

AUDIT & RISK COMMITTEE

22nd January 2013

PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Report of the Head of Welland Internal Audit Consortium

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| STRATEGIC AIM | All |
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1. PURPOSE OF THE REPORT

1.1 To advise Members of the likely impact of the new Standards.

2. RECOMMENDATIONS

2.1 That Members note the report.

3. DEVELOPMENT AND STATUS OF THE STANDARDS

3.1 The Public Sector Internal Audit Standards come into effect from 1st April 2013. The Standards have been developed as a result of extensive joint working by 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.

3.2 The Standards have been endorsed by CIPFA: because CIPFA is recognized 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.

4. KEY ISSUES RAISED

4.1 The IPPF has been in place for a considerable period and was already recognized 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 – which the Standards will replace. As the Consortium has operated since its establishment in compliance with the CIPFA Code, it is not anticipated that there will be any requirement for material changes in the Consortium’s day to day operational arrangements. There will, however, be strong pressure for changes in respect of: the relationship between the Consortium and the Committee; the development of the Annual Audit Plan; and the reliance placed on other sources of assurance. There will also be – for the first time – a requirement to procure, periodically an independent, external review of the effectiveness of internal audit.

4.2 The Standards specify a requirement for “effective communication” between the Head of Consortium and the Audit and Risk Committee: there is a specific reference to effective communication with the Committee Chair. In this context “effective communication” refers to the engagement of the Committee’s membership – and of the Chair in particular – in discussions with the Head of Consortium about: the Council’s risks and assurance requirements; the level of assurance provided and issues of concern raised by audit work undertaken; the implementation of agreed recommendations and the enhanced assurance arising; and the performance of the Consortium. Two specific areas in which a higher level of engagement is specified are:

- the requirement that the Chair be formally consulted as part of the Head of Consortium’s performance; and
- the requirement that the Committee consider proposals for the Consortium to undertake any significant consultancy work not already included in the Annual Audit Plan – and to assure itself that the proposed work would not impair the Consortium’s independence or objectivity.

4.3 Currently the Annual Audit Plan is developed using the Stanford Model to evaluate the risks associated with each of a schedule of audit entities designed to capture all of the Council’s activities. The advantage of this approach is that it gives assurance that all aspects of the Council’s activities – and all aspects of potential risk – are considered during the planning process. A critical drawback – which

the Standards address – is that the Model does not reliably capture changes to corporate objectives and priorities and does not allow for the identification of other sources of assurance that might reduce or obviate the need for audit assurance. It is the opinion of the Head of Consortium that compliance with the Standard will require the development of a process through which the Council's Managers formally identify their key risks for the following financial year and the production of a Plan designed to give assurance in respect of all of those risks. A separate report sets out in more detail the approach proposed and the implications for the Annual Audit Plan for 2013/14.

- 4.4** The most fundamental change introduced by the Standards is the requirement to commission periodic reviews of the effectiveness of internal audit undertaken by an appropriately qualified and independent external assessor: supplementary guidance indicates that the Council's External Auditor would not be regarded as independent in this context. The introduction of a mandatory review process will involve some – as yet undeterminable - additional costs but the Head of Consortium is working with colleagues in other district councils to develop arrangements that will at worst minimize costs arising and may offer opportunities for additional revenue.
- 4.5** 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 activities of the Consortium and those of the Audit and Risk Committee. While the Consortium has been subject to a number of reviews by External Audit which have confirmed its conformance with good practice there have been no similar reviews focused on the activities of the Committee. There have been initial discussions with the Chair of the Committee about working with the Chair of Melton Borough Council's Audit Committee to enhance Committee effectiveness in advance of any review.

5. CONCLUSIONS

- 5.1** The introduction of the Standards will demand a higher level of engagement on the part of the Committee. Initial steps have been taken to prepare and support the Committee: that support will be developed as the requirements of the review process becomes clearer.

6. RISK MANAGEMENT

| RISK | IMPACT | COMMENTS |
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| Time | Low | The report does not prompt or require any time-bound response from the Committee |
| Viability | Low | There are no significant resourcing issues arising at present |
| Finance | Low | There are no significant financial issues arising at present: the Head of Consortium is working to minimize any financial impact of the Standards. |
| Profile | Low | The report considers issues having the potential to improve the effectiveness of the Committee |
| Equality and Diversity | Low | EIA screening indicates no issues arising therefore full Impact Assessment has not been carried out. |

Background Papers
None

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A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.