

# WIRRAL COUNCIL

## AUDIT AND RISK MANAGEMENT COMMITTEE

17 SEPTEMBER 2014

|                         |   |
|-------------------------|---|
| <b>SUBJECT:</b>         | <b>PUBLIC SECTOR INTERNAL AUDIT STANDARDS</b> |
| <b>WARD/S AFFECTED:</b> | <b>ALL</b>                                    |
| <b>REPORT OF:</b>       | <b>CHIEF INTERNAL AUDITOR</b>                 |
| <b>KEY DECISION?</b>    | <b>NO</b>                                     |

### 1.0 EXECUTIVE SUMMARY

1.1 This report is to inform members of the requirements of the Public Sector Internal Audit Standards and to outline the progress being made in ensuring compliance.

### 2.0 BACKGROUND

2.1 From 1st April 2013, new Public Sector Internal Audit Standards (hereafter referred to as “the Standards”) came into effect. These were jointly developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).

2.2 The Standards have replaced the CIPFA Code of Practice for Internal Audit in Local Government (2006) as the mandatory guidance, and provide a coherent and consistent internal audit standards framework for the whole of the public sector.

2.3 The Standards introduce 142 requirements which are additional to those detailed in the CIPFA Code of Practice. The most significant development is the introduction of the requirement for external quality assessments to be conducted at least once every five years by a qualified, independent assessor from outside the organisation.

2.4 Local authorities are required to be able to demonstrate full implementation and compliance with the Standards. The aim is that the Council will be able to demonstrate this by the time of the first external assessment, which must take place before 31 March 2018. However, the aim of the external assessment is to aid ongoing improvement. Over time and as processes develop and change, it is natural that areas of non-compliance may arise. The key principle is that there are no significant areas of non-compliance which would impinge on the effectiveness of the internal audit function, and that any areas for improvement are acknowledged and appropriate actions are being planned and undertaken.

### 3.0 IMPLEMENTATION AND COMPLIANCE

3.1 In response to the publication of the standards, Internal Audit has undertaken an assessment exercise so as to evaluate compliance with the Standards and to ascertain the actions required for full compliance. This exercise was referred to in the “Internal Audit Update” report

presented to this Committee on 23 June 2014, where it was agreed that a progress report be presented to this meeting.

3.2 The outcome of this assessment was that the Internal Audit service was found to **generally conform** with the requirements of the Standards, but that a number of actions have been identified so as to ensure full compliance. This is entirely to be expected, given the significant number of additional requirements.

3.3 The table below summarises the self-assessment outcomes:

| <b>Standard</b>                                       | <b>Outcome of Self-Assessment</b> |                           |                         | <b>TOTAL</b> |
|---|-----------------------------------|---------------------------|-------------------------|--------------|
|   | <b>Generally Conforms</b>         | <b>Partially Conforms</b> | <b>Does Not Conform</b> |              |
| <i>No of compliance areas identified (X)</i>          |                                   |                           |                         |              |
| Definition of Internal Auditing (3)                   | 3                                 | 0                         | 0                       | 3            |
| Code of Ethics (13)                                   | 13                                | 0                         | 0                       | 13           |
| 1000 Purpose, Authority and Responsibility (23)       | 21                                | 1                         | 1                       | 23           |
| 1100 Independence and Objectivity (35)                | 31                                | 1                         | 3                       | 35           |
| 1200 Proficiency & Due Professional Care (21)         | 20                                | 1                         | 0                       | 21           |
| 1300 Quality Assurance and Improvement Programme (30) | 12                                | 17                        | 1                       | 30           |
| 2000 Managing the Internal Audit Activity (47)        | 40                                | 4                         | 3                       | 47           |
| 2100 Nature of Work (31)                              | 31                                | 0                         | 0                       | 31           |
| 2200 Engagement Planning (58)                         | 57                                | 1                         | 0                       | 58           |
| 2300 Performing the Engagement (22)                   | 20                                | 2                         | 0                       | 22           |
| 2400 Communicating Results (55)                       | 49                                | 1                         | 5                       | 55           |
| 2500 Monitoring (4)                                   | 4                                 | 0                         | 0                       | 4            |
| 2600 Communicating Risk Acceptance (2)                | 2                                 | 0                         | 0                       | 2            |
| <b>TOTAL</b>  | <b>303</b>                        | <b>28</b>                 | <b>13</b>               | <b>344</b>   |
|   | <b>88%</b>                        | <b>8%</b>                 | <b>4%</b>               |              |

3.4 The following key actions have been identified so as to ensure full compliance:

- Refresh of the Internal Audit Manual to reflect the additional requirements of the Standards, and reacquaint all Internal Audit staff with the refreshed document.
- Build on the agreement with other North West English Councils to provide the external assessment (referred to in 2.3 above) so as to develop a robust approach that will meet the needs of the

Standards. The reciprocal arrangement has already received the endorsement of relevant professionals, when the matter was discussed at a professional seminar.

- Include explanation of the Standards and compliance with these in the Annual Chief Internal Auditor's report, and other relevant reports to this Committee and senior management.
- Review and document the expectations of the wider stakeholders of Internal Audit, and take these into account in planning and in providing the Annual Internal Audit Opinion.
- Review and document the assurances provided by other assurance providers, develop protocols for the sharing of assurances, and take these into account in planning and in providing the Annual Internal Audit Opinion.
- Keep this Committee and senior management updated on compliance with the Standards.

3.5 Positive progress has already been made in addressing the issues identified, including the adoption of a Code of Ethics, which encapsulates the specific ethical considerations for Internal Auditors.

#### **4.0 NEXT STEPS**

4.1 Implementation of the actions identified to ensure compliance will continue, and regular progress reports will be made to this Committee.

#### **5.0 RELEVANT RISKS**

5.1 Significant non-compliance with the Standards may impinge on the real and perceived effectiveness of the Internal Audit function.

#### **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 There are none arising from this report.

#### **7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

7.1 There are none arising from this report.

#### **8.0 LEGAL IMPLICATIONS**

8.1 There are none arising from this report.

#### **9.0 EQUALITIES IMPLICATIONS**

9.1 There is no relevance to equality.

#### **10.0 CARBON REDUCTION IMPLICATIONS**

10.1 There are none arising from this report.

#### **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 There are none arising from this report.

## **12.0 RECOMMENDATION**

12.1 That the Committee notes the Report and supports the Internal Audit section in becoming fully compliant with the Public Sector Internal Audit Standards.

## **13.0 REASON FOR RECOMMENDATION**

13.1 This Committee has an important role in helping the Internal Audit section achieve compliance with the Standards.

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## **REFERENCE MATERIAL**

Public Sector Internal Audit Standards

Quality Assurance and Improvement Programme – procedure and evaluation (Chartered Institute of Internal Auditors, 2013)

Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (Chartered Institute of Public Finance and Accountancy, 2013)

## **SUBJECT HISTORY (last 3 years)**

| <b>Council Meeting</b>              | <b>Date</b>  |
|-------------------------------------|--------------|
| Audit and Risk Management Committee | 23 June 2014 |