



Committee report

Committee	AUDIT COMMITTEE
Date	3 DECEMBER 2018
Title	INTERNAL AUDIT SERVICE UPDATE
Report of	CHIEF INTERNAL AUDITOR

EXECUTIVE SUMMARY

1. This report is to inform the committee of the work required and in progress to re-establish an in-house Internal Audit service supported by Portsmouth City Council under a shared services agreement.

BACKGROUND

2. On 30 July 2018 the Audit Committee approved the recommendation to enter into a strategic partnership with Portsmouth City Council for the provision of an internal audit service with effect from 1 April 2019, and to re-establish an in-house team employed by the Isle of Wight Council commencing with the transfer of an existing PricewaterhouseCoopers LLP (PwC) employee under the Transfer of Undertakings TUPE (Protection of Employment) Regulations 2006 as amended by the "Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014.

IMPLEMENTATION STAGES UPDATE

3. As agreed at the above mentioned meeting the new service would be implemented through the following stages:
 - a) Portsmouth City Council will finalise the audit services offer available to the council.
 - b) Subject to satisfactory terms, to be agreed by the Chief Executive, the Isle of Wight Council would enter into a strategic partnership arrangement with Portsmouth City Council, under the relevant provisions of the Local Government Act 1972.

Update; both of these actions are in progress with an expected completion date of the 31 March 2019.

- c) Formal notice will be issued to PwC for cessation of contract and complete any necessary consultations with affected PwC staff and undertake required transfer processes. Under the Transfer of Undertakings TUPE (Protection of Employment) Regulations 2006 as amended by the

“Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014. (There was a clear expectation that any PwC personnel, who currently complete the bulk of their work for Isle of Wight Council would be subject to transfer).

Update; a formal notice for cessation of the contract has been issued and accepted by PwC. Consultation is in progress regarding the transfer of relevant employees.

- d) Recruit the new team, mobilise the new service, recruit and complete the handover from PwC.

Update; the recruitment to the in-house team will take place between 1 April 2019 to 30 June 2019, this is to allow participation of the recruitment process by any transferring PwC employees. The handover arrangements are in progress and will be completed by 31 March 2019.

4. In addition to the above stages and as part of the initial set up of the new service the Chief Internal Auditor will also;
- Carry out a review of the risk categorisation for audit findings by means of discussions with senior management and committee members as well as an analysis of common or recognised good practice, locally and nationally. Any changes will be implemented with effect from the 1 April 2019.
 - Undertake an exercise to identify all areas of independent assurance beyond that already provided by Internal & External Audit in order to effectively direct the use of the internal audit resources as well as complying with CIPFA's 'good practice' for Audit Committees. This will be performed 1 April 2019 to 30 June 2019.
 - Draft a provisional 2019/20 audit plan, with the expectation that this will be reviewed in August 2019, following recruitment of staff and a detailed skills gap analysis as well as completion to the assurance mapping exercise as noted above. The provisional plan will be presented for approval before the 31 March 2019 to this committee.
 - Revisit the current counter-fraud arrangements to take account of the Council's requirements and resources. This will be performed 1 April 2019 to 30 June 2019.
5. Any significant deviations from the expected actions dates will be reported to this committee.

CONSULTATION

6. Internal consultation has taken place in relation to the stages and actions required in order to establish the new Internal Audit service.

FINANCIAL / BUDGET IMPLICATIONS

7. The budget allocation agreed for all Internal Audit services, including the role of Chief Internal Auditor and counter-fraud arrangements has been agreed at £196,000 for the year 2019-20. This is a reduction of £20,000 from the current years allocation.

LEGAL IMPLICATIONS

8. Internal audit is a statutory function required by the Accounts and Audit Regulations 2015. It forms part of the requirement for the Section 151 officer to discharge responsibilities for the proper administration of the council's financial affairs under the Local Government Act 1972. The Accounts and Audit Regulations 2015, Part 2 Section 5: Internal Audit state, "*a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance purposes, taking into account public sector internal auditing standards or guidance*".

EQUALITY AND DIVERSITY

9. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups. The council is required to have adequate governance arrangements in place to effectively manage its resources.

RISK MANAGEMENT

10. The internal audit service needs to be sufficient to review the internal control framework of the authority. The audit coverage therefore needs to be of an appropriate extent to enable the Chief Internal Auditor to give an annual opinion. If reliance cannot be placed on internal audit provision, external audit will be required to undertake further work, at greater cost to the authority. Where there is insufficient audit coverage, the council also exposes itself to reputational risk in circumstances where it is viewed to operate an inadequate internal control framework.

RECOMMENDATION

11. To note the report of the Chief Internal Auditor and agree any further information or action as required.

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