

# Auditing Post Austerity A Changing Focus?

How influences from austerity, including shifting risk appetites and increasing stakeholder expectations of assurances given have challenged and refocused internal audit

# LGSS Head of Audit

- Cambridgeshire and Norwich
- Across Clients:
  - Risk Management Lead
  - Contract Audit (Contract Management & Open Book Reviews)

# National Picture

- Further deep reductions in UK public spending seems likely – even though the current executive is promising otherwise!
- Continuing cuts to the public sector must mean a continued reduction in control and a (forced) increase in Risk Appetite?
- Zero tolerance on public sector failings by stakeholders – clients needs and expectations don't change
- Blame culture rather than working together, e.g. every politician seems to blame the delivery rather than the policy.
- And Brexit thrown in just for the sheer fun – who knows where that will lead us all, better or worse? Even the current (I think) PM only decided what was his view of 'best outcome' at 11:55PM the evening before the Referendum.

# Perceived Failings

Just a few

- Banking and investment industry, time and time again
- Data loss issues
- Safeguarding issues – think laterally, would IA know about the recent over-dependency on prescription drugs(1 in 4??)
- Project overspends/overruns - national and local
- Prison services
- Seaborne Freight - awarded a £13.8m cross channel ferry contract despite never having run a channel service and having no ships

And, of course

- Carillion
- Northamptonshire County Council

# Carillion

## What MPs said about the collapse of Carillion and its Board

- “Even as the company very publicly began to unravel, **the board was concerned with increasing and protecting generous executive bonuses.**”
- The Finance director “was the architect of Carillion’s aggressive accounting policies and **resolutely refused to make adequate contributions to the company’s pension schemes**, which he considered a “waste of money”.
- “We have **no confidence in our regulators.**”
- “**Honouring pension obligations over decades to come was of little interest to a myopic board** who thought of little beyond their next market statement.”
- “Carillion relied on its suppliers to provide materials, services and support across its contracts, **but treated them with contempt.**”
- “The board was either **negligently ignorant of the rotten culture** at Carillion or complicit in it.”
- The FD’s sale of £776,000 shares “were the actions of a man who knew exactly where the company was heading once it was no longer propped up by **his accounting tricks**”.
- “Carillion could happen again, and soon.”

# Best Value Inspection, January - March 2018, Max Caller CBE

Northamptonshire County Council (NCC) has failed to provide best value in the delivery of its services & the road to failure has a simple cause

- **NCC lost tight budgetary control** and appeared to abandon strong and effective budget setting scrutiny.
- Instead of taking steps to regain control, the Council was persuaded to adopt a 'Next Generation' model structure as the solution. There was not then and has **never been any hard edged business plan or justification to support these proposals**
- When the use of capital receipts to fund transformation was introduced by central government, this **was seized on as a way of supporting revenue spend** by classing some expenditure as transformative.
- Appropriate advice in setting and managing budgets and **the necessary control mechanisms** to ensure that the Council complied with the law and good practice **are only just now being introduced.**
- The Council still appears to **struggle to take the necessary decisions** at both member and officer level to control and restrain expenditure to remain within budget constraints.

**NCC employs many good, hardworking, dedicated staff who are trying to deliver essential services to residents who need and value what is offered and available. The problems the council faces are not their fault.**

**In Local Government there is no substitute for doing boring really well. Only when you have a solid foundation can you innovate.**

# So, What is the point of IA?

- Where were the Internal Auditors?
  - Ticking & Checking?
  - Keeping silent?
  - Feeling intimidated and nervous about their own careers?
  - Ducking the responsibility (I think is) on IA and simply reminding everyone that “Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly”.
- Well the last bullet is true – **but not really good enough.**
- To be relevant surely IA (and indeed other key officers, including Finance) must raise concerns in an appropriate way – independent and fearless and very thick skinned.

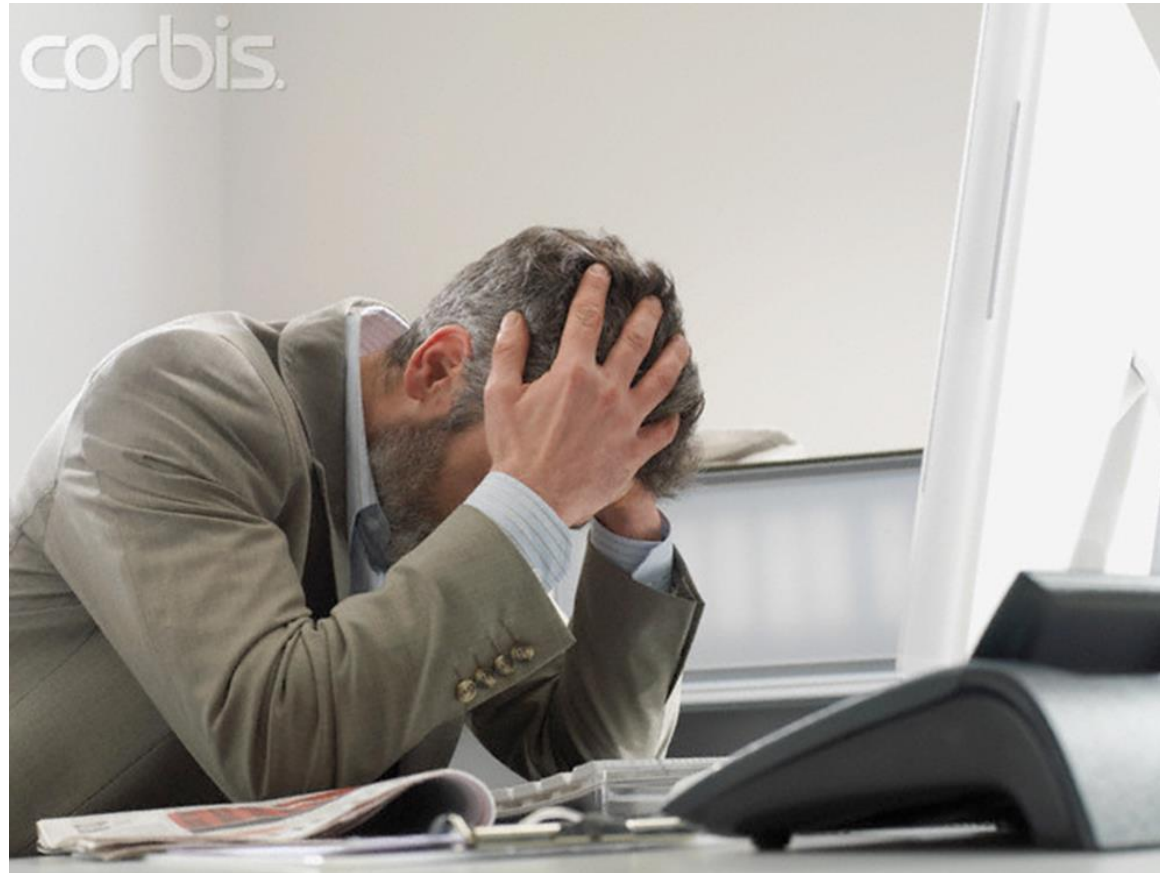
# Audit Evolution

- Modern Internal Audit needs to:
  - Give reliable assurance
  - Speak truth to power
  - Give, evidence based, confidence to all stakeholders
  - Offer pragmatic & timely solutions
  - Be fully supportive of the organisation whilst retaining the ability to be fearlessly independent and objective
  - Be experts in understanding *risk* versus *cost of control*
  - Grasp and espouse the concept of proportionality
  - Maintain positive & professional relationships

**Internal Audit must be.....*BEST IN CLASS!***



# Local Picture



# Challenges for Internal Audit (1)

- The public services environment is rapidly changing, to give a useful assurance to the many stakeholders – Internal Audit must evolve with it.
- Head of Audit cannot possibly give an evidence based annual opinion on the entire control environment based on traditional audit plan and IA work.
- Need to place reliance upon other assurances but verify where appropriate.
- Does the Audit Plan give assurances on areas such as safeguarding, sustainability, partnerships, commercialisation and transformation initiatives. Has the team got skills in business change (BPR), proactive Counter-Fraud, procurement/contact audit such as open book reviews etc..
- Can we be the pro active experts in risk and control that the public sector and its stakeholders need? Risk must be understood – audit must give an annual assurance on the mechanism and effectiveness?
- Dare we throw away the green pens and pop our heads over the parapet?

# Challenges for Internal Audit (2)

- There are no easy jobs – all require an excellent level of diligence, application and review.
- Constantly changing skills mix – need to keep up to date
- Each of us has to take personal responsibility for CPD and aspire to be the best we can
- Need to ensure that all staff got the skills/knowledge and experience to complete work that allows the Head of IA to give evidence based assurances and understand VFM, risk and the cost of control in all aspects of work
- Audit naivety now will not and should not be tolerated by increasingly busy clients – we add value or we cease to be relevant
- **Efficiencies affect Internal Audit as well – must become smarter, budgets for are very tight, and who loves audit!!**

# Direction of Travel –or VISION

- Engage with S151 officers, Directors and key stakeholders
- Develop a shared Audit Plan (with stakeholders)
- Align the Plan to Risk
- Offer every possible audit service, not just assurance
- Modern Structure, Qualified or IIA/CCAB/AAT trainees
- Possess a high level of required skills/competencies – buy in skills if needed
- Positive culture, e.g. hard work, role, adding value, CPD. Can do attitude!
- Team culture to be challenging, safe & supportive
- Responsive and flexible
- Right first time, every time and to targets
- Engage with like minded teams and increase national profile and influence

# Questions to ask yourselves

- What's the point of being here if you don't help reduce organisational risk (not just the same old financial stuff)?
- Do you want to be seen as just another overhead, totally unaware of the real world and certainly not part of the solution?
- Do you want to enjoy little respect nor have any credibility from increasingly pressurised and 'stressed' colleagues?
- Are the recommendations you are making proportionate and reasonable?
- Do you hope to go home on Friday night wondering how you added value to the organisation?

# The immediate IA future?

