

Report of:	Chief Internal Auditor
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Report Track:	Audit & Governance only

Audit & Governance Committee
20th August 2013
Public Sector Internal Audit Standards

1 Purpose of Report

- 1.1 To inform the Committee of the new Public Sector Internal Audit Standards and the Internal Audit Section's conformance with them.

2 Recommendations

- 2.1 That the Committee note the current level of conformance and approve the action plan to address any gaps in conformance.

3 Key Issues and Reasons for Recommendations

- 3.1 The Public Sector Internal Audit Standards came into force as "proper practice" for all Local Authorities from 1st April 2013. The Internal Audit Section needs to ensure that it conforms with the standards as far as possible and has produced an action plan to highlight any areas where changes are needed.

4 Relationship to Corporate Priorities

- 4.1 The Internal Audit section is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities.

5 Report Detail

- 5.1 Internal Audit is a key source of assurance for management and one of the key sources used in the compilation of the Council's Annual Governance Statement. The Accounts & Audit Regulation 2011 and the Local Government Finance Act place a duty on the Council to have an Internal Audit function which complies with "proper practice". Since 2006 "proper practice" for Local Government has been the "Cipfa Code of Practice for Internal Audit in Local Government" (Cipfa Code) as set out by the DCLG in circular 03/2006.

5.2 From 1st April 2013 the new “Public Sector Internal Audit Standards” (PSIAS) have come into force for all public bodies and this is the first time that all elements of the UK public sector have had a common set of Internal Audit standards. The PSIAS with the “Local Government Application Note For the United Kingdom Public Sector Internal Audit Standards” (LGAN) issued by Cipfa now supersedes the Cipfa Code as “proper practice” in relation to the requirements contained in the Accounts & Audit Regulations 2011. The PSIAS place a requirement on the Internal Audit section to conform with the standards and to report any areas of non-conformance. Any significant deviations from conformance with the PSIAS should also be considered for inclusion in the Council’s Annual Governance Statement.

5.3 The purpose of introducing the new standards is to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

5.4 The PSIAS are based on the mandatory elements of the International Professional Practices Framework issued by the Global Institute of Internal Auditors which set out the following:

- Definition of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing

Some additional requirements and elements of interpretation have been included in the PSIAS to ensure that they are fully applicable to the UK public sector. A summary of the main elements of the PSIAS is contained in Appendix 1.

5.5 Whilst broadly similar to the requirements contained within the Cipfa Code the PSIAS & LGAN do have some differences in emphasis and some amended requirements which may require some changes to be made. A detailed gap analysis has been carried out by the Chief Internal Audit, the gap analysis is a lengthy document and is not included in this report but is available for review. Attached as Appendix 2 to this report is the action plan of areas where it is felt changes are necessary. The section is generally in conformance with the new requirements key changes include:

- The need to replace the Terms of Reference for Internal Audit with an Audit Charter;
- Some changes to the Terms of Reference for the Audit Committee;
- The production of a Quality Assurance and Improvement Programme for the section;

- Amendments to the review of Internal Audit to include a mandatory external independent review at least once every 5 years.

5.6 The PSIAS require the development of a “Quality Assurance and Improvement Programme” for Internal Audit. This will form the basis of the Annual Review of the Effectiveness of Internal Audit moving forward. Whilst the Annual Review has always included an independent review the PSIAS has made this requirement more demanding by requiring an independent external assessment to be carried out at least once every five years in addition to the internal reviews. This is likely to incur an additional cost for which no budget has currently been identified. A separate paper outlining the options for the nature of the independent external review will be brought to the Audit Committee once the details have been determined.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Section 17 (Crime Prevention)

None

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

None

6.8 Equality & Diversity

None

6.9 Best Value

None

7 Appendices to the Report

Appendix 1 - Summary of PSIAS Requirements

Appendix 2 - Action Plan

Previous Consideration

None

Background Papers

Public Sector Internal Audit Standards

Local Government Application Note

Detailed gap analysis document

Summary of Public Sector Internal Audit Standards

Some comments around the key changes have been included in the boxes at the end of the relevant sections.

Definition of Internal Auditing

The PSIAS defines Internal Audit as -

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

The definition of Internal Audit has changed slightly from the previous Cipfa definition but this does not significantly affect the section.

Code of Ethics

The Code of Ethics contained in PSIAS applies to all Internal Auditors working in the Public Sector in addition to any requirements placed on them by other professional bodies. It is aimed at promoting an ethical culture across the profession of Internal Audit and is seen as essential in ensuring the trust placed in Internal Auditors to provide objective assurance about the organisation’s risk management, control and governance arrangements.

The Code of Ethics covers the following areas:

- Integrity
- Objectivity
- Confidentiality
- Competency

Public Sector Internal Auditors are also required by PSIAS to have regard to the “Seven Principles of Public Life” as defined by the Committee on Standards in Public Life which cover:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

The ethical requirements on the section are not significantly different but the PSIAS places a greater emphasis on Internal Audit verifying the Council’s values and ethical arrangements.

Attribute Standards

1000 – Purpose, Authority and Responsibility –

The purpose, authority and responsibility of the internal audit activity must be formally defined in an audit charter. The internal audit charter is a formal document setting out:

- internal audit's position within the organisation;
- its reporting lines;
- access to personnel, information and records;
- the scope of internal audit activities
- define what the term "board" means (It is anticipated that the Audit Committee will generally fulfil the duties assigned to the board for the Council.)

The charter must be periodically reviewed and presented to senior management and the board.

The requirement for an Audit Charter is new but the content of the Audit Charter is similar to the Terms of Reference for Internal Audit which have been produced and agreed previously. The PSIAS introduce references to "The Board", in most instances "the Board" is being taken as referring to the "Audit Committee" for the Council.

1100 – Independence & Objectivity

Internal Audit activity must be independent and internal auditors must be objective in performing their work. This comes from the position of Internal Audit in the organisation and ensuring that Internal Audit management has unrestricted access to the Audit Committee and Senior Managers should this be necessary. Internal Auditors should also not be compromised in their work by personal views or having operational responsibility for other areas. Any impairments or potential to independence or objectivity must be reported to appropriate parties.

1200 – Proficiency & Due Professional Care

The Internal Audit Team should have the correct knowledge, skills and competencies for the work that it carries out and to ensure they enhance knowledge and skills through Continuing Professional Development. The PSIAS specifically requires the "Chief Audit Executive" to hold a relevant professional qualification. Due professional care must be taken to ensure appropriate work is undertaken to identify risks, support findings and meet the objectives of all work undertaken.

1300 – Quality Assurance and Improvement Programme

A quality assurance and improvement programme is designed to:

- allow an assessment of Internal Audit's activity against the PSIAS requirements;
- to assess the efficiency and effectiveness of Internal Audit's activity;
- identify opportunities for improvement.

This requires both internal and external assessments to be performed. The PSIAS requires an independent external assessment to be carried out at least once every five years. Both internal and external assessments have to be carried out by individuals or organisations who have sufficient knowledge of Internal Audit standards and operation.

The outcome of the review must be reported to the Board and Senior Management as part of the Internal Audit Annual Report which must disclose any areas of non-conformance with PSIAS. Where these are significant they should be considered for inclusion in the Annual Governance Statement.

The requirement for a Quality Assurance & Improvement Programme is new however many elements of it are already in existence such as annual Performance Development Reviews of the team and the Annual Review of Internal Audit.

The Accounts and Audit Regulations introduced an annual review of Internal Audit a number of years ago; this could involve an external/independent element. The PSIAS now require an independent examination of the section at least once every five years.

Performance Standards

2000 – Managing the Internal Audit Activity

The Chief Audit Executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

This includes the development of a risk based audit plan to inform the Annual Audit Opinion. The Plan should be presented to Senior Management and the Board for approval. The Chief Audit Executive should ensure the resources available to the team are sufficient, appropriate and effective to deliver the audit plan and that any limitations which may impact on the plan or the annual audit opinion are reported to the Board. Where possible the work of Internal Audit should be coordinated with other providers of assurance to ensure appropriate coverage and minimise duplication.

Internal Audit's activity must be reported to Senior Management and the Board. This should include performance in delivering the audit plan, significant risks or control issues identified and any other relevant matters.

The Terms of Reference for the Audit & Governance Committee does not currently provide for the Members of the Committee to approve the Audit Plan.

2100 – Nature of Work

Internal Audit's activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

2200 – Engagement Planning

A plan/brief should be prepared for each piece of audit work carried out to include the scope, objectives, timing and resource allocation. The scope should be sufficient to contribute to the annual audit opinion. Sufficient and appropriate resources should be identified for each review to achieve the intended objectives of the review.

2300 – Performing the Engagement

Internal Auditors should identify sufficient, reliable, relevant and useful information to achieve the objectives of the review. Conclusions should be based on the results of appropriate analysis and evaluation of the evidence and sufficient information documented to allow the testing to be repeated.

2400 – Communicating Results

Results of audit work should be reported and where the section issues an opinion or conclusion it must be supported by sufficient relevant information. Communications must be accurate, clear, concise and timely and issued to appropriate parties. In the Public Sector an annual audit report containing an audit opinion must be issued so that it can be used by the organisation to inform its Annual Governance Statement.

2500 – Monitoring Progress

The results of audit work should be monitored to identify that management actions are being effectively implemented or that management accepts the risks of not taking action.

2600 – Communicating the Acceptance of Risks

When the Chief Audit Executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the Chief Audit Executive must discuss the matter with senior management. If the Chief Audit Executive determines the matter has not been satisfactorily resolved they should communicate the information to the board.

Action Plan

Action	Responsible Officer	Implementation Date
The Audit Charter needs to be produced and approved by the Audit Committee	Chief Internal Auditor	August 2013
The Terms of Reference for the Audit Committee need to be revised and updated.	Head of Governance/Head of Law & Administration	March 2014
A review will be carried out to determine the role of Internal Audit in promoting and ensuring compliance with the Council's ethical framework and values.	Chief Internal Auditor/ Head of Governance	March 2014
A review of working practices will be carried out to identify any changes which may be needed to current working practices to assist in the conformance with PSIAS requirements.	Chief Internal Auditor	March 2014
A Quality Assurance and Improvement Programme should be developed consolidating the existing elements into one document.	Chief Internal Auditor	March 2014
A paper on the options and implications for the introduction of the external independent review of Internal Audit should be prepared.	Chief Internal Auditor/Head of Governance	March 2014