

INTERNAL AUDIT – INTERIM COVER ARRANGEMENTS

1. INTRODUCTION

- 1.1 The Council's Principal Auditor left the Council on 11 August 2017. This report sets out the way forward in terms of providing interim management arrangements to cover the work of the Principal Auditor until the end of March 2018. No member of the current audit team has the professional qualification (either a Chartered Member of the Institute of Internal Auditors (CMIIA) or a chartered accountancy body (ACCA, CIPFA, ICAEW, CIMA)) and experience to manage the internal team.
- 1.2 An external unsuccessful recruitment process has been undertaken. Four candidates were interviewed.

2. REASONS FOR INTERIM ARRANGEMENTS

- 2.1 The Principal Auditor position manages the Council's Internal Audit team of 6.5 FTEs. The position also manages, on a day to day basis, 3.5 FTEs from the authorities mentioned in paragraph 3.4. The post holder must have appropriate professional qualifications to manage the internal audit function. The post holder must provide high level experience and support to the NFDC team and to the other local authorities for whom the Council provides audit services.
- 2.2 Because the recent recruitment exercise to replace the Principal Auditor on a like for like basis was unsuccessful, it has been necessary to look at alternative cover arrangements in the interim, pending any longer term decision.

3. THE CURRENT AUDIT SERVICE

- 3.1 The current Audit service at NFDC costs the Council £300k p.a. Income from the provision of audit services to other local authorities (see para 3.4) amounts to £68k.
- 3.2 There is a statutory requirement for a local authority to maintain an effective Internal Audit arrangement to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards and guidance. In addition, the Council's Chief Financial Officer has a statutory duty to establish a clear framework for the appropriate administration of the Authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operational systems of internal control and financial management. The work of Internal Audit also provides essential assurances to the external auditor with regard to control procedures of the main financial systems.
- 3.3 Whilst some Council's still retain an in house team of internal auditors, it is becoming more common for authorities to partner with others to provide a shared internal audit service or to look to larger authorities to provide internal audit services. This creates resilience in a market where it is difficult to recruit auditors as well as having the potential benefit of creating efficiencies and making savings.

- 3.4 The Council currently carries out audit services for Christchurch & East Dorset Councils, Purbeck District Council, the NPA, two Town Councils, and also provides some ad-hoc ICT audit services to Rushmoor and Poole Borough Councils. In order to carry out the internal audit function to a good standard, including managing the audit service to these other bodies, it is necessary to have arrangements in place to cover the work of the Principal Auditor.

4. DISCUSSIONS WITH OTHER AUDIT PARTNERSHIPS

- 4.1 As the recent recruitment exercise for the replacement of the Principal Auditor was not successful, discussions have taken place with the Southern Internal Audit Partnership (operated by Hampshire County Council) and another Partnership operated by Portsmouth City Council which provides internal audit services to Southampton City Council, the Isle of Wight Council and Gosport Borough Council, to explore if they could assist this Council on an interim basis with appropriate cover when the Principal Auditor leaves.
- 4.2 Portsmouth City Council has offered its services for 2.5 days a week on an interim basis with a mixture of on-site and remote coverage by a senior audit manager on those days.
- 4.3 The Southern Internal Audit Partnership (operated by Hampshire County Council) which carries out auditing work for over 20 public bodies, including 5 Hampshire authorities, has offered an interim arrangement for 4 days a week with an on-site presence for all of those days by a senior audit manager employed by Hampshire County Council.
- 4.4 The more extensive cover offered by Hampshire County Council (HCC) is attractive for a number of reasons. Firstly the remaining members of the audit team will require ongoing support from a senior auditor and it would be beneficial for this support to take place 'on the ground', rather than relying on more remote ways of working. Further, the extensive nature of the audit services which the Council currently offers to other local authorities requires greater input than Portsmouth City Council can offer. In addition, HCC and NFDC already have a successful partnership arrangement on Treasury Management functions. This has worked well with efficiencies and cost savings realised some time ago when that partnership was set up. It would seem a natural extension to the existing partnership on Treasury Management to look to HCC to provide interim audit cover.

5. CONCLUSIONS

- 5.1 It is essential to arrange appropriate interim cover following the departure of the Council's Principal Auditor. Whilst it will be necessary to look at how the Council provides its Audit Services in the longer term, it is important to ensure continuity in the interim. Accepting the offer from the Southern Internal Audit Partnership (operated by HCC) has been evaluated as the best option to ensure appropriate cover arrangements in the interim. It is envisaged that the interim cover will continue until 31 March 2018. However the arrangements will be kept under strict review.

6. FINANCIAL IMPLICATIONS

- 6.1 The cost of the interim cover arrangements can be contained within existing budgets and will be offset against the cost of the vacant Principal Auditor post.

7. RECOMMENDATIONS

- 7.1 That the Audit Committee note the contents of this report.

For further information contact:

Alan Bethune
Service Manager – Finance (S151) & Audit
023 8028 5588
alan.bethune@nfdc.gov.uk

Grainne O'Rourke
Executive Head – Governance & Regulation
023 8028 5588
grainne.orourke@nfdc.gov.uk

Background Papers:

None