



## Committee report

Committee	<b>AUDIT COMMITTEE</b>
Date	<b>3 DECEMBER 2015</b>
Title	<b>INTERNAL AUDIT PERFORMANCE REPORT</b>
Report of/to	<b>BUSINESS IMPROVEMENT MANAGER</b>

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### EXECUTIVE SUMMARY

1. This report introduces the performance report from the council's internal audit provider. It provides executive summaries of their work and key performance indicators for members to note. This report also updates the committee on the outcome of the Pihl case.

### BACKGROUND

2. This report is about the latest outcomes of the reviews undertaken by the council's internal auditors. The report at Appendix A provides executive summaries of the reports issued since the committee last considered internal audit's work. There have been five reports issued, three of which have been rated as 'medium' risk and two as 'low'.

### OUTCOME OF COURT PROCEEDINGS IN RELATION TO PIHL UK

3. The committee has been kept informed of progress throughout of the proceedings taken by the council in seeking to resolve the outstanding issues with Pihl, the contractor engaged to build the Cowes Enterprise College. The council has been attempting to recover the amount it had paid to Pihl in November 2013 which it believed to be in error. After a protracted court case in Scotland, the proceedings have reached a conclusion and a settlement on 7 October 2015. Originally, the council had paid Pihl £517,878. In April this year, as part of its initial findings the court ordered that some of that payment should indeed have been made for an outstanding, unpaid invoice. That amounted to £152,574.84 (which included VAT of £25,429.14 which was recoverable from HMRC). Subsequently, as part of the settlement made by the court on 7 October 2015, the court ordered that a further £120,000 was due to Pihl which represented the balance of retention moneys due to the company, after the deduction of agreed costs incurred by the council in rectifying defects and snagging items. After small adjustments for interest, the net amount due to be returned to the council was £246,102.08 which was received by the council's solicitors on 13 October 2015.

4. It is worth noting that the court has ordered that some of the original payment was indeed legitimately due to the company and would have become payable in any event during the course of the insolvency. The balance has been returned to the council. The Committee should also note that the expenditure represents capital expenditure, originally funded by government grant. As such they would not be available to be spent on other council services or to reduce the budget deficit.
5. Members of the committee will recall that at the time of the original error, a number of actions were implemented to prevent a recurrence, including:
  - An agreed procedure rolled out across the council for informing Shared Services (responsible for vendor master data) of providers entering insolvency so their vendor record can be blocked for automatic payment
  - process notes were reviewed to ensure the instructions around SAP purchase orders are clear and complete
  - Training for members of staff so they fully understand the purchase order processes and the consequences of their actions
  - Instructions given to all staff making requests for actions around SAP purchase orders to ensure the information they provide is clear, complete and unambiguous
  - undertake at least annual maintenance of all Large Orders to ensure out of date order lines are cleared
  - A report written to identify payment items in excess of £100,000 which is run before each payment file is sent to the bank for action. Any 'Self-Billing' vendor payments identified on this report are checked by the Payments Team and verified.

## STRATEGIC CONTEXT

6. The reviews undertaken by internal audit are an important part of the council's governance arrangements and are directed at ensuring that the council's system of control is effective in helping to deliver the council's objectives.

## CONSULTATION

7. All internal audit reports are considered in draft by those who have been involved in the review, giving them the opportunity to correct any factual errors and to comment on the practicality of any recommendations. All findings and recommendations can therefore be described as 'agreed'.

## FINANCIAL / BUDGET IMPLICATIONS

8. There are no direct financial implications of this report. Some of internal

audit's recommendations may require additional resources which will be part of the consideration when implementing recommendations. Unless the recommendations are significant, services are expected to meet the cost from existing budgets. The report is concerned with the performance of the internal audit provider and members will be aware that the cost of the internal audit service continues to appear competitive. Indeed the contract for the provision of internal audit services was re-let in May of this year which resulted in savings compared to the previous annual cost.

### LEGAL IMPLICATIONS

9. The Accounts and Audit Regulations 2015 require that local authorities undertake an adequate and effective internal audit of their accounts and internal control.

### EQUALITY AND DIVERSITY

10. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

### RISK MANAGEMENT

11. The key risk associated with this report is that the outcomes of internal audit reviews are ignored. The committee receives regular reports on the status of audit recommendations as a way of gaining reassurance that they have been implemented. Internal audit is an opportunity for weaknesses in control processes to be identified and for them to be highlighted to members.

### RECOMMENDATION

12. To receive the progress report of the council's internal audit provider and consider whether any further information or action is necessary.

### APPENDICES ATTACHED

13. [Appendix A](#) – Internal Audit performance report

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