

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO**

Cabinet
21 April 2021

Report Title: Internal Audit Service Level Agreement Update

Submitted by: Head of Finance (S151 Officer)

Portfolios: Finance & Efficiency

Ward(s) affected: All

Purpose of the Report

Approval of the Internal Audit Service Level Agreement update.

Recommendation

1. Cabinet approval the updated Internal Audit Service Level Agreement.

Reasons

Approval of the updated Internal Audit Service Level Agreement is required in order to continue the service provision together with fraud detection and prevention.

The Accounts and Audit Regulations include the statutory requirement for the provision of an adequate and effective internal audit function. The Public Sector Internal Audit Standards (PSIAS) place a duty on Internal Audit to plan effectively to ensure it contributes to the Council's objectives at strategic and operational levels. Planning also enables Internal Audit to demonstrate that they are making the best use of available resources.

1. Background

- 1.1 The primary purpose of an Internal Audit service is to provide an independent, objective assurance and consulting service to the organisation; and through the efficient delivery of this service seeks to add value and improve the organisation's operations and controls to effectively deliver the council's Strategic Priorities. Internal Audit assists the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) apply to all internal audit service providers, whether in-house, shared services or outsourced. Assessment against the Standards provides assurance that the service is being delivered to a satisfactory level and in conformance to the standards.
- 1.3 In February 2019 the Council entered into a Service Level Agreement with Stoke-on-Trent City Council for the provision of management of the Council's Internal Audit activities, the internal audit team and the provision of the audit plan.

1.4 In addition to the Internal Audit management provision, the Council also entered into a Partnership Agreement with Stoke-on-Trent City Council to provide a full counter fraud service covering all types on non-benefit and corporate fraud, including the detection and investigation as well as work to prevent fraud and share learning coming out of its activities both within the partnership and more broadly.

2. **Issues**

2.1 Last year the Council's two Internal Auditors were successfully appointed as Accountancy Assistants in the Finance Team after applying for the roles. The result of this was that the Council no longer had its own Internal Auditors and would need to either recruit to replace or extend the Service Level Agreement with Stoke-on-Trent City Council to provide the resource. Due to Covid-19 and the impact the pandemic had on both of the authorities together with the additional work demands, it was agreed Stoke-on-Trent City Council would charge the Council on a completed audit only basis during the pandemic due to the difficulties in completing the work and lack of staff resources.

2.2 In addition to the above, the Council's Corporate Fraud Officer has recently retired and therefore the Council now needs to extend the counter fraud service arrangements with Stoke-on-Trent City Council to ensure the service provision.

3. **Proposal**

3.1 Discussion have taken place with Stoke-on-Trent City Council in respect of updating and combining the two agreements in place with them in order to provide the Council with the required service provision at best value.

3.2 It is recommended that the existing Service Level Agreements in place with Stoke-on-Trent City Council be updated and combined to cover the provision of the Internal Audit services which include the management of the service, qualified auditors, the formulation and monitoring of the audit plan. The Service Level Agreement will also cover the provision of Fraud Investigating Officers and access to the Fraud Hub.

4. **Reasons for Proposed Solution**

4.1 In approving the updated Service Level Agreement with Stoke-on-Trent City Council, the internal audit service provision will be maintained, the Council will be able to access local skilled staff in respect of audit and fraud issues together with achieving value for money.

5. **Options Considered**

5.1 As the Council is in the second year of the three year agreement, it is more cost effective to update the current agreement to include the provision of Audit and Fraud staff than to re-tender for the whole service provision.

6. **Legal and Statutory Implications**

6.1 The Accounts and Audit (England) Regulations 2015, state that "A relevant authority [the Council] must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." (para 5(1)).

6.2 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements *for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*. CIPFA has defined *'proper administration'* in that it should include *'compliance with the statutory requirements for accounting and internal audit'*.

6.3 The activities of Internal Audit are planned in accordance with the Accounts and Audit Regulations which place a duty upon the Chief Internal Auditor to report to members on a regular basis. By acting upon recommendations within internal audit reports, the council is demonstrating its commitment to maintain an adequate and effective system of internal control, as required by these regulations. Satisfactory delivery of the audit plan assists the Head of Finance (Section 151 Officer), in discharging her duties under section 151 of the Local Government Act 1972.

7. Equality Impact Assessment

7.1 There are no equality impact issues identified from the proposal.

8. Financial and Resource Implications

8.1 The total cost of the updated Internal Audit Service Level Agreement amounts to £133k per annum. This compares to the existing costs as detailed in the table below:

Work Stream	Cost £
Internal Audit Management and production of Audit Plan	22,000
2 x NBC Internal Auditors Salary (inc on costs)	77,338
Provision of ICT Audit Support	15,000
1 x NBC Corporate Fraud Officer Salary (inc on costs)	34,205
Total	148,543

8.2 By updating the Internal Audit Service Level Agreement to include all the required services and officer the Council will make a saving of £15,543 per annum.

9. Major Risks

9.1 The key risk to be considered by not approving the updated Internal Audit Service Level Agreement is that the Council will not be fulfilling its statutory requirement of having an adequate and effective internal audit function as set out on the Accounts and Audit Regulations.

10. UN Sustainable Development Goals and Climate Change Implications

10.1 The Internal Audit and Counter Fraud Arrangement via Stoke-on-Trent City Council and the Fraud Hub supports UNSG and Climate Change objectives in a number of ways. Principally, through partnership working and supporting sustainable cities and communities via the correct use of public monies. The following UNSGs are supported.



11. **Key Decision Information**

11.1 The contract value of over £50,000 each makes this a key decision item.

12. **Earlier Cabinet/Committee Resolutions**

12.1 This report is not in reference to previous Cabinet or Committee resolutions.

13. **List of Appendices**

13.1 None.

14. **Background Papers**

14.1 Existing Stoke-on-Trent City Council Internal Audit and Counter Fraud Agreements.