
EXCERPT FROM THE MINUTES OF THE AUDIT COMMITTEE HELD ON 22 DECEMBER 2016

AUC.80/16 FUTURE OF INTERNAL AUDIT

(Public and Press excluded by virtue of Paragraph 3)

The Audit Manager (Cumbria Shared Internal Audit Service) retired from the meeting prior to this item of business.

Councillor Mrs Mallinson, having declared an interest, remained within the meeting room and took part in discussions.

Pursuant to Minute AUC.63/16, the Chief Finance Officer reported (RD.46/16) that, since 1 April 2010, the Council's Internal Audit Service had operated as part of a shared service arrangement between Cumbria County Council, Carlisle City Council, Copeland Borough Council and the Police Authority.

The current Internal Audit Shared Service arrangement would terminate on 31 March 2017. The Executive had confirmed (Minute EX.97/16) that the Council would not continue with the Internal Audit Shared Service arrangement with the County Council post March 2017; and had agreed, in principle, to bring the service back in-house subject to an appropriate financial appraisal and business case being considered and approved at a future meeting of the Executive.

The Chief Finance Officer advised that the draft business case on the future delivery of the internal audit function as an in-house service provision was now submitted for consideration by Members of the Audit Committee. She outlined in detail the content of the business plan, which addressed the concerns expressed by Members at a previous meeting and which were also detailed within her report for information.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder indicated that he had held detailed discussions with the Chief Finance Officer and Chief Accountant, and was comfortable with the position moving forward.

Comprehensive discussion arose, during which Members raised the following observations:

- If it was ultimately agreed that the Internal Audit function should be delivered in-house, it would be prudent and indeed useful to review service delivery in 2 years (an appropriate methodology / measures should be put in place)
- Concern at the potential financial risk to the authority relative to TUPE terms and conditions / job evaluation

- Governance arrangements (including reference to the CIPFA statement on the Role of the Head of Internal Audit) should be properly documented within the Council's Constitution from the outset
- Consideration should be given to networking in order that internal audit staff may benefit from the sharing of knowledge and experience
- A Member indicated that he had initially been concerned about the authority's ability to demonstrate independence, but was now very much reassured on that aspect
- The benefits / disadvantages of procurement should have been included within the report to assist in decision making

That the Chief Finance Officer be thanked for her very detailed report.

The Chief Finance Officer, and the Corporate Director of Governance and Regulatory Services responded to the issues raised, together with a number of questions in relation to independence; the role of the Head of Internal Audit; recruitment of internal audit staff; TUPE arrangements; and transitional arrangements.

Referring to the regulatory framework for internal audit (Section 2), the Associate Director (Grant Thornton) stated that the Standards required that a self-assessment be undertaken each year, with an independent review on top of that every five years. He further emphasised the need for the authority to demonstrate that it was 'adding value'. It was therefore appropriate for the City Council to consider all available options.

The Audit Manager (Grant Thornton) welcomed the caveats provided in relation to independence.

RESOLVED – That the Audit Committee had given detailed consideration to Report RD.46/16 and the draft business case, the submission of which was welcomed, and made the undernoted comments and observations for transmission to the Executive:

- (a) The Audit Committee supported the 'in principle' decision to bring the Internal Audit service back in-house.
- (b) Consideration needed to be given to TUPE arrangements and the implementation of good governance arrangements for the operation of the Internal Audit function.
- (c) That the Audit Committee recommended that a desk top exercise be undertaken which detailed the advantages / disadvantages of an external procurement process to be submitted to the Executive to inform decision making.
- (d) The Audit Committee expects that a full external review of the Internal Audit function be undertaken within 2 years of the service coming back in-house (in line with CIPFA practice) in order that the Committee may receive the required level of assurance that the service was working effectively.