

**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

**EXECUTIVE MANAGEMENT TEAM'S  
REPORT TO**

**Audit & Standards Committee**  
**06 February 2023**

**Report Title:** External Review of Internal Audit

**Submitted by:** Chief Internal Auditor, Clare Potts

**Portfolios:** Finance, Town Centres and Growth

**Ward(s) affected:** All

**Purpose of the Report**

To update the Committee on the results of the external review of Internal Audit undertaken in November 2022 as required by the Public Sector Internal Audit Standards (PSIAS) and to highlight the proposed actions as a result of the review's findings.

**Recommendation**

That

- 1. The report and positive outcome be noted and that the Committee agree to the actions proposed as a result of the review.**

**Reasons**

To ensure the Internal Audit function continues to comply with Public Sector Internal Audit Standards (PSIAS).

**1. Background**

- 1.1 The Public Sector Internal Audit Standards were developed following a two year collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). For public sector internal audit functions this replaced the CIPIFA Code of Practice for Internal Audit in the UK. The PSIAS requires an external review to be carried out at least once every five years.
- 1.2 Following this, local authorities had until 31 March 2018 to complete their first external quality assessment. The assessment could be delivered in several ways, including the validation of a self-assessment, having a peer review or using an external assessor. For Newcastle Borough Council, the first review was conducted by CIPFA in April 2017 and the results of the review were reported to the Audit & Standards Committee.
- 1.3 As part of the annual reporting process, Internal Audit reports have included the overall results of self-assessment exercises conducted against the PSIAS and the additional standards set out in the Local Government Application Note published by CIPFA. An action plan has also been maintained highlighting progress against the areas where improvements have been undertaken.

## 2. **Issues**

### **External Review**

2.1 The PSIAS set out a requirement for an external review to be undertaken once every five years therefore a further review for Newcastle Borough Council now required. Following an evaluation of external reviews conducted at other Staffordshire local authorities, Business Solutions Ltd were chosen to conduct the next review.

2.2 The review was conducted on 7th to 18th November 2022 and included interviews with the Chief Internal Auditor and members of the internal audit team. A sample of internal audit clients and the Chair of the Audit & Standards Committee received a survey to complete to support the review. The review also included an evaluation of a sample of the reports produced by the service and other policies and procedures. The reviewer prepared a draft report for discussion and the final agreed report is attached at Appendix A and will be included in the Annual Internal Audit Report.

2.3 The outcome of the review, as detailed on page 5 of the report, can be one of three opinions:

1. Generally Conforms
2. Partially Conforms
3. Does Not Conform

The opinion for the city council's Internal Audit Service is that it has achieved the top standard of 'Generally Conforms' to the requirements of the Public Sector Internal Audit Standards and those of the Local Government Application Note (see page 3 of the report).

2.4 Part one of the report (page 9) details eleven recommendations to ensure continued compliance with PSIAS. Six of these are review points to better reflect application of the PSIAS and five recommendations are for consideration only. No recommendations have been made that must be undertaken to enhance the service's practice and demonstrate transparent alignment to the standards. See page 27 of the report for details of the grading used.

2.5 Part two of the report (page 16) details four suggestions for the enhancement of the service and Part three provides benchmarking details comparing the service to other internal audit providers including the private sector.

## 3. **Proposal**

3.1 Progress against the actions arising from the review will be monitored and reported to the Committee at regular intervals.

## 4. **Reasons for Proposed Solution**

4.1 To provide the Committee with continued assurance that the internal audit service complies with the PSIAS.

## 5. **Options Considered**

5.1 None

## 6. **Legal and Statutory Implications**

6.1 The Accounts and Audit Regulations 2015 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

7. **Equality Impact Assessment**

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

8. **Financial and Resource Implications**

8.1 The cost of the external review are within the Internal Audit budget allocation.

9. **Major Risks**

9.1 The key risk to be considered in noting the attached report is that the quality of the independent and objective assurance provided by Internal Audit falls below, or is perceived to fall below the level required by the PSIAS. The consequence of which is that opportunities to improve the Authority's system of internal controls, governance framework and the delivery of its objectives are not identified or acted upon. This risk is managed through a combination of the governance and reporting frameworks within which Internal Audit operates and the overview carried out by this Committee. No risks have been identified that are not within acceptable tolerances.

10. **UN Sustainable Development Goals and Climate Change Implications**

10.1 Not applicable.

11. **Key Decision Information**

11.1 Not applicable.

12. **Earlier Cabinet/Committee Resolutions**

12.1 Not applicable

13. **List of Appendices**

13.1 Appendix A – External Review of Newcastle Borough Council's Internal Audit Service

14. **Background Papers**

14.1 Not applicable