

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	30 June 2010
Title:	Consultation on the statement on the role of the Head of Internal Audit in public service organisations
Reference:	1821
Report From:	County Treasurer

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1. Executive Summary

- 1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) have published a draft statement on the role of the Head of Internal Audit in public service organisations, with comments invited by 10 September 2010.
- 1.2. This paper seeks to provide background to the consultation, an initial draft response and to seek members' views for inclusion in the final submission.

2. Contextual information

- 2.1. CIPFA published a statement on the role of the Chief Financial Officer in public service organisations in 2009. This was followed by a statement on the role of the Chief Financial Officer in local government earlier this year to recognise the specific arrangements in the sector, whilst drawing on the broad principles that had already been widely agreed.
- 2.2. The Head of Internal Audit occupies a unique position in any organisation, providing objective assurance and helping the organisation to achieve its objectives. CIPFA have therefore issued a similar draft statement to raise the profile and clarify the role of the Head of Internal Audit. The statement sets out best practice for the Head of Internal Audit to aspire to and for the Audit Committee and others to measure internal audit against.
- 2.3. The draft statement, attached at appendix A, sets out the overarching, principles-based framework which is intended to apply to all Heads of Internal Audit in the UK public sector, irrespective of the particular part of the public services in which they work. The statement draws on the best practice and regulatory requirements in public services, as well as the requirements of CIPFA, other professional accountancy bodies' and the Institute of Internal Auditors' codes of ethics and professional standards.

3. Response to consultation

3.1. CIPFA is seeking views on the statement by 10 September 2010 before finalising it. A draft response to the four specific questions raised is outlined below and members' views are sought on these issues or any other aspect of the statement.

3.2. Question 1 – Do the five principles cover the right ground? If not, how might they be amended or augmented?

Our view is that the statement is generally helpful in outlining the role of the Head of Internal Audit and is broadly in line with the arrangements already in place for Hampshire County Council. The statement should emphasise the independence of the role, rather than giving examples of how the role might be assigned as the size of the organisation will largely dictate this. In addition, the Head of Internal Audit's responsibilities regarding confidentiality do not feature in the statement and this needs to be addressed.

3.3. Question 2 – Are there any aspects of the statement that would reduce its relevance, or prevent it being applied in any areas of the public services? Please explain any potential issues and suggest appropriate alternatives.

3.4. It would be helpful to follow the same approach to that adopted for the statement on the role of the Chief Financial Officer and for a statement on the role of the Head of Internal Audit in local government to be published after the principles are agreed for public services generally. In particular this would need to deal with the important relationships between the Head of Internal Audit, the Section 151 officer and the Monitoring Officer which is not in place in other public service organisations.

3.5. Question 3 – Do you support CIPFA's proposal that organisations should confirm compliance with the Statement in their annual governance reports?

3.6. We have already followed this approach for the statement on the role of the Chief Financial Officer in local government in the 2009/10 Annual Governance Statement and support the same approach for the statement on the role of the Head of Internal Audit. This provides the opportunity to explain that current practice conforms with the statement or to explain reasons why this may not be the case and how the same impact is achieved.

3.7. Question 4 – How should CIPFA follow up the statement to help Heads of Internal Audit, audit committees and others make best use of audit resources and maximise the impact that they make?

3.8. Internal audit practitioners currently meet training and development needs and draw best professional practice from a variety of sources including the Institute of Internal Auditors. CIPFA's position with regard to internal audit qualifications needs to be clear and it needs to take a proactive role in identifying and promoting best practice.

3.9. In addition to the four specific questions, the following observations are made:

- references to consultancy (page 9) are not clear as it refers to 'assurance' possibly confusing this with audit work

- page 11 refers to the relationship with the external auditor and it would be helpful to expand this to reflect the fact that the three yearly review of internal audit by external audit is a normal expectation to provide external assurance over the effectiveness of the internal audit function
- Principle 2 (page 11) refers to the Head of Internal Audit having no operational responsibilities and this does not sit well with the model adopted in Hampshire County Council for many years. This is likely to be the case in many organisations where other responsibilities such as risk management are often held and the question is possibly one of proportionality. The alternative assurance arrangements suggested are probably not practical and would add little additional assurance in reality
- the statement refers to audit coverage being comprehensive and covering the whole system of control (page 12). This statement needs to be reworded in the context of the risk based approach to audit that has been followed for a number of years.

4. Recommendation

- 4.1. That members discuss their views on the draft statement on the role of the Head of Internal Audit in public service organisations and, subject to inclusion of these views into the response, approve the response to be sent to CIPFA.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:

Of the importance of effective internal audit arrangements to the County Council's governance framework.

Other Significant Links**Links to previous Member decisions:**

<u>Title</u>	<u>Reference</u>	<u>Date</u>
None		

Direct links to specific legislation or Government Directives

<u>Title</u>	<u>Date</u>
None	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

The role of the head of internal audit in public service organisations (Consultation draft May 2010)

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equalities objectives are not considered to be adversely affected by the proposals within this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have a direct impact on the prevention of crime, however, a robust internal control framework has a positive effect on the prevention of fraud.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific changes.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change.