

# Consultation: Code of Practice for the Governance of Internal Audit in Local Government

## Introduction

Responses to the consultation are invited from all those with an interest in internal audit in the UK local government sector, including audit committee members, senior managers in local government, internal auditors, those in governance roles, and stakeholders.

Respondents will find it helpful to review the Code alongside the GIAS and the consultation on the proposed *Application Note: Global Internal Audit Standards in the UK public sector*.

Responses should be made on Microsoft form by **17:00 on Thursday 28 November 2024**. CIPFA is holding drop-in sessions to answer questions on the consultation. For more information and to book please visit <https://www.cipfa.org/services/networks/better-governance-forum>

*CIPFA would appreciate responses to the following questions:*

1A. Name \*

Richard Baker

1B. Organisation \*

Society of District Council Treasurers

1C. What is your role in local government? \*

- Audit committee member (whether elected or appointed)
- Senior management

- Other governance role eg PCC, Councillor
- Chief audit executive or internal auditor (in-house, shared service, outsourced)
- Stakeholder eg external auditor, representative body, professional institute
- Other

If Other please state

Enter your answer

1D. In what capacity are you submitting your response? \*

- On behalf of your organisation
- A personal response

The Code is intended to operate alongside the Global Internal Audit Standards (UK Public Sector) and provide appropriate governance for internal audit equivalent to the 'essential conditions', but in a way that is appropriate for UK local government.

2A. In your view does the Code meet that objective?

\*

- Yes
- To some extent
- No
- Don't know

2B. If you answered no or to some extent, please explain your answer

In the main we are supportive of the code, and see it as a critical response to the feedback that arose from the consultation on the new Global Internal Audit Standards. In particular, domain III was problematic for the public sector and the proposed code does, in the main, address the concerns raised by the sector. This is very much welcomed. It is noted that the code does not make any material changes in relation to domains I, II, IV and V which we feel is the appropriate approach.

The consultation recognises that many authorities will already be operating in line with good practice, and we agree with this. We also recognise that for those who are in this position strong foundations are in place to move to the new standards.

The main areas of concern with the code are in relation to authorities where there is Where we feel the code could be developed further, is in the recognition that not all authorities have in house audit teams and the implications this has in their ability to fully comply with the code. Examples have been included in the responses to the consultation responses for specific sections of the code.

In relation to the annual governance statement, we do agree that compliance with the code should be considered and included in the statement. However,

### **Providing authority for internal audit – internal audit’s mandate**

The Code requires the development and approval of internal audit’s mandate which includes the appropriate statutory regulations and meets the assurance requirements of the authority.

3A. Do you support this section of the Code? \*

- Yes
- In part
- No
- Don't know

3B. If you answered No or In Part please explain your answer

Enter your answer

### **Providing authority for internal audit – internal audit's charter**

The Code requires senior management to work with the chief audit executive to develop a charter that meets the requirement of the Global Internal Audit Standards (UK Public Sector) and reflects how internal audit will work with the authority.

4A. Do you support this section of the Code? \*

- Yes
- In Part
- No
- Don't know

4B. If you answered No or In Part please explain your answer

Enter your answer

### **Providing authority for internal audit – support for internal audit**

The Code requires senior management and the audit committee to provide support for internal audit so they can meet the requirements of the charter and mandate, and fulfil their purpose.

5A. Do you support this section of the Code? \*

- Yes
- In Part

No

Don't know

5B. If you answered No or In Part please explain your answer

Section 2.1 of the code sets includes provision for providing opportunities for the chief audit executive to meet with the audit committee without senior management present. We believe this to be reasonable and most councils will have procedures in place to enable this. Within section 1.3 (support for internal audit), the code effectively mandates an annual meeting between the chief audit executive and the audit committee without senior management present. The need to meet without senior management present is for the audit



### **Positioning internal audit independently – organisational independence**

The Code requires senior management and the audit committee to establish and safeguard internal audit's independence in the organisation.

6A. Do you support this section of the Code? \*

Yes

In part

No

Don't know

6B. If you answered No or In Part please explain your answer

This section of the code would benefit from a review from a shared service or outsourced perspective.

For example, this section requires “The audit committee should provide feedback on the proposed job description and the performance evaluation of the chief audit executives should include feedback from the chair of audit committee.” This would be unlikely to achieve the objectives expected in a shared services arrangement and would add unnecessary administrative burdens to enable this to happen. It is likely the lead authority would determine the job description which would be agreed through the relevant governance process for the shared service (for example through a shared service board). In

### **Positioning internal audit independently – qualifications of the chief audit executive**

The Code requires senior management to take account of the qualifications and competencies of the chief audit executive when recruiting or engaging internal audit.

7A. Do you support this section of the Code? \*

- Yes
- In part
- No
- Don't know

7B. If you answered No or In Part please explain your answer

Enter your answer

### **Oversight of internal audit - audit committee interaction**

The Code requires audit committees to follow the CIPFA guidance on audit committees in local government and ensure good interaction with internal audit

(paragraph 3.1)

8A. Do you support this section of the Code? \*

- Yes
- In part
- No
- Don't know

8B. If you answered No or In Part please explain your answer

Enter your answer

### **Oversight of internal audit - resources**

The Code requires senior managers and the audit committee to consider with the chief audit executive whether resources of the function are sufficient and to consider longer terms resourcing plans (paragraph 3.2)

9A. Do you support this section of the Code? \*

- Yes
- In part
- No
- Don't know

9B. If you answered No or In Part please explain your answer

Enter your answer

### **Oversight of internal audit - quality**

The Code requires the audit committee to review the chief audit executive's annual report and conclusion, the function's performance against its objectives, and assessment of conformance, and satisfy itself on the effectiveness of internal audit arrangements (paragraph 3.3)

10A. Do you support this section of the Code? \*

- Yes
- In part
- No
- Don't know

10B. If you answered No or In Part please explain your answer

Enter your answer

### **Oversight of internal audit - external quality assessment**

Senior management must ensure that internal audit has an external quality assessment at least once every five years of conformance to the Global Internal Audit Standards (UK Public Sector) and this Code. The full results should be reported to the audit committee.

11A. Do you support this section of the Code? \*

- Yes



In part

No

Don't know

11B. If you answered No or In Part please explain your answer

This area of the code would benefit from review from a sharded service perspective. In areas like this, powers may for example, to a lead authority for a partnership, or be delegated to senior officers (responsible for Audit) sitting on shared services boards to enable a collaborative approach to be taken in a reasonable timeframe. It would be unreasonable for all audit committees of councils in a shared devices arrangement to consider such proposals for scope, method and assessment, without significant delays and additional administration. It could for example mean additional committee meetings needing to be scheduled just to enable a first draft to be considered, followed by final draft for agreement once feedback is received from each audit committee. Alternatively, enabling councils to explain non-compliance, the



The Code focuses on the roles of audit committees, senior management or others charged with governance in relation to internal audit.

12A. In your view are there requirements, in addition to what is set out in the Code, that are needed to fulfil the expectations of the Global Internal Audit Standards (UK Public Sector)? \*

Yes

No

12B. If you answered Yes please explain your answer

Enter your answer

13A. Do you foresee any significant barriers to achieving compliance with the Code in your organisation? \*

Yes

No

13B. If you answered Yes please explain your answer

The areas which we have identified as challenging for authorities to achieve compliance, are regarding shared services and outsourcing. These have been explained in more detail in the relevant sections of this consultation. The code would benefit from a review from a shared service / outsourced service lens in terms of the practicalities of compliance, or, from having clearer provisions for how non-compliance is addressed and explained in the annual governance



CIPFA proposes to support the implementation of the Code through briefings and training.

14. Are there any other steps you would like CIPFA to take to support the implementation of the Code?

None

### **Assessing conformance**

The Global Internal Audit Standards (UK Public Sector) require the chief audit executive to evaluate conformance annually and the application of the Code will form part of that assessment. It is proposed that local government body should include whether or not they conform with the Code in their annual governance statement.

15A. In your view, is inclusion in the annual governance statement appropriate? \*

Yes

No

15B. If you answered No please explain your answer

Enter your answer



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