities to a neighbouring Council and the other Auditor left to another internal role.

3. As the Committee are aware; this raises potential risk to the delivery of the audit plan for 2023/24 which was set based on resources in the above establishment minus the Chief Internal Auditor, a vacant Principal auditor and 80 days of external audit consultancy input from the South West Audit Partnership (SWAP) who the Council has used on numerous previous occasions.

As well as the short-term issues of delivery of the 2023/24 audit plan this current year, there is also a longer-term issue and impact of investigating and if advantageous, moving to a regional collaboration on audit services, subject to formal approval.

Short Term issue – impact on resources and delivery of the 2023/24 Audit Plan and action taken

Resources

4. In terms of resources, we are currently advertising for 2 Auditor, 2 Principal Auditor, and 1 Audit Manager roles, with deadlines for applications being mid-September. A longer period was allowed for responses to these adverts given the time of year we were advertising. In lieu of the resources lost from these vacancies, an additional 50 days of SWAP resources have been secured in addition to the 80 that was already assumed for the agreed audit plan. The Interim Chief Internal Auditor / Head of Finance should be able to update the committee verbally on the outcome of the recruitment process at the meeting.

With the decision to keep the Chief Internal Auditor role vacant, the existing Audit Manager at that time was able to cover their substantive workload (with reducing staff numbers) and the essential parts of the Chief Internal Auditor role. When this postholder also resigned, the HoF firstly enquired with neighbouring Councils and the Regional Service if they could provide 2-3 days per week of Audit Manager/Chief Internal Auditor cover in the short term, pending moving into the regional service or recruitment. No resources were available and therefore the SWAP service has also now been contracted to fulfil this role – for up to 2 days per week as needed. This is being fulfilled by one of their Assistant Directors and the Council has been fortunate that this is available given the importance of this role. As outlined above, the substantive Audit Manager role has also been advertised with deadline for applications for mid-September and the HoF will update the committee on progress here at the meeting.

Audit Plan Impact

5. Analysing the impact of the vacancies on the Audit plan is challenging as there are many variables involved, not least which opinion jobs will be prioritised, any unknown difficulties in completing these audits, success of our recruitment exercise, how quickly any new recruits settle into the function and Council and the amount of opinion jobs they might complete in the last quarter of the year, to name a few.

However, the acting Chief Internal Auditor / Manager completed a review, taking account of those opinion related audits already completed/substantially progressed prior to their departure at the end of August, those audits which SWAP will complete in their contracted 130 days and an estimate of which audits new recruits might complete. Completion of opinion related audits within the original Audit Plan (48 opinion audits) ranged from 24 to 34 based on not recruiting to full recruiting respectively. This assumes that the SWAP team and the one member of staff currently in post and any new recruits focus their time on 'opinion related' audits.

To put this into context, the table below shows the number of opinion related jobs completed in the last 6 years.

2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
40	48	32	29	35	38

6. The interim Chief Internal Auditor/Manager and the HoF will keep this under close review and will report progress against the plan to this Committee in the usual manner.

The HoF will review the position of bringing in more external resources when the results of the recruitment campaigns are known, our realistic capacity to manage / support more external resources, financial position and what further resources from SWAP could be available.

7. In addition to a reduced amount of opinion related audits completed, the impacts also include:
- Significant reduction on 'general advice' to services compared to previous years.
 - Little to no involvement in certain projects like the new finance system compared to the plan.
 - Reduced training carried out.
 - Reduced / no audits at individual schools.
 - No peer assessment of the service against the public sector internal audit standards in 2023; which is due.

Longer Term issues – Regional service

8. As the Committee is aware, the HoF is informally reviewing the opportunities of moving into a regional collaboration alongside Monmouthshire Council as part of the Councils strategic/transformational programme. At this point, it is purely investigatory, and no formal decision has been made; which would need to be taken by Cabinet/Council in due course.

Both Councils HoF are meeting with the sponsor Council on this in early September and we understand that the collaboration board are meeting at the end of September. We hope to get positive news and progress this as soon as possible.

9. On virtually all aspects, this provides positive opportunities for both the Council (resilience, expertise, learning from others, specialist services etc) and staff (progression, opportunities, development etc) and the key issue to understand is the cost/audit days within the regional services compared to existing arrangements.

Financial Summary (Capital and Revenue)

- The external resources from SWAP are being procured within the existing budget envelope for the Internal Audit function.

Risks

The progression of the Audit Plan is a key governance issue for the Council and that is why we have attempted; as inherently challenging that is, to forecast the likely range of the fulfilment of the plan based on likely worst and best case.

The risk to the delivery of the 2023/24 audit plan has been reviewed and escalated onto the Council's corporate risk register. This has been reported to Cabinet.

Risk Title / Description	Risk Impact score of Risk if it occurs* (H/M/L)	Risk Probability of risk occurring (H/M/L)	Risk Mitigation Action(s) What is the Council doing or what has it done to avoid the risk or reduce its effect?	Risk Owner Officer(s) responsible for dealing with the risk?
We are unable to recruit	H	M	Consider further SWAP resources to augment existing resources	HoF
External SWAP resources and/or new recruits are unable to progress audits as assumed due to internal issues within services being audited	H	M	Regular feedback with interim Chief Internal Auditor / Manager Feedback to CMT at earliest opportunity and Executive Board, as necessary	HoF

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

The Audit Plan and its fulfilment represents a key strand in the governance framework of the Council and also take as a lead and co-ordinating role in the assessment of the overall Council Governance framework.

The potential move into a regional collaboration will secure greater resilience in a small team whilst also developing its role and service.

Options Available and considered

N/A – the progression of the Audit Plan is a key priority and therefore the arrangements described in this report have already been made and are in progress.

Preferred Option and Why

N/A

Comments of Chief Financial Officer

There are no direct financial issues to consider at this stage. The report is an update on the resourcing position within the internal audit team. The temporary arrangements are being delivered within existing resources.

Comments of Monitoring Officer

There are no direct legal issues arising from this report. The issue of staff recruitment and retention is a matter for officers delegated to each Head of Service, for their service area. The ultimate responsibility for the organisation of the Council's staff lies with the Chief Executive under s54 of the Local Government and Elections (Wales) Act 2021.

Comments of Head of People, Policy and Transformation

As outlined in the report, any move to a regional service will require appropriate internal agreement and staff consultation. Existing Newport staff members will be subject to a TUPE transfer. HR are also supporting the current recruitment to roles as outlined in the report. If the move to the regional service does not take place, the Head of Finance and Interim Chief Internal Auditor should consider the longer term arrangements for the team ensuring a clear workforce plan is in place to support development, progressions and career pathways to avoid high one off turnover in the future.

The report provides an update on the challenge of maintaining the audit function and activity following attrition within the team, and assurances as to how this is being managed short term and medium term, considering financial challenges and well managed risk.

Scrutiny Committees

This has not been reported to Scrutiny to date but will feature in update reports on the Finance Service Plan mid year review in due course.

Fairness and Equality Impact Assessment:

- **Wellbeing of Future Generation (Wales) Act 2015**
- **Equality Act 2010**
- **Socio-economic Duty**
- **Welsh Language (Wales) Measure 2011**

Wellbeing of Future Generations (Wales) Act 2015

The role of Internal Audit supports the Council in complying with the principles of the Wellbeing Act and providing assurance on the activities undertaken across the Council. In compiling this report the principles of this Act have been considered:

Long Term - The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan that is aligned to the Council's Corporate Plan.

Prevention - Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.

Integration - Internal Audit opinions provide an objective opinion on the adequacy of the Council's corporate governance, internal control and risk management environment in operation and support sound stewardship of public money.

Collaboration - Internal Audit work in collaboration with operational managers to develop an appropriate action plan in order to address identified concerns.

Involvement - Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources. The involvement of the Governance & Audit Committee provides assurance and oversight of an effective internal audit provision to carry out its duties.

Consultation

No consultation required for this report and action taken to date. If the Councils were to move into the Regional Audit partnership, this will then entail consultation with staff in line with The Council's policy.

Background Papers

Corporate Risk Register Report

Previous Reports to GAC – Internal Audit Annual Plan 2023/24

Annual Governance Statement 22/23

Dated: