

PART 1 - PUBLIC

Decision Maker: **Audit Sub Committee**

Date: **June 10th 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 is a follow up report and seeks to update Members of the Audit Sub Committee on approach that could be adopted for Internal Audit Value for Money assessments following the report submitted to the last Committee meeting.

2. **RECOMMENDATION(S)**

- (a) **Members are asked to note the report and comment on the vfm approach suggested as to how the output from internal audits could be used in the future incorporating a ranked assessment.**

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: £587,520 excluding the benefit fraud partnership costs.
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): 10 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 As a result of 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 to provide best value to the Council tax payers and residents of Bromley.
- 3.2 The 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. Even though this is enshrined there was a desire expressed at the last Audit Sub meeting for a methodology to be adopted that could be used by auditors to assess and report on the vfm arrangements and in particular commenting on benchmark data that was available.
- 3.3 As previously reported 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. 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.
- 3.4 In light of the above and at the last meeting it was acknowledged that the resource involved in routine internal audit work should always keep in mind the arrangements for VFM. Any issues identified can still be reported as part of that routine work but the methodology envisaged would be an additional strand of work. As part of the research the Chief Internal Auditor has contacted the National Audit Office and obtained a very detailed methodology for undertaking vfm studies. Having reviewed these documents he has concluded that given the current resources within Internal Audit it would not be possible to undertake a programme of such detailed reviews. He is also conscious that previous attempts to include a generic matrix covering some vfm issues had proved unsuccessful in delivering any substantial and meaningful outputs.
- 3.5 In discussion with other local authorities it has transpired that not much progress had been made by individual audit sections. Most responded that they were not sufficiently resourced or skilled to undertake this type of work. A number of authorities pointed out that there were other units within their organisations who undertook vfm reviews. Also a number of authorities pointed to the use of resources assessment undertaken by the External Auditor who scores the vfm element as part of an Authority's performance.
- 3.6 In order to take this matter forward a number of suggested approaches have been considered and the Internal Audit Section is now in a position to draw up a matrix of reviewing vfm risks and controls. To inform the work auditors will need to be clear about their objectives. It is a management responsibility to ensure vfm is being delivered and the audits will be looking at the arrangements in place, assessing these and making recommendations for improvement where applicable.

- 3.7 The reviews will have standard elements looking at for example benchmarking, customer/client surveys, complaints, training, performance improvement and external assessments. Typical questions will be.
- Does the service or department have key financial and operational targets, and if so, what are they?
 - How is non-salary expenditure decided on and monitored? How are goods and services procured?
 - What are the key performance indicators (KPIs) by which the performance of the service or department is assessed? Are comparisons made with other bodies or sector norms?
 - Are the KPIs focussed on service delivery?
 - Has use of KPIs been owned by relevant staff?
 - Is the necessary information available and is performance monitored by managers?
 - Is performance reported to the relevant committee/management tier?
 - Is action taken to address issues highlighted?
 - Is there a mechanism for obtaining feedback from users and is action taken in response to user requests?
- 3.8 One source of information will be existing benchmarking that has taken place and the vfm profiles that already exist from the Audit Commission comparators. Internally the auditors can also review the improvement and efficiency plans and assess to what extent there has been a benchmarking exercise and seek to report back on the findings. It will also be important to work closely with the corporate improvement team to avoid any duplication of effort.
- 3.9 Each element of the control matrix can be ranked on a scale of 1-4 depending on the degree to which the service is complying with the necessary arrangements. This in turn will lead to a conclusion for each part as to whether the control or feature is in place and meets the requirements of best practice. e.g. not met, partially met, substantially met or fully met. These measures are akin to the current audit opinions. Further work will be required to define what constitutes these measures. With the focus for the Internal Audit on the benchmarking arrangements the suggested approach would concentrate on the ability of the services to demonstrate its value initially and simply by comparing performance with peers. However, because of the nature of benchmarking and the well rehearsed pitfalls of looking solely at the numbers, explanations would be expected where there were apparent discrepancies.
- 3.10 The internal audit plan for 2010-11 has been built up on the basis that a certain amount of days have been unallocated to test out an approach to value for money. The issue of reviewing policy inherent in an output based review is not considered suitable given the current internal structure and skill set.

4. FINANCIAL IMPLICATIONS

4.1 The additional work involved in undertaking the assessments will be contained within the existing Audit budget.

Non-Applicable Sections:	POLICY 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