

REPORT FROM: DIRECTOR OF RESOURCES

TO: EXECUTIVE

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INTERNAL AUDIT SERVICE

PURPOSE OF REPORT

To report to Executive on the contract for Internal Audit Services.

RECOMMENDATION

To approve a 1 year extension of the Internal Audit Service contract to Mersey Internal Audit Agency to 31st March 2025.

REASON FOR RECOMMENDATION

To ensure the Council can maintain an effective internal audit function and remain compliant with statutory and regulatory requirements.

ISSUE

Role of Internal Audit

1. The Public Sector Internal Audit Standards (PSIAS) define auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operation. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance procedures”.
2. There are also statutory obligations which require a local authority to maintain an internal audit service as follows:
 - Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for “the proper administration of their financial affairs...”. It is the view of the Chartered Institute of Public Finance and Accountancy (CIPFA) that proper administration requires a wider consideration of all aspects of local authority financial management and should include compliance with statutory requirements for auditing and internal audit.
 - Under the Accounts and Audit Regulations 2015, a relevant local authority must undertake an effective internal audit to evaluate the effectiveness of its risk

management, control and governance processes, considering public sector internal auditing standards or guidance.

3. In their statement on the role of the Chief Financial Officer, CIPFA sets out a number of key principles and responsibilities linked to the role including:

Ensuring that the authority has in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

Existing Arrangements

4. A report was taken to the Policy and Resources Committee on 19th March 2020 outlining options for the Internal Audit Service at that time. The Committee agreed to outsource the provision and a procurement exercise was undertaken to appoint a suitable third party.
5. On 21st January 2021, the Policy and Resources meeting agreed that Mersey Internal Audit Agency be awarded the contract for the Internal Audit Services for three financial years, 2021/22 to 2023/24. The award also included the possibility for a further 1 year extension.
6. As a result of the Covid-19 pandemic and changes in Section 151 Officers at the Council, it was difficult to establish a settled position during the first 12-18 months of the contract. However, the relationship between both parties has continued to grow in the last 12 months and is now maturing well.
7. For the relationship to continue to develop, and to avoid a further procurement exercise, is it recommended that the Council implement the 1 year extension to the contract until 31st March 2025.

Arrangements beyond 2025

8. In the next 12 months Council will need to consider provision beyond 1st April 2025. Options include a further procurement, exploring shared service or to bring the service back in house.
9. Procurement regulations do not require the service to be exposed to competition as a direct award can be made under the NHS Business Services framework, which is open to the wider public sector as well as NHS bodies. MIAA is one of fifteen providers who can be appointed under lot 2 (internal audit) of the framework.

IMPLICATIONS

Policy: There are no policy implications arising directly from the contents of this report.

Financial: The budget for Internal Audit in 2021/22 is £90,000. On the basis of the price submitted by the preferred bidder, the provision of Internal Audit can be contained within the budget provision.

Legal: The legal implications are as set out in this report.

Risk Management: Internal Audit is a key element of the Council's overall Corporate Governance Framework. In recognition of the limited capacity and lack of resilience of the internal service, the Committee agreed to outsource the service. The procurement process has identified a good range

of potential providers who, following evaluation, appear capable of providing the Council with a high-quality Internal Audit Service.

Health and Safety: There are no health and safety issues arising directly from the contents of this report.

Sustainability: There are no sustainability issues arising directly from the contents of this report.

Community Safety: There are no community safety issues arising from this report.

Equality and Diversity: There are no equality and diversity issues arising from this report.

APPENDICES

LIST OF BACKGROUND PAPERS