

WEST DUNBARTONSHIRE COUNCIL

Report by Chief Executive

Corporate & Efficient Governance Committee : 29 October 2008

Subject: Internal Audit Strategy for the Recruitment and Retention of Employees

1. Purpose

- 1.1** The purpose of this report is to advise the Committee of the proposals to address staffing issues currently being faced by Internal Audit and also to set out a strategy for recruitment and retention in the future.

2. Background

- 2.1** The Manager of Audit reported to the Audit & Performance Review Committee on 20 September 2008 that difficulty in recruiting qualified Auditors was resulting in slippage from the Audit Plan. Although the Section was concentrating on the core work required to provide assurances in relation to the Statement of Internal Financial Control, no performance audit work was being undertaken. Members requested that a report be brought to this Committee outlining a proposal to deal with the current recruitment difficulties.
- 2.2** There are significant staffing challenges facing Internal Audit in all types of organisations as highlighted in the PricewaterhouseCooper's 2007 study "State of the internal audit profession" in which 84% of respondents rated the ability to recruit necessary talent as a medium to high risk.
- 2.3** The Internal Audit Section in West Dunbartonshire Council was fortunate that for many years there was very little staff turnover, however in the last two years we have had cause to advertise for a variety of posts including Section Head, and various qualified Auditor positions. In all cases we have experienced difficulty in attracting a strong field of candidates. Most recently an advert placed in the press for one permanent and one temporary qualified Auditor at PO2-5 resulted in one application for the permanent post only; the sole candidate subsequently withdrew his application prior to interview. This situation, coupled with the secondment of two members of the team to other projects, has meant engaging temporary or agency staff with the obvious problems of added costs and lack of continuity.

3. Main Issues

- 3.1** Internal Audit in this and most other local authorities has traditionally been staffed with CCAB (Consultative Committee of Accountancy Bodies) qualified accountants and the staffing structure in West Dunbartonshire's Audit Section continues to reflect this. The current structure is shown at Appendix A. Audit Assistants who are not CCAB qualified are graded AP4/5 and cannot progress to the Internal Auditor grade without being a CCAB qualified accountant. There are some exceptions made for specialist positions such as the Investigations Officer, but general auditors must be CCAB qualified to progress.
- 3.2** Internal Auditors have traditionally been qualified accountants due to their role of ensuring effective stewardship of funds, however as that role has evolved from Transaction Auditing, through Systems Auditing to Risk Based Auditing, so too has the requirement for new skills and qualifications. The modern role of Internal Audit is as an assurance function; providing assurances to Those Charged with Governance that the Council has in place a sound system of internal control that ensures its objectives can be met. Councils need to adapt to these changing roles and responsibilities in terms of staffing structures. At the moment this Council produces only a Statement of Internal Financial Control but the External Auditors, KPMG have recommended that consideration is given to moving to a Governance Statement. Providing assurances relating to a Governance Statement will require an enhanced skill set within Internal Audit.
- 3.3** As well as continuing to have a core staff which is CCAB qualified, there is a need to have people who have specialist skills in relation to risk, control and performance and it may be time to consider training or employing members of the Institute of Internal Auditors (The IIA).
- 3.4** The IIA has been leading the profession of internal auditing for over 60 years. It is the only professional body focussed exclusively on internal Auditing and has a global membership.
- 3.5** It may be appropriate to offer professional IIA training to the Audit Assistants we currently have in post to ensure the section has the appropriate skills mix for a modern Internal Audit Section. There are two Audit Assistants within the Internal Audit establishment but one is currently on secondment.
- 3.6** Currently auditors work very much in specialist areas, Computer Audit, Systems Audit etc. and there is little scope for transfer of skills. In the longer term staff rotation could be considered to ensure there is an available pool of talent within the organisation leaving us less vulnerable when an employee leaves. This would have the added benefit of developing employees and keeping their skills fresh. The PwC study referred to at 2.1 points out that leading companies are using staff rotation as the prevalent staffing model for their Internal Audit function. 80% of

leading companies surveyed are reported to have some form of rotational staffing in place.

4. Personnel Issues

- 4.1** Employees currently employed as Audit Assistants could be offered IIA training and, on qualification, recognised as the equivalent of CCAB qualified auditors.

5. Financial Implications

- 5.1** The cost of IIA training would be in the region of £2,000 per employee per year for a three year period. On successful completion of the course there would be a salary uplift to bring the Audit Assistant in line with qualified auditors. This would increase costs by approximately £3,000 per annum once the top of the scale was reached.
- 5.2** Any other costs associated with staff rotation etc would be met from within the current budget.

6. Risk Analysis

- 6.1** There is a risk that staffing shortages will result in the failure to deliver the Internal Audit Plan and an inability to provide assurances over the Council's system of internal financial control to those charged with governance and, in the future, the Council's ability to move towards producing a Governance Statement .

7. Conclusion

- 7.1** There is a need to address staffing challenges which are widely recognised within the Internal Audit profession.

8. Recommendations

- 8.1** The Committee is invited to:-
- (a) Agree to recognising membership of the Institute of Internal Auditors as equivalent to CCAB qualification for Internal Audit posts;
 - (b) Agree to introduce IIA training for Audit Assistants;
 - (c) Agree that all future vacancies in the Internal Audit Section should be open to CCAB and IIA qualified candidates; and

- (d) Consider a pilot scheme of rotation of staff when an appropriate vacancy arises.

David McMillan
Chief Executive
Date: 13 October 2008

Wards Affected: All wards

Appendix: Internal Audit Structure Chart

Background Papers: None

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