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| AUDIT COMMITTEE | AGENDA ITEM No.8 |
| 27 MARCH 2013 | PUBLIC REPORT |

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| Cabinet Member(s) responsible: | Councillor Seaton, Resources Portfolio Holder | |
| Committee Member(s) responsible: | Councillor Lamb, Chair of Audit Committee | |
| Contact Officer(s): | Steve Crabtree, Chief Internal Auditor | ☎ 384 557 |

PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND THE EFFECTIVENESS OF INTERNAL AUDIT AND THE AUDIT COMMITTEE

| RECOMMENDATIONS | |
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| FROM : John Harrison, Executive Director: Strategic Resources | Deadline date : N/A |
| 1. The Committee is asked to: <ul style="list-style-type: none"> a) Consider and endorse the new Public Sector Internal Audit Standards applicable from the 1st April 2013; and b) Note their implications for future assessments in relation to the effectiveness of the Internal Audit service and that of the Audit Committee. | |

1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with the Work Programme for 2012 / 2013.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to present to Members details of changes made to the Internal Audit profession and how these new standards impact on the workings of the section and that of the Audit Committee.

2.2 This report is for Committee to consider under its Terms of Reference:

- 2.2.1.3. *To consider reports dealing with the management and performance of the providers of internal audit services; and*
- 2.2.1.16. *To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.*

3. TIMESCALE

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| Is this a Major Policy Item / Statutory Plan? | NO | If Yes, date for relevant Cabinet Meeting | N/A |
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4. BACKGROUND

4.1 The Public Sector Internal Audit Standards come into effect from 1st April 2013 and a copy is attached to this report (**Appendix A**). The Standards have been developed as

a result of extensive joint working by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Internal Auditors (IIA) and a range of other public bodies to tailor the International Professional Practices Framework (IPPF) – the mandatory international standards - to meet the special requirements of public sector organisations in the UK.

- 4.2 The Standards have been endorsed by CIPFA: because CIPFA is recognised as the standard setter for local government in the UK, compliance with the Standards will be mandatory. The Council will be under an obligation to comply fully or to provide a clear justification for any aspects of non-compliance. The Council's External Auditor will also be required to obtain assurance as to compliance and to report any material non-compliance. Broadly speaking, the Standards will have the same status in respect of internal audit as the International Financial Reporting Standards have in respect of accounting and financial reporting and effectively provide a consistent framework for internal audit services across the UK public sector.

5. IMPACT ON INTERNAL AUDIT AND THE AUDIT COMMITTEE

- 5.1 The IPPF has been in place for a considerable period and was already recognised as a statement of good practices in internal audit. Those good practices are also reflected in the CIPFA Code of Practice for Internal Audit in Local Government (2006) – which the Standards will replace.

- 5.2 The standards follow a consistent format across all sectors to ensure appropriate commonality. With the current service working across a number of authorities – Cambridge City Council and South Cambridgeshire District Council from 1 July 2013 – a consistent approach will benefit partnership working. The standards covers:

- Definition of internal auditing;
- Code of Ethics;
- Attribute standards; and
- Performance standards

- 5.3 While it is not anticipated that there will be any requirement for material changes in day to day operational arrangements – for example the service has already established its own Local Code of Ethics and a separate Audit Charter – there are subtle changes which Members should be aware of. These are detailed as follows:

5.4 Terminology

- A revised definition of Internal Auditing to “*an independent, objective assurance and consulting activity designed to add value to and improve an organisation's operations. 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 processes*”; and
- The use of the term “chief audit executive”, the description used internationally, rather than “Head of Internal Audit” or “Chief Internal Auditor”.

5.5 Audit Charter

- There is a requirement for an “Internal Audit Charter” to be in place. The latest version is included elsewhere on the agenda. Reference is now made towards avoiding conflicts of interest if Internal Audit carries out any non-audit activities.

5.6 Audit Strategy

- There is no longer a requirement to produce an Internal Audit Strategy. In future, the annual risk based plan must incorporate or be linked to a

strategic statement on how the service will be provided and how it links with the organisation's objectives. We have endeavoured to include that in our Audit Plan.

5.7 Service Quality and Assessments

- Ongoing monitoring of the performance of the internal audit activity. This already exists and reflects the quality checks undertaken before reports are issued.
- There will be rigorous checks under a separate Quality Assurance and Improvement Programme (QA & IP). This has been previously reported to Members as part of the review of Internal Audit effectiveness and has been undertaken as part of an assessment against the CIPFA checklist (last reported to Audit Committee June 2012). The QA & IP will continue to require ongoing internal assessments of all aspects of internal audit activity by other persons within the organisation with sufficient knowledge of audit practice. An option is to look for reciprocal arrangements with neighbouring authorities for peer reviews.
- External assessments will need to be carried out by qualified and independent assessors or assessment teams from outside the Council every five years. The Standard specifies that any external review must evaluate both conformance with prescribed policies and processes and the effectiveness of "internal audit activity".
- Supplementary guidance indicates that this term would encompass both the service activities and those of Audit Committee.

5.8 A specific Application Note for Local Government in relation to the Standards is due for publication in March 2013, and any other specific issues will be brought to Members attention at this meeting.

6. CONSULTATION

6.1 The new standards are produced for all Members and will be incorporated into the Audit Committee Handbook to assist in development opportunities.

7. ANTICIPATED OUTCOMES

7.1 Inform Audit Committee of the new international standards operational from 1st April 2013 and the impact on the works of Internal Audit and the Audit Committee.

8. REASONS FOR RECOMMENDATIONS

8.1 In accordance with best practice, Audit Committee is expected to be informed of any material governance issues which may impact on the service or the Committee.

9. ALTERNATIVE OPTIONS CONSIDERED

9.1 None – seen as adoption of best practice.

10. IMPLICATIONS

10.1 Financial: There are no significant financial issues arising at the present moment. The Head of Internal Audit is working to minimise any impact of the Standards with other authorities.

10.2 Risks: Failure to conform with the Standards could result in reputational damage to the service and the Council.

11. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

11.1 Public Sector Internal Audit Standards

12 APPENDICES

12.1 Appendix A - Public Sector Internal Audit Standards