

Governance Committee

29 June 2010

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

Report of the Treasurer

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1 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 Recommendation

- 2.1 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.

3 Background

- 3.1 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.
- 3.2 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 Governance Committee and others to measure internal audit against.
- 3.3 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.

4 Response to consultation

4.1 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.

4.2 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 helpful in outlining the role of the Head of Internal Audit and is in line with the arrangements already in place for Hampshire Fire and Rescue Authority. 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.

4.3 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.

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.

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

HFRA 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.

4.5 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?

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.

4.6 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
- 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.

5 Resource implications

- 5.1 The cost of preparing this report is reflected in the agreed annual Internal Audit plan and provided for in the Authority's revenue budget.

6 People Impact assessment

- 6.1 The proposals in this report are considered compatible with the provisions of the European Convention on Human Rights, the Human Rights Act 1998 and the Race Relations (Amendment) Act 2000.

7 Environmental and Sustainability impact assessment

- 7.1 Proposals have no environmental or sustainability impacts.

Section 100 D – Local Government Act 1972 – background papers

The following documents disclose facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of this report.

NB the list excludes:

Published works.

Documents which disclose exempt or confidential information as defined in the Act.

TITLE

FILE

CIPFA consultation draft statement on the role of the head of internal audit in public service organisations. (May 2010)