

PART 1 - PUBLIC

Decision Maker: **Audit Sub Committee**

Date: **23rd March 2010**

Decision Type: Non-Urgent Non-Executive Non-Key

Title: **INTERNAL AUDIT AND VALUE FOR MONEY REPORTING**

Contact Officer: Mark Gibson, Assistant Director Resources (Audit and Technical)
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Chief Officer: Paul Dale, Director of Resources and Deputy Chief Executive

Ward: All

1. Reason for report

This report was requested by the Chairman of Audit Sub Committee and looks to inform Members on the types of Value for Money reviews and to consider how any future or existing internal audit work can be used to inform value for money issues that may assist in the overall efficiency agenda.

2. **RECOMMENDATION(S)**

- (a) **Members are asked to note the report and suggest how any output from internal audits could be used for future value for money and efficiency issues**
- (b) **Members to receive an update on any internal audit value for money initiatives undertaken in 2010-11**

Corporate Policy

1. Policy Status: Existing policy.
 2. BBB Priority: Excellent Council.
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Financial

1. Cost of proposal: N/A
 2. Ongoing costs: Recurring cost.
 3. Budget head/performance centre: Internal Audit
 4. Total current budget for this head: £603,000 excluding the benefit fraud partnership costs.
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): 12 FTE
 2. If from existing staff resources, number of staff hours: 380 days per quarter
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Legal

1. Legal Requirement: Statutory requirement. Accounts and Audit Regs 2006
 2. Call-in: Call-in is not applicable.
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Customer Impact

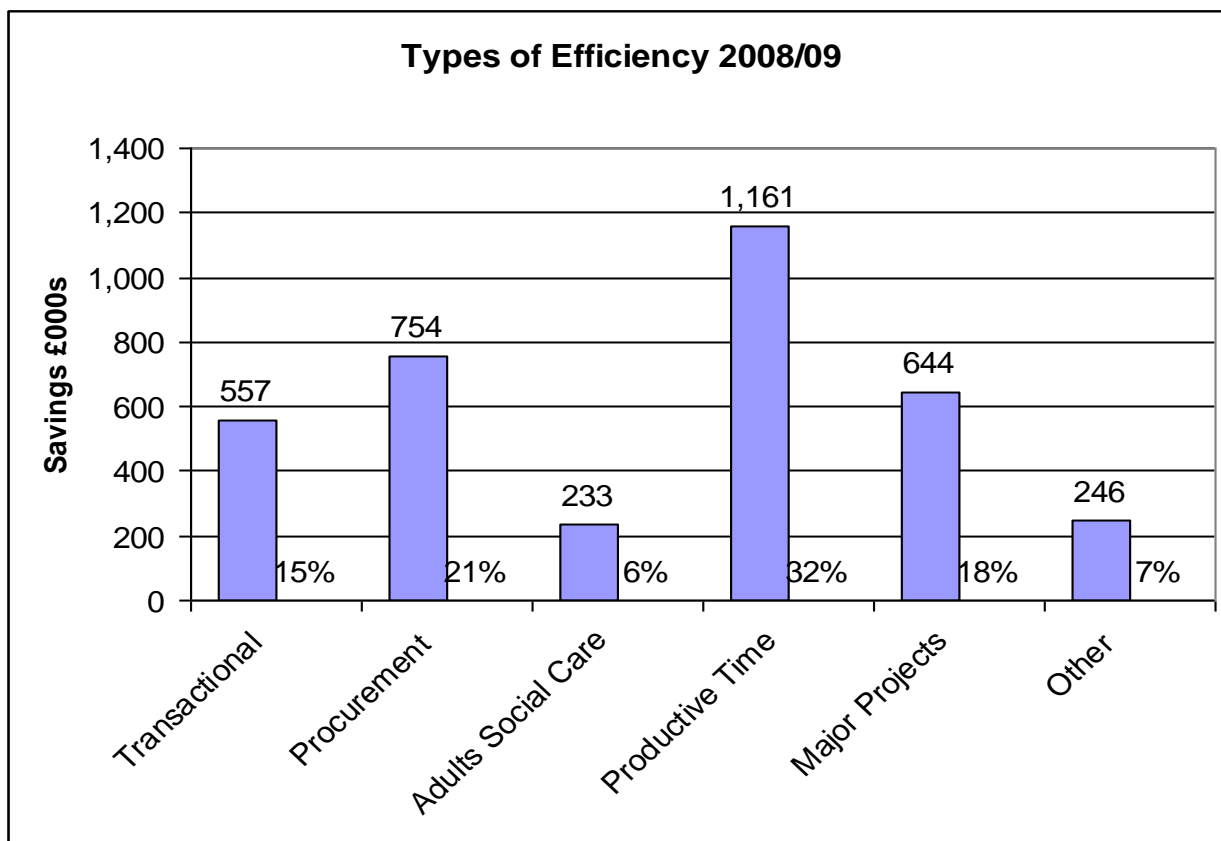
1. Estimated number of users/beneficiaries (current and projected): 180 including Chief Officers, Head Teachers/Governors
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.
2. Summary of Ward Councillors comments: None

3. COMMENTARY

- 3.1 With an increased scrutiny over Council budgets and associated service provision there is a constant need to look for improvements, different ways of working and benchmarking to ensure that services are being provided to the required standards at the best value to the Council tax payers and residents of Bromley. The Chairman of Audit Sub has asked the Chief Internal Auditor to prepare this brief paper to highlight some of the issues and approaches. The types of efficiencies previously reported to Improvement and Efficiency Sub Committee last year are highlighted below.



- The chart (above) summarises the ways in which efficiencies have been found, and shows that approximately half have been derived from two areas; productive time (£1.16M), of which almost £900K relates to savings in staff from performance centres in all departments through restructurings and deletion of posts, and the major projects at £644K. Procurement at £754K, mainly relates to savings gained through introducing contractual improvements e.g. use of framework agreements, negotiations with contractors to reduce costs, savings through revised commissioning arrangements, etc. This type of saving

- 3.2 The professional CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom places a responsibility on internal auditors to "...be alert to the possibility of ...poor value for money..." (para 9.2.1 (d)). As such Value for money (VFM) is an integral part of every piece of audit work. Internal audit is well placed through its independence, professional expertise and right of access to every part of the organisation and all aspects of its operation to recognise and promote VFM. The role of internal audit in relation to VFM is twofold:

- As a fundamental part of the audit review, the systems and controls established by management to secure VFM will be examined and evaluated.
- Auditors may initiate, conduct or participate in special VFM reviews.

- 3.3 The people involved in any study should, between them, have a basic range of skills, including an understanding of VFM study methodology and project management, and knowledge of the subject. They may be internal staff or external experts. Internal auditors

also often have the knowledge, skills and experience to contribute to such work. Routine internal audit work should always keep in mind the arrangements for VFM. Any issues identified can be reported as part of that routine work. With this in mind the reporting of any value for money issues can be built into certain audits by asking key questions of the auditee and seeking assurance that these are being addressed.

3.4 VFM can be achieved in a number of ways, for example:

- through benchmarking an activity against similar activities in other organisations
- by using performance indicators
- through conducting VFM studies (possibly in conjunction with other institutions)
- by seeking out and then adopting recognised good practice where this can be adapted to the institution's circumstances
- through internal audit work. Although internal audit has a primary responsibility for assessing the internal control system, the auditor is frequently well placed to assess and comment on VFM in the areas reviewed. This should be reported in individual audit reports and in the internal audit annual report
- through retaining both documents that show how an activity has been planned to build in VFM, and evidence of the good practices adopted
- by examining the results or outcomes of an activity.

3.5 In achieving, and seeking to achieve, VFM, there are many objectives for organisational behaviour and activity to be taken into account. These include:

- the culture of the organisation, for example, continually striving to do more at the appropriate quality for less money
- adopting good practice
- clearly defining the organisation's aims, strategies and policies
- providing an organisational structure which promotes accountability, through placing power at the point where responsibility is required to be taken, together with appropriate control and oversight exercised at a higher level
- being committed to effective communication and staff development so that the culture and aims of the organisation permeate to, and are identifiable at, all levels within the organisational structure
- providing an appropriate infrastructure in systems, resources and training.

3.6 Put simply most VFM work is still concerned mainly with economy, i.e. savings in resources. This tends to be the easiest area to tackle. In general reviews tend to be either input-based or output-based or a combination of the two depending on whether the review is concentrating on, respectively, economy, effectiveness or efficiency.

Input-based review

This involves a review of the inputs relating to a particular activity and is largely comprised of statistical analysis and comparisons including the use of performance measures to evaluate economy and efficiency.

Output-based review

This looks at what the function actually produces as an output. A review of policy objectives, the activities required to achieve the objectives and the use of output or performance indicators to measure the effectiveness of the policies.

- 3.7 An input-based review is concerned with the questions 'can cost be reduced for the same output?' and 'can greater output be achieved for the same cost?' Whereas an output-based review relates to performance in achieving policy goals and objectives and to a large extent the ability to do this depends upon the clarity with which these objectives are stated. In all cases, where the service being provided is non statutory, the question of whether we need to do it at all should be asked.

Issues for consideration

- 3.8 The Chief Internal Auditor has consulted with other London Boroughs' Internal Audit sections who have demonstrated a mixture of methods for dealing with the issue of value for money and compliance with the code requirements.
- 3.9 One authority had undertaken a value for money study on car mileage rates (comparing the national rates paid with other authorities and the HMRC rates) and an energy efficiency review. Another Authority has introduced a standard vfm section for the majority of their audits the template risk / control matrix is under active consideration.
- 3.10 However, the bulk of authorities contacted explained that the main value for money remit took place in other parts of their Councils apart from the Internal Audit sections and most did not have the resources to undertake comprehensive vfm reviews. This is essentially where the Bromley internal audit section currently finds itself, however the Chief Internal Auditor maintains that the alertness to vfm required by auditors often manifest itself in the high priority findings and recommendations uncovered in normal audit work. Examples include data matching exercises where large savings have been identified in the past and reviews of effectiveness of particular sections that have led to better working practices and accountability for example the previous contract monitoring and letting arrangements within ACS. (previous attempts to mainstream value for money auditing by monitoring compliance benchmarking required within individual service reviews through the business planning cycle have had limited success.) The lessons learnt from these internal audit initiatives need to be factored in when considering any new approach.
- 3.11 The internal audit plan for 2010-11 has been built up on the basis that a certain amount of days has been unallocated to test out an approach to value for money. No decision has been taken at this stage as to whether the time is best spent reviewing existing arrangements for achievement of value for money within each auditable area or discrete vfm exercises using comparative data and breaking down the unit costs of current service provision. These types of audit would focus on the input type of review. A number of internal auditors have received some basic training on expectations of a value for money review and it would be useful to put this into practice as well as considering whether any more selective training would be required.

- 3.12 The issue of reviewing policy inherent in an output based review is not considered suitable given the current internal structure and skill set.

Non-Applicable Sections:	POLICY IMPLICATIONS FINANCIAL IMPLICATIONS, LEGAL IMPLICATIONS PERSONNEL IMPLICATIONS
Background Documents: (Access via Contact Officer)	CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom

