

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**CORPORATE LEADERSHIP TEAM'S
REPORT TO**

Cabinet
07 November 2023

Report Title: Future Delivery of the Internal Audit Service

Submitted by: Service Director for Finance (S151 Officer)

Portfolios: Finance, Town Centres and Growth and One Council, People & Partnerships

Ward(s) affected: All

<p><u>Purpose of the Report</u></p> <p>Our current service contract is reaching the end of its term; and therefore, this report provides rationale as to the need for the service and asks Cabinet for authority to procure a renewed Internal Audit Service.</p>	<p><u>Key Decision</u> YES <input checked="" type="checkbox"/> No <input type="checkbox"/></p>
<p><u>Recommendation</u></p> <p>That Cabinet:</p> <ol style="list-style-type: none"> 1. Note the requirement of an Internal Audit Service. 2. Authorise officers to conduct a procurement exercise to tender for an Internal Audit Service to provide the function. 3. That authorisation to award contract following tender evaluation is delegated to the Chief Executive in conjunction with the Service Director of Finance (S151 Officer) and the portfolio holder for Finance, Town Centres and Growth. 	
<p><u>Reasons</u></p> <p>To continue to provide an Internal Audit Service, together with fraud detection and prevention services.</p> <p>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.</p>	

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 and 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 The 3 year Internal Audit Service Level Agreement came to an end on the 31 March 2023 and required extending for 12 months in order to continue to provide the Internal Audit and Counter Fraud arrangements. This 12 month extension ends on 31 March 2024 and therefore requires re-tendering in order to ensure best value.

3. **Proposal**

- 3.1 That the Council conduct a procurement exercise to tender for an Internal Audit Service to provide the function as outlined in paragraph 1.1.
- 3.2 That authorisation to award contract following tender evaluation is delegated to the Chief Executive in conjunction with the Service Director of Finance (S151 Officer).

4. **Reasons for Proposed Solution**

- 4.1 In conducting a procurement exercise the internal audit service provision will be maintained, the Council will be able to access skilled staff in respect of audit and fraud issues together with evidencing and achieving value for money.

5. **Options Considered**

- 5.1 The service arrangements with Stoke-on-Trent City Council are going well however as the Council is in the fourth year of the three year agreement with the option to extend, it is prudent to test the market in order to evidence and achieve best value for money.

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 Service Director for Finance (Section 151 Officer), in discharging her duties under section 151 of the Local Government Act 1972.

6.4 S9EA of the Local Government Act 2000 and the Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2012 permit the discharge of an authority's functions by another authority.

7. **Equality Impact Assessment**

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

8. **Financial and Resource Implications**

8.1 The current cost of providing the Internal Audit function under the current Service Level Agreement amounts to £140,980k plus an uplift to account for the 2023/24 pay award once agreed for the next 12 months.

8.2 The allocation of funds will continue to be made as part of the Council's Medium Term Financial Strategy due to the function being statutory in nature.

8.3 Should the tenders received considerably exceed the current cost of the service, an evaluation will take place to establish if the service should be brought back in house and should this be the case a further report will be presented to Cabinet.

9. **Major Risks**

9.1 The key risk to be considered by not approving the tender of the Internal Audit Service 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 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 £100,000 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.