

MEETING:	HEREFORDSHIRE SCHOOLS FORUM
DATE:	31 JANUARY 2011
TITLE OF REPORT:	FUTURE PROVISION OF INTERNAL AUDIT SERVICES
OFFICER:	CHIEF INTERNAL AUDITOR

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To inform the Herefordshire Schools Forum on the future provision of internal audit services.

Key Decision

This is not a Key Decision.

Recommendation

THAT the proposed approach for future internal audit services be noted.

Key Points Summary

- The Council, NHS Herefordshire and Hereford Hospital Trust have agreed an approach to Shared Services.
- The internal audit function will form part of Shared Services.
- It is appropriate that the number of audit days provided is reduced in line with the comments made in the recent review of internal audit.
- A market testing of internal audit services is to be carried out; this is with the view that a new provider will be in place from April 2011.
- The Council will be the lead partner with regards to the framework covering audit and related services, public sector establishments will be free to use any of the four providers at their own expense.

Alternative Options

- 1 There are none given the reason for pursuing market testing of services.

Further information on the subject of this report is available from
Tony Ford – Chief Internal Auditor on (01432) 260425

Reasons for Recommendations

- 2 To ensure that the Herefordshire Schools Forum is made aware of the Council's approach regarding the future provision of internal audit services.

Introduction and Background

- 3 Cabinet received a report on 21 October 2010 on Shared Services. In this report it was agreed that the Council enters into formal Shared Services arrangements with its partners, NHS Herefordshire (NHSH) and Hereford Hospitals Trust (HHT), adopting a "multi-source" approach that enables different "fit for purpose" models to be used to deliver shared services for each service or group of services.
- 4 The report confirmed that the Shared Services programme is now moving from a planning phase to the implementation phase.
- 5 A number of key influences on public services underpin the Shared Services work and these include the need to secure greater efficiencies and provide value for money particularly at a time when the Comprehensive Spending review (CSR10), announced on 20 October, has reduced the level of funding available to the public sector.

Key Considerations

6. The changing environment affecting the provision of services is reflected by the implementation of Shared Services. The Council, NHSH and HHT have agreed to share services to deliver better outcomes for Herefordshire through the delivery of efficiencies.
7. The process agreed by the three partners acknowledges that services such as audit may be best suited to a Lead Commissioner/Provider model as one partner could provide and commission services on behalf of all partners.
8. The report of the Review of Internal Audit to Audit and Governance Committee on 17 September informed committee that the Council's audit function was mostly compliant and that a mixed economy approach to the provision of future joint audit appeared to be the best option.
9. It also challenged the Council to consider altering the balance of audit coverage. The shift would enable more time for "adding value". This conclusion was supported by the use of benchmarking information that suggested that the number of days for fundamental systems review work was above the unitary average for such work. In addition the level of audit provided to schools was three times the unitary average.
10. A combination of, the agreement to pursue Shared Services, and elements of the review of internal audit, mean that it is appropriate that internal audit services across the Herefordshire Public Services is a joint provision. For the Council this also enables a reassessment of the role that internal audit should play in the future at a time when reduced public sector funding means the current number of audit days needs to reduce.
11. As a result it is appropriate that the provision of internal audit services is market tested. This approach will see a tendering exercise commence with a view to an external supplier providing internal audit services from 1 April 2011.
12. The Audit Commission requires the Council to review the following audit work in relation to bank account schools:-

- i. Quarterly school reports received by Financial Services.
 - ii. Quarterly journal agrees to school data.
 - iii. Journal postings agreed to Agresso.
 - iv. Quarterly reconciliation of bank account.
 - v. Control account reconciliation.
13. The work covering the above requirements will be carried out by the external provider of internal audit engaged by the Council.
14. The Official Journal Contract Notice for the provision of internal audit and counter fraud services to Herefordshire Council, Herefordshire Primary Care Trust and Herefordshire Hospitals NHS Trust has been published. It is also intended that the framework contract may be utilised by other public sector organisations in Herefordshire including education establishments
15. It is also intend that the framework will have four providers, which will give potential users a choice of provider.

Community Impact

16. None.

Financial Implications

17. None.

Legal Implications

18. The requirement for an internal audit function is either explicit or implied in the relevant local government legislation which requires that authorities “make arrangements for the proper administration of their financial affairs”. More specific requirements are detailed in the Accounts and Audit Regulations 2003 as amended, in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control”.

Risk Management

19. Any change to the provision of internal audit will need to be managed in such a way that the level of risk is minimised.
20. The selection process covering any potential supplier will need to be robust to ensure the appropriate skills are available.

Consultees

21. Staff, Trade Unions and schools

Appendices

None.

Background Papers

None identified.