

<b>Meeting Date</b>	25 September 2013
<b>Report Title</b>	Internal Audit Charter
<b>Portfolio Holder</b>	Cllr Dewar-Whalley – Finance Portfolio
<b>SMT Lead</b>	Mark Radford – Director of Corporate Services
<b>Head of Service</b>	Brian Parsons – Head of Audit Partnership
<b>Lead Officer</b>	Brian Parsons – Head of Audit Partnership
<b>Key Decision</b>	No
<b>Classification</b>	Open

<b>Recommendations</b>	1. That the Audit Committee approves the Internal Audit Charter (shown as appendix I).
	2. That the Audit Committee note: <ul style="list-style-type: none"><li>• The external assessment of Internal Audit’s conformance with the Public Sector Internal Audit Standards, which will take place in January 2014</li><li>• The proposal to create a ‘one employer’ model for the Internal Audit shared service</li><li>• The proposal to extend the collaboration agreement to 31 March 2019</li><li>• The arrangements that are being put in place to recruit a Head of Audit Partnership</li></ul>

## **Purpose of Report and Executive Summary**

- 1.1 The report asks that the Audit Committee consider and approve the Internal Audit Charter, which is a requirement of the new Public Sector Internal Audit Standards (PSIAS)
- 1.2 The report also updates the Committee on:
  - The external quality assessment of internal audit (which is also a requirement of PSIAS)
  - The proposal for the creation of ‘one team – one employer’
  - The possible extension, by a further four years, of the current collaboration agreement for the audit partnership
  - The proposed arrangements for the recruitment of a new Head of Audit Partnership

## 2 Background

### The Internal Audit Charter

- 2.1 The new Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013. They represent a statutory standard for all internal audit services across the public sector and accord with the international standards for internal audit prescribed by the Chartered Institute of Internal Auditors (CIIA). A report on the key elements of the standards was provided to the committee earlier in the year.
- 2.2 The statutory standards require that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive (the Head of Audit Partnership) must periodically review the internal audit charter and present it to senior management and the board (the Audit Committee) for approval.
- 2.3 The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the Head of Audit Partnership's functional reporting relationship with the audit committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the audit committee.
- 2.4 The internal audit charter must also:
- Define the terms 'board' and 'senior management' for the purposes of internal audit activity
  - Define the role of internal audit in any fraud-related work; and
  - Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities
- 2.5 An internal audit charter has been prepared for the Mid Kent Audit shared service. The contents of the charter are prescribed by the Standards; therefore any significant changes to the content at a local level may mean that the Mid Kent Audit service will not conform to the statutory standards.
- 2.6 The draft charter is shown as an appendix (I) to this report. The Audit Committee it asked to approve the charter.

## **Public Sector Internal Audit Standards – Requirements of the Quality Assurance and Improvement Programme**

- 2.7 The standards require that an independent external quality assessment (EQA) of conformance is carried out at least once every five years. This has been referred to in previous reports to the Audit Committee. It is considered that every five years is an appropriate frequency; however this is a matter for periodic discussion between the Head of Audit and the Audit Committee.
- 2.8 There are two options for the assessment; it can either be done as a full EQA review or as a validated self assessment. The full EQA is approximately twice the cost of the validated self assessment.
- 2.9 A validated self assessment is considered to be the most appropriate option.
- 2.10 The external quality assessment will take place in January 2014. It will be carried out by a team from the Chartered Institute of Internal Auditors (CIIA) who are qualified to undertake the assessment and will provide an independent view, with no potential conflict of interest. The Institute is the owner and designer of the professional internal audit standards.
- 2.11 In advance of the CIIA assessment, an internal self assessment will be prepared, based on the detailed CIIA checklist and the CIPFA compliance checklist. The cost of the external assessment will be £7,000 with the cost spread across the four partner Councils (£1,750 each). The assessment will include some interviews with key stakeholders, which will include some senior managers and members of the four audit committees. The cost will be met from existing audit budgets.
- 2.12 There are a number of benefits to the assessment process. Firstly, the self assessment helps to identify areas where the service can be improved, allowing an action plan to be prepared. Secondly, a successful external assessment will provide a form of accreditation for the service, which can be quoted in Internal Audit reports and will help to demonstrate the value of the service to existing and potentially new clients, as well as providing a quality assurance to the external auditors in terms of their ability to place reliance on the work of Internal Audit.
- 2.13 The first stage of the process has already taken place, which involved an assessment of conformance against the IIA and the CIPFA checklists. This identified significantly high levels of conformance already but inevitably, that there are some areas for attention. The introduction of a compliant Audit Charter will address a number of these areas. The remainder will be addressed over the coming months and an 'evidence of conformance file' will be prepared prior to the external assessment in January 2014.
- 2.14 Further discussion will take place with the CIIA compliance team in December in order to clarify their requirements and arrange the interviews with stakeholders.

3.1 It is intended that full conformance with PSIAS will be demonstrated by 31 March 2014.

### **One Employer proposal**

3.2 A proposal has been prepared which would lead to all of the staff who work for the internal audit shared service having one employer.

3.3 Since the commencement of the partnership in April 2010, all of the operational auditors have continued to be employed by their original employers, with their costs charged directly to the employer. In terms of management, one of the Audit Managers is employed by Tunbridge Wells, with a recharge to Ashford for his management time. The other Audit Manager is employed by Maidstone, with a recharge to Swale for management time. The Head of Audit Partnership is employed by Maidstone, with a recharge to the other three partners.

3.4 The operational auditors are primarily based at the site of their current employer, with the majority of their work being local to that site. The current arrangements allow up to 25% of their work to be carried out at other partnership sites, with a quid-pro-quo arrangements with the other partnership team. Where this has happened it has produced good results, for example, a recent audit of Section 106 arrangements at Tunbridge Wells was carried out by an Ashford auditor who was able to quote examples of good practice in the administration of Section 106's at Ashford. Audits of other shared services are carried out for the MKIP authorities, with the resulting Internal Audit report able to provide assurance to the two or three partner authorities.

3.5 While carrying out one-off audit projects at other sites has been successful, it does require a certain amount of administration as the auditor is treated as a one-off visitor to the site, requiring that issues such as IT access, parking arrangements, access cards, etc, have to be set up for each separate audit project. This would not be the case if the auditor was allocated to a site for, say, a three month or a six month period and carried out a range of audits while on that site; a longer time allocation is therefore more efficient.

3.6 The current employment model does not allow audit staff to be sent to work on another site for an extended period or to be rotated between the four client sites.

3.7 The current arrangements have the following disadvantages:

- Lack of flexibility in the use of staff
- Lack of flexibility to adjust the cost of the service
- Variations in pay and conditions of employment between the four employers
- No option for rotation of staff
- Difficulties in maintaining auditor objectivity and independence (objectivity and independence are a key requirement of PSIAS)
- Limited cross partnership learning

- Limitations on the resilience that can be provided
  - Difficulties in management control
- 3.8 All of these disadvantages would be addressed by a one team model – which will in turn lead to a better service for the four partner Councils.
- 3.9 The move to a single employer will not address variations in pay and conditions, as the existing staff will have their terms and conditions (including their salary) protected under the Transfer of Undertakings (Protection of Employment) (TUPE) regulations.
- 3.10 A number of other Internal Audit Partnerships exist in other parts of the country. The various Heads of Audit Partnership contacted over recent months have confirmed that they operate to a ‘one employer’ model, which was facilitated by a TUPE transfer.
- 3.11 The process that has been agreed by the representatives of the four partner Mid Kent Councils, is that a report will initially be considered by the respective management teams, and subject to their endorsement of the proposal, the report will be provided to the respective decision making entity for each Council; for Swale this will be the Cabinet.
- 3.12 The process will include consultation for affected staff in accordance with each Council’s formal procedure.
- 3.13 As stated earlier, the only effects on the audit service that the Audit Committee should notice are that a broader range of auditors will undertake audit work on each site and that the overall quality of the service will continue to increase. Members are therefore asked to note the proposal.

### **Extending the current partnership agreement**

- 3.14 The current shared service arrangements for Internal Audit are the subject of a five year collaboration agreement. The agreement commenced on 1 April 2010 and will therefore expire on 31 March 2015.
- 3.15 In the context of the proposed changes to the employment model and the need to be able to attract a good quality candidate for the post of Head of Audit Partnership, it is proposed that the agreement be extended, to expire on 31 March 2019.

### **Recruitment of Head of Audit Partnership**

- 3.16 The current Head of Partnership will be retiring on the 31 March 2014. The process of recruiting a Head of Audit Partnership will commence in early November 2013, with interviews taking place early in December. It is anticipated that the new Head of Audit Partnership will be appointed during December to

formally commence employment on 1 April 2014. The arrangements should provide an opportunity for a hand-over to take place.

- 3.17 The committee is asked to note the arrangements for the recruitment of the Head of Audit Partnership

### **3 Proposal**

- 2.1 The report asks that the Audit Committee consider and approve the Internal Audit Charter, which is a requirement of the new Public Sector Internal Audit Standards (PSIAS). This is the first step to ensuring that Internal Audit will be compliant with the Standards.
- 2.2 The Audit Committee is asked to note the other issues that are referred to in the report, which are part of a process of continuous improvement and progression planning.

### **4 Alternative Options**

- 4.1 A failure to be compliant with the Public Sector Internal Audit Standards would have a number of negative implications as implied elsewhere in this report, and could not be recommended.

### **5 Consultation Undertaken or Proposed**

- 5.1 The matters referred to in this report have been the subject of discussion with the officer partnership board, which includes a senior representative for each of the four partner Councils. The board has agreed that the action proposed within this report should be taken forward.
- 5.2 Any decision to move forward with the one employer proposal will be subject to consultation with affected staff in accordance with the Council's agreed policies.

### **6 Implications**

<b>Issue</b>	<b>Implications</b>
Corporate Plan	The work of Internal Audit covers a range of services and systems that exist to support corporate plan priorities.
Financial, Resource and Property	There are some costs associated with the quality assessment review against the Public Sector Internal Audit Standards. These costs will be shared equally by the four partners and are manageable within the existing budgets.  Work is ongoing in terms of the comparative costs of the 'one employer' model compared with the existing arrangements. The work has so far indicated that a change would be cost neutral.

<p>Legal and Statutory</p>	<p>Internal Audit is a statutory requirement for the Council in the context of the Accounts and Audit Regulations 2011.</p> <p>The Regulations require that internal audit must be provided in accordance with the proper practices. The proper practices are considered to be the Public Sector Internal Audit Standards.</p> <p>A change to the employment model will require a change to the collaboration agreement to restate the liabilities of the partners. An extension of the term of the partnership will also require an amendment to the agreement.</p>
<p>Crime and Disorder</p>	<p>None identified at this stage.</p>
<p>Risk Management and Health and Safety</p>	<p>The risk of not agreeing the Internal Audit Charter is that the internal audit service will not meet the Public Sector Internal Audit Standards. This has negative implications for the standing of the service and the reliance that can be placed upon it.</p> <p>The principal risk relating to the PSIAS assessment is that the assessors might declare non conformance. This risk can be mitigated by the necessary preparatory work being carried out prior to the assessment.</p> <p>The principal risk for the ‘one employer’ proposal is that one or more of the four Council partners will not agree to the proposal, meaning that the current employment model continues. This will weaken the longer term position of the service and the partnership.</p> <p>Any proposal to make a significant change to staff contracts contains a degree of risk. This risk will be mitigated by consulting formally with staff and taking proper account of issues that are raised.</p> <p>The principal risk for the proposal to extend the partnership is that one or more of the four Council partners decides not to do so. This would put the current partnership service in jeopardy and would make it difficult to attract a sufficiently high calibre candidate for the post of Head of Audit Partnership.</p>
<p>Equality and Diversity</p>	<p>None identified at this stage.</p>
<p>Sustainability</p>	<p>None identified at this stage.</p>

## **7 Appendices**

7.1 The following documents are to be published with this report and form part of the report

- Appendix I: Internal Audit Charter

## **8 Background Papers**

8.1 The Public Sector Internal Audit Standards – issued by the Relevant Internal Audit Standard Setters (for local government this in CIPFA).