

AUDIT COMMITTEE

9 March 2010

Report of the Director of Governance & Procurement

ITEM 13 CIPFA Consultation on the Role of the Head of Internal Audit

Purpose of the Report

To draw the Committee's attention to CIPFA's consultation on the drafting of a statement re the role of the Head of Internal Audit in public sector organisations.

Action Requested

The Committee is asked to note the report, and to consider whether they wish to make any responses to the consultation at this stage.

Policy Context

The Council is required by the Accounts & Audit Regulations 2006 (as amended) to maintain an adequate and effective internal audit service. CIPFA are the key professional body recognised as providing guidance on the adequacy and effectiveness of internal audit in local authorities.

Background

CIPFA are currently consulting on the drafting of a statement on the role of the Head of Internal Audit, which is likely to be in a similar format to their existing statement on the role of the Chief Financial Officer.

The initial consultation document is attached as an appendix, and invites views from interested stakeholders, including Audit Committees.

When a statement has been drafted, there will be a further consultation period before it is finalised.

Options Available with Reasons

The Committee can request any particular views they have on the consultation document to be feed back to CIPFA at this stage. Alternatively, they can wait to consider the draft statement and determine at that stage whether there are any issues they wish to comment on.

Financial and Legal Implications

None at this stage.

Risk Management

The risks associated with the options available and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Risk Management Actions Planned
Views held by the Committee on the role of the Head of Internal Audit may not be considered by CIPFA during the consultation	Medium	Low	Feedback any views held by the Committee regarding the consultation to CIPFA

Background Papers: Consultation document appended to this report

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CIPFA statement on the role of the Head of Internal Audit in public service organisations

Last year CIPFA carried out a strategic review of its role in audit. One key recommendation from the review was for CIPFA to help raise the profile and clarify the role of internal audit by publishing a statement on the role of the Head of Internal Audit in public service organisations.

A Steering Group has been set up to help guide the work. Its members are:

Mike More (Chair)	Chief Executive	Westminster City Council
Anthony Barrett	Partner	Wales Audit Office
Chris Bowring	Director of Finance	NHS Fife
Ian Carruthers	Policy and Technical Director	CIPFA
Mike Clarkson	Director	Deloitte
Tim Crowley	Chief Executive	Mersey Internal Audit Agency
Colin Langford	Consultant	CIPFA Northern Ireland (former HIA Northern Health Trust)
Paul Manning	Head of Internal Audit	DFID
Justin Martin	Director	PwC
Stephanie Mason	Head of Learning and Skills	Baker Tilly
Jon Pittam	County Treasurer	Hampshire County Council
Tim Pouncey	Chief Officer (Audit and Risk)	Leeds City Council
Duncan Savage	Assistant Director - Audit and Performance	East Sussex County Council
Philip Winter	Financial Regulation Policy Manager	Tenant Services Authority
Chris Wobschall	Head, Assurance and Financial Reporting Policy, Head of Government Internal Audit Profession	HM Treasury

Clive Darracott (Secretary)	Technical Manager	CIPFA
Diana Melville	Governance Adviser	CIPFA

The Group met for the first time in January and agreed that:

- Work should begin on a skeleton Statement, with a draft for the next meeting of the Steering Group on 2 March
- We would formally launch the draft Statement for consultation at CIPFA's Audit Conference (18-19 May) and also at CIPFA's main Annual Conference (8-10 June)
- We would use the term Head of Internal Audit rather than Chief Internal Auditor
- The statement will have a similar format to the CFO Statement issued by CIPFA last year:
http://www.cipfa.org.uk/panels/finance_director/download/Role_CFO.pdf
- The Statement's proposed underlying principles will be that the HIA:
 - is a senior manager with regular and open engagement with the Leadership Team and the Audit Committee. Produces a risk based audit strategy that reviews the whole range of controls and which supports the organisation's strategic objectives and adds value
 - gives independent, evidence based assurance (including through an annual opinion) that is a key part of the governance framework
 - champions good governance across the organisation and with partners to secure effective outcomes and efficient and economical use of resources. Looks forward as well as backward, and advises on planned developments
 - must lead and direct an audit function that is resourced to be fit for purpose
 - must be professionally qualified and suitably experienced
- Some of the key issues to address in the Statement are:

Coverage of internal audit

- The CIPFA definition is:

internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

This was used for the CFO Statement and will also be used for this Statement.

- Breadth versus depth. Can HIAs cover all systems including non financial effectively? Are some systems (e.g. financials) more important? Is there merit in having a particular focus on the key financial systems? Is there a minimum coverage that all HIAs should achieve?
- Added value/vfm – what is the HIA role? Is it simply to review systems to establish whether they provide vfm? Should IA have a consultancy role and if so how important should this be?
- What particular responsibilities does the HIA have in relation to risk management, fraud and corruption and corporate governance? How can the HIA ensure that the audit plan properly reflects the organisation's risks?
- What should the balance be between being forward looking and giving assurance on the current position? Ideas of prevention versus detection (both for vfm and control). How is the balance decided? Role in auditing new systems and advising on proposals? How can HIAs give evidence based assurance on future risks and developments?
- What responsibilities can/should the HIA have for reviewing the arrangements that partner organisations have? How can clarity be achieved (and whose responsibility is it to achieve?)
- How can the HIA ensure that others are clear about their own responsibilities e.g. for SIC or AGS (e.g. Chief Executive, Audit Committee Chair and 'those charged with governance')

Position in the organisation

- Who should HIA report to – CFO or Chief Executive or Audit Committee? Is the local government S 151 officer in a unique position? Is there a need for at least a professional line to the CFO? CIPFA's statement on the role of the CFO notes that 'The CFO must support the organisation's internal audit arrangements, whether the function reports directly to the CFO or the Chief Executive, and ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively'. In local government the Accounts and Audit regulations place responsibility for internal audit with the Council itself.
- Role re: governance and internal control (SIC/AGS) – part of system but also reviewing:
 - corporate governance
 - risk management
 - fraud
 - information management

What are the tensions?

- Independence – what does this mean – is it achievable? How can a principles based statement cover this? Right to private meetings with the Audit Committee, reporting in own name?

- Is clarity needed on who is the HIA? Who signs the annual opinion? Where the service is outsourced what is the role of the client manager? Is the client or contractor the HIA? (Should it always be one or the other?). Are there similar issues with shared services/consortia?
- Should the HIA be seen as a consultant/adviser? Can this compromise independence?
- Is it appropriate for the HIA to have non-audit responsibilities? (e.g. fraud, risk, performance management). Are there benefits in HIAs having wider responsibilities – this can give them more insight and a wider perspective?

Relationships

- Relationships with others – e.g. other committees such as risk and remuneration committees in health and scrutiny, standards and cabinet in local government
- Internal audit should be driven by risk. How should the concerns of stakeholders (Directors, members/NEDs, audit committees, external auditors) be reflected in audit plans? There is a range of expectations from different stakeholders – whose are key?
- What responsibility does the HIA have for ensuring that the Audit Committee is effective?
- Does the HIA have any responsibilities to the wider public?
- Relationship with the external auditor. How does the HIA achieve value for money in the use of audit resources, with no duplication? How does the HIA ensure that the audit plan is not driven by external audit priorities?
- How should the HIA rely on others for assurance - e.g. external regulators such as Ofsted, internal consultancy, external audit? Who can the HIA rely on internally?
- What should be the audit arrangements for the organisation's key partnerships? How can the HIA validate any assurances given by other agencies?
- How can the HIA best demonstrate that they have earned and deserve a place at the top table?
- How can the HIA promote good governance and the benefits it brings to the whole organisation?

Skills and staffing

- Do HIAs have the skills needed if they are to be valued and welcomed at the 'top table' to comment on and evaluate strategic corporate matters? What are the skills gaps? Do HIAs have consultancy skills?
- What qualifications and skills are needed by staff – position of IIA and CCAB qualifications? Does it matter provided the team has the range of qualifications and skills?
- How can HIAs and others promote internal audit as a good posting for bright staff who are keen to progress?
- Who are the role models and what are the success stories?

Other issues

- What are the similarities with the issues identified in the CFO Statement and what are the differences?
- What are the boundaries for this Statement? – we are not rewriting the Code of Practice for Internal Audit in local government but it needs to be consistent with it and with NHS and central government standards. Are there any significant differences between sector codes and if so how can/should the Statement address them?
- Statement of Internal Control/Annual Governance Statement, and Heads of Internal Audit opinions. How should we reflect any nuances across sectors?
- How should we look to use the Statement and how should this influence the work and drafting? Will we be subsequently looking to sector based versions? The aim is that organisations should 'comply or explain' as for the CFO statement: 'our aim is to encourage public service-wide use of the Statement as the benchmark for organisational arrangements. We recommend that all organisations should report publicly on their arrangements, particularly where these do not conform to the governance requirements in the Statement. Providing this information openly on a 'comply or explain' basis will help to assure stakeholders and the public that the organisation has given proper consideration to these vitally important aspects of its governance arrangements.'

We are consulting with HIA and other groups and individuals over the next few months to get their views on how we best cover the underlying principles and deal with the issues identified. CIPFA is keen to get a wide range of views across public services from internal auditors and especially from stakeholders such as Audit Committees, external auditors and Chief Executives/Directors. If you have any views at this stage or would like further details please contact clive.darracott@cipfa.org.uk phone 020 7543 5670.

CIPFA
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