



Northumberland

County Council

AUDIT COMMITTEE

DATE: 25 JANUARY 2023

Public Sector Internal Audit Standards

Report of the Head of Internal Audit and Risk Management

Purpose of report

The purpose of this report is to inform Audit Committee of the requirements of the Public Sector Internal Audit Standards (April 2017) and the related Local Government Application Note; and the conformance by Northumberland County Council's Internal Audit service to the requirements of these standards.

Recommendations

It is recommended that Audit Committee:

- a) Note the legal requirements to be fulfilled by all providers delivering Internal Audit activity within relevant authorities in England and Wales (the Public Sector Internal Audit Standards and related Local Government Application Note);
- b) Note that a self-assessment of adherence to the Public Sector Internal Audit Standards and the related Local Government Application Note has been performed and a summary is attached **as Appendix A**. This demonstrates that Northumberland County Council's Internal Audit service has demonstrated a high level of conformance to the requirements of the standards;
- c) Note that in the small number of areas where further development has been identified to secure full conformance to the standards, appropriate actions are planned to ensure this is the case, and that updates will be provided to future meetings of Audit Committee on progress in relation to these actions;
- d) Agree the Quality Assurance and Improvement Programme which is attached as **Appendix B**, which is a requirement of the Public Sector Internal Audit Standards;
- e) Note that it is a requirement that the Internal Audit service will be externally assessed at least once in every five years, and agree that Northumberland County Council's external assessment will be performed before the end of March 2023 by CIPFA (Chartered Institute of Public Finance and Accountancy);
- f) Agree that the outcomes from the external assessment will be reported to a future meeting of Audit Committee once the external assessment has been completed.

Link to Corporate Plan

The work of Internal Audit and the Audit Committee contributes to the overall achievement of all priorities in the Council's Corporate Plan. In particular, it supports the "How" priority of the Corporate Plan 2021-24.

Key issues

This report outlines conformance with the Public Sector Internal Audit Standards, in order that the Audit Committee, as the designated 'board' under the Public Sector Internal Audit Standards, is aware of adherence to the standards demonstrated by Northumberland County Council's Internal Audit service.

The report also sets out a Quality Assurance and Improvement Programme, and details arrangements for an external assessment of the Internal Audit service, which will allow the County Council to fulfil its responsibilities regarding the Public Sector Internal Audit Standards.

Background

Under the Accounts and Audit Regulations 2015, it is a statutory requirement for all relevant authorities (including Northumberland County Council) to "undertake an effective internal audit to evaluate the effectiveness of...risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."¹

The Institute of Internal Auditors (IIA) has published an International Professional Practices Framework (IPPF) which includes certain mandatory elements with which every Internal Audit service provider must comply. For the Public Sector in the UK, 'Relevant Internal Audit Standard Setters' have been designated for central government, the NHS and local government. The role of these standards setters is to adopt a common set of Public Sector Internal Audit Standards (PSIAS) which encompass the mandatory elements issued by the IIA and any additional requirements and interpretations for the UK public sector, whilst maintaining the integrity of the text of the mandatory elements of the IPPF.

In April 2017, the 'Relevant Internal Audit Standard Setters' published updated specific Public Sector Internal Audit Standards, applying the IIA International Standards to the UK Public Sector. These standards apply to all parts of the public sector (local government, central government and the NHS). For local government, the Chartered Institute of Public Finance and Accountancy (CIPFA) has been designated as 'the relevant standard setter'. To support the PSIAS in local government, CIPFA have published a Local Government Application Note (updated in February 2019), which accompanies and underpins the mandatory elements of the full PSIAS. The PSIAS and Local Government Application Note together comprise the 'public sector internal auditing standards' which are necessary to undertake the effective internal audit required by the Accounts and Audit Regulations 2015.

All local government Internal Audit providers in the UK are expected to comply fully with the PSIAS. It is also a requirement that the degree of conformance to the standards is assessed and reported to 'senior management' and the 'board' of the organisation. The Audit Committee fulfils the role of the 'board' in Northumberland County Council. This report therefore provides Audit Committee with a summary of a self-assessment of conformance with the PSIAS and highlights a small number of areas in which further development would assure greater adherence to the require standards. The self-assessment summary is attached **as Appendix A**.

¹ The Accounts and Audit Regulations 2015 – Regulation 5 (1)

The PSIAS include a requirement that a Quality Assurance and Improvement Programme (QAIP) is developed by every relevant authority. A QAIP has therefore been developed to codify existing arrangements in order to ensure that the exact requirements of the PSIAS can be met and demonstrated. The QAIP is attached as **Appendix B**.

It is a requirement of the PSIAS that Internal Audit is externally assessed for its conformance to the standards at least once in every five years. The previous external assessment was undertaken of the shared Internal Audit service with North Tyneside Council via a tripartite arrangement involving Newcastle City Council and South Tyneside Council. The outcomes were reported to Audit Committee in March 2018.

This report proposes that an external assessment for Northumberland County Council's Internal Audit service is performed before the end of March 2023, by CIPFA. The shared Internal Audit service with North Tyneside Council ended on 31 March 2022, therefore the external assessment will take place only a short time after some fundamental changes in service delivery have taken place. However, it is proposed that by using a leading local government governance body for the external assessment, this will provide suitable recommendations to assist the transition in service delivery, in addition to complying with the requirement to ensure suitable independence, objectivity, experience and skill of the external assessor.

Implications

Policy	Effective internal audit is an essential part of the County Council's governance arrangements. Internal Audit examines the Council's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed.
Finance and value for money	The only direct financial implication arising from the recommendations set out in this report is the cost of the external assessment. This cost is minor and will be met entirely from existing budget.
Legal	The Accounts and Audit Regulations 2015 require the Council to 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. Internal auditing standards / guidance comprise the Public Sector Internal Audit Standards and the accompanying Local Government Application Note. Adherence to these standards is the subject of this report.
Procurement	The external assessor will be engaged in accordance with all of the County Council's procurement requirements.
Human Resources	None
Property	None

Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	None
Risk Assessment	There are no specific risks arising from this report, as the self-assessment demonstrates a high level of conformance with the required standards. Should this situation change, a further report would be brought back to Audit Committee as the designated 'board' under the PSIAS.
Crime & Disorder	Section 17 of the Crime and Disorder Act 1998 has been considered, and no implications have been identified.
Customer Consideration	This report has been prepared for Audit Committee, as the designated 'board' under the PSIAS, to consider.
Carbon reduction	None
Wards	All

Background papers:

- Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017
- Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy, February 2019
- Northumberland County Council Finance and Contract Rules, February 2021
- The Accounts and Audit Regulations 2015, April 2015

Report sign off.

	Name
Monitoring Officer/Legal	N/A
Executive Director of Finance & S151 Officer	N/A
Relevant Executive Director	N/A
Chief Executive	N/A
Portfolio Holder(s)	N/A

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