

DUNDEE CITY COUNCIL

REPORT TO: Personnel and Management Services Committee - 18 August 2003

REPORT ON: Finance Department - Internal Audit Service - Review of the Organisational Structure

REPORT BY: Depute Chief Executive (Finance)
Assistant Chief Executive (Management)

REPORT NO: 495-2003

1 PURPOSE OF REPORT

- 1.1 To seek to change the organisational structure of the Internal Audit Service in order to fulfil the increasing demands for professional services being placed upon the Section.

2 RECOMMENDATIONS

It is recommended that the Committee approves the following recommendations:-

- 2.1 the internal audit career grade be revised, as detailed in Appendix 2;
- 2.2 the establishment of 2 posts of Internal Auditor, graded AP1/PO6, £14,211 - £28,578.

3 FINANCIAL IMPLICATIONS

- 3.1 The effect of the proposals outlined in paragraph 2.1 above will result in a net cost to the Finance Department of £31,440 in a full financial year. This overall cost has been contained to reflect the additional revenue streams which will be derived from the provision of Internal Audit Services to the Tay Road Bridge Joint Board and the Tayside Valuation Joint Board.
- 3.2 The effect of the proposals outlined in paragraph 2.2 above will be contained within the Finance Department's Revenue Budget for the financial years 2004/05 and 2005/06.
- 3.3 As an interim measure and to provide a reasonable timeframe in which to develop and evaluate the Council's strategy for the delivery of Computer Audit Services, provision will be made within the Finance Department's Revenue Budget for 2004/05 and 2005/06 respectively. Thereafter, as a result of this evaluation exercise, the proposals for the longer-term provision of Computer Audit Services will be reported back to Committee for approval.

4 LOCAL AGENDA 21 IMPLICATIONS

- 4.1 The report seeks to ensure that the needs of the Clients of the Internal Audit Service are met more efficiently and effectively through a more appropriate structure and mechanisms for service delivery.

5 EQUAL OPPORTUNITIES IMPLICATIONS

- 5.1 None.

6 BACKGROUND

- 6.1 Under Section 95 of the Local Government (Scotland) Act 1973 there is a requirement for every local authority to make arrangements for the proper administration of their financial affairs and to ensure that the Proper Officer has responsibility for these affairs. The designated Proper Officer within Dundee City Council is the Director of Finance. The Internal Audit Service has a key role in assisting the Director of Finance discharge his Section 95 responsibilities.
- 6.2 Whilst there is no statutory basis for internal audit within Scotland, the Scottish Office Circular 5/85 states that effective internal audit cover is regarded as a matter of good practice. In addition, the Accounts Commission has stated on a number of occasions that it attaches great importance to internal audit and views that there should be a strong and effective internal audit function in each authority.
- 6.3 In recent years there has been increasing focus on Corporate Governance within the public sector which essentially is the system by which local authorities direct and control their functions and relate to their communities and underpins credibility and stakeholder confidence in public services. The key principles of good Corporate Governance are openness and inclusivity, integrity and accountability which are overarched by the concept of leadership and within the Corporate Governance framework importance is placed on having an effective internal audit function.
- 6.4 The 2002 CIPFA/LASAAC Code of Practice in Local Authority Accounting in the United Kingdom has introduced, with effect from the 2002/03 financial year, the requirement for a Statement on the System of Internal Financial Control (SSIFC) to be included within local authority financial statements. This Statement covers the framework within which financial control is managed and reviewed and the main components of the system, which include the arrangements for internal audit and should report on any significant weaknesses and the action taken to rectify these. In drafting this statement assurances will be gathered from a number of sources. One of the principal areas is the annual assurance statement prepared by the Chief Internal Auditor which provides an opinion on the control environment based on the work undertaken by internal audit during the financial year.

- 6.5 Each local authority has an appointed External Auditor whose remit is to undertake an independent appraisal of the discharge by management of its stewardship responsibilities. This is required in order that assurance can be given to the public that such responsibilities have been reasonably discharged. As part of their work, the External Auditor seeks to place reliance on the work done by Internal Audit and in particular the External Auditor requires to be satisfied with the adequacy of the Internal Audit Service in terms of quality of work, coverage, independence and effectiveness. If the External Auditor views that the level and coverage of work from Internal Audit is inadequate then this may result in additional work being undertaken by the External Auditor and a subsequent increase in the fees levied on the Council.
- 6.6 The background information provided in the paragraphs 6.1 to 6.5 demonstrates that the Internal Audit Service is a key function within Dundee City Council and is pivotal within the assurance process. In order to be able to deliver a quality service which is valued by Clients it is critical that it is adequately staffed not only in terms of the number of posts within the structure but also in terms of the skills, qualifications, experience and commitment of staff. The Internal Audit Service currently has 7 posts within its structure which are the Chief Internal Auditor, Senior Internal Auditor and 5 Internal Auditors. Appendix 3 details the current structure.
- 6.7 Within the Best Value Review of Staffing Levels (Report No. 98-2003) the Director of Finance stated that the Internal Audit Service was understaffed. This statement is corroborated by information gathered from various sources which provides evidence that the Internal Audit Service within Dundee City Council is significantly disadvantaged, when compared to other authorities, particularly in terms of staff numbers and computer audit expertise. Analysis of data from other Authorities regarding service expenditure and the number of internal audit posts demonstrate that on average other Councils across Scotland have 40% more posts within their Internal Audit Service. In addition, information technology is universally acknowledged as an area which is developing at an exponential rate and organisations have become increasingly reliant on computerised systems. Other Councils have recognised that a lack of computer audit skills impacts upon the robustness and depth of the reviews that can be undertaken in this area and have taken steps to address this for example by recruiting a dedicated Computer Auditor as a member of staff or appointing a consultant from the private sector to undertake specific reviews. It is also being proposed that the Internal Audit Strategic Plan, which currently covers a 5 year period, be reduced to a 4 year period in line with the Council's Corporate Plan. This in turn will also increase the pressures being placed on the Internal Audit Service.
- 6.8 Audit work covers a broad spectrum of topics, some of which require an in depth knowledge of accountancy principles and procedures. In order to deliver a quality service it is essential that the section has the correct balance of qualified and unqualified staff. Currently only the Chief Internal Auditor and Senior Internal Auditor are professionally qualified accountants and consequently they are required to assign a significant proportion of their time to the day to day audit assignments. This impacts upon the management resources available for the strategic management and development of the Internal Audit Service within Dundee City Council and detracts from ensuring that the Service is proactive rather than reactive.

- 6.9 The Director of Finance of Dundee City Council is the appointed Treasurer to the Tay Road Bridge Joint Board and the Tayside Valuation Joint Board. Although these Joint Boards are at arms length from Dundee City Council, the general principle followed for similar organisations across Scotland is that the lead authority, which for these Joint Boards is Dundee City Council, should provide the Internal Audit Service. To date the resourcing issue within Dundee City Council has been an impediment to providing this service and the External Auditor for each of these organisations has previously reported in their Management Letter on the lack or absence of internal audit work and the need to undertake an audit needs assessment. It is acknowledged that the absence or lack of an independent review mechanism, such as that provided by internal audit, also impacts on the level of assurance which can be given in terms of providing an opinion that the systems are well controlled and areas of risk are being addressed. Increasing emphasis will be placed on this because Joint Boards are also required to embrace the principles of Corporate Governance and Control Statements and take the appropriate steps to implement the requirements under these frameworks.
- 6.10 From the background information provided above it is evident that in terms of the provision of Internal Audit Services to Dundee City Council, Tay Road Bridge Joint Board and Tayside Valuation Joint Board there is a significant gap between the resources currently available and the resources required to provide a level of service which is deemed to be acceptable both in terms of quality and quantity. Although there is the option for the Joint Boards to provide internal audit services in-house, either in full or in part, past experience indicates that there is not the surplus capacity or skills within these organisations to exercise this option.
- 6.11 The overriding objective of the Chief Internal Auditor within Dundee City Council is to provide its Clients with a quality Internal Audit Service. Delivery of such a service requires to be underpinned by an adequately resourced Section which has an appropriate balance and mix in terms of the skills, experience and the ratio of qualified to unqualified staff. Given this the following action is deemed critical to meet the increasing demands being placed on the Internal Audit Service within Dundee City Council:
- The number of Internal Auditor posts within the Council's Internal Audit Section should be increased by 2 permanent full time equivalents and that these posts be at qualified Accountant or Institute of Internal Auditor level (refer Appendix 4).
 - With effect from the 2003/04 financial year Dundee City Council will provide Internal Audit Services to the Tay Road Bridge Joint Board and the Tayside Valuation Joint Board. The cost of such services will be recharged to the appropriate Board and the estimated additional income generated will be offset against the funding required for the new Internal Auditor posts.
 - Provision should be made in the Finance Department's 2004/05 and 2005/06 Revenue Budgets to procure of the order of 30 days per financial year from an external service provider for computer audit services to undertake specific reviews which require specialist technical expertise.

7 **CONSULTATION**

The Chief Executive, Director of Support Services, Director of Finance and the relevant Trade Unions have been consulted and are in agreement with the contents of this report.

8 BACKGROUND PAPERS

The following background papers have been used in preparing this report:

- Report No.216/2000, Career Grade Structure for Internal Auditors.
- Report No 98/2003, Best Value Review of Staffing Levels

David K. Dorward
Depute Chief Executive (Finance)

11 August 2003

J.C. Petrie
Assistant Chief Executive (Management)

11 August 2003

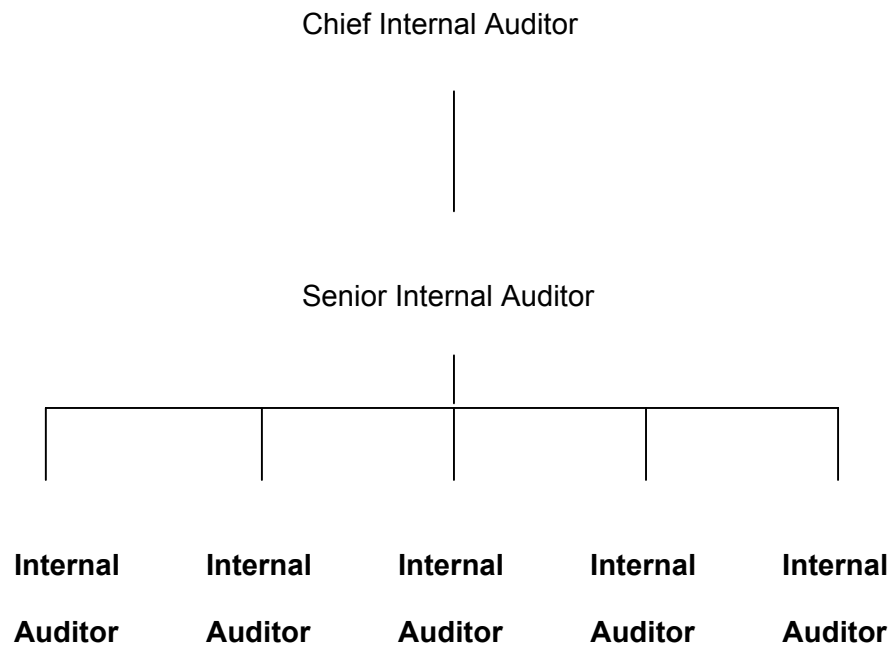
CURRENT CAREER GRADE STRUCTURE FOR INTERNAL AUDITORS (extract from Report No. 216/2000)

DESIGNATION	GRADE	SCP	QUALIFICATION/EXPERIENCE REQUIREMENT
Internal Auditor	GS3/AP1	13-18 (bar at 18)	Studying Practitioner Level (IIA)/Studying Foundation Level (AAT)/ Degree/HND/HNC OR 2 years experience (financial and/or audit)
Internal Auditor	AP2	19-22 (bar at 22)	Studying Practitioner Level (IIA)/Studying Intermediate Stage (AAT) OR 4 years experience (including a minimum of 2 years audit)
Internal Auditor	AP3	23-26 (bar at 26)	Studying Professional Level (IIA)/ Studying Technician Stage (AAT) OR 6 years audit experience
Internal Auditor	AP4/AP5	27-34	Admitted to IIA/Admitted to AAT

PROPOSED CAREER GRADE STRUCTURE FOR INTERNAL AUDITOR POSTS

Spinal Column Point (SCP)	Grade	QUALIFICATION/EXPERIENCE REQUIREMENT			
		Qualification			Experience
		CCAB Qualified Accountant	Institute of Internal Auditors (IIA)	Association of Accounting Technicians (AAT)	
15	AP1	N/A	Studying Practitioner Level (Bar at SCP22)	Studying Foundation Level (Bar at SCP18)	2 years experience financial and/or audit related (Bar at SCP18)
16					
17				Studying Intermediate Stage (Bar at SCP22)	4 years experience which includes a minimum of 2 years in audit (Bar at SCP22)
18					
19	AP2	N/A	Studying Professional Level (Bar at SCP26)	Studying Professional Level (Bar at SCP26)	6 years audit experience (Bar at SCP30)
20					
21					
22					
23	AP3	N/A	Admitted to IIA (Bar at SCP40)	Admitted to AAT (Bar at SCP34)	N/A
24					
25					
26					
27	AP4	N/A	Admitted to IIA (Bar at SCP40)	Admitted to AAT (Bar at SCP34)	N/A
28					
29					
30					
31	AP5	N/A	Admitted to IIA (Bar at SCP40)	Admitted to AAT (Bar at SCP34)	N/A
32					
33					
34					
35	PO1 –PO6	Qualified Accountant (Bar at SCP40)	Admitted to IIA (Bar at SCP40)	N/A	N/A
36					
37					
38					
39					
40					

Note: Progression up to maximum spinal column point within this career grade structure subject to satisfactory performance of internal audit work.

DUNDEE CITY COUNCIL'S INTERNAL AUDIT SERVICE**ORGANISATIONAL CHART – Current Structure**

DUNDEE CITY COUNCIL'S INTERNAL AUDIT SERVICE**ORGANISATIONAL CHART – Proposed Structure**