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**Meeting:**           **Audit Committee**  
**Date:**             **13 January 2014**  
**Subject:**         **Public Sector Internal Audit Standards – Overview and Self Assessment**

**Report of:**       **Chief Finance Officer**

**Summary:**       This report provides a summary briefing on the new Public Sector Internal Audit Standards (PSIAS) which the Chartered Institute of Public Finance and Accountancy (CIPFA) has developed in collaboration with the Chartered Institute of Internal Auditors (IIA) and which came into force from 1 April 2013. It also informs the Audit Committee of the outcome of a self assessment of the Council's current compliance with the Standards.

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Contact Officer:           Kathy Riches, Head of Internal Audit and Risk

Public/Exempt:           Public

Wards Affected:         All

Function of:              Audit Committee

## **CORPORATE IMPLICATIONS**

### **Council Priorities:**

The activities of Internal Audit are crucial to the governance arrangements of the organisation and as such are supporting all of the priorities of the Council.

### **Financial:**

1. There are no direct financial implications from adopting this Charter.

### **Legal:**

2. None directly from this report.

### **Risk Management:**

3. There are no specific risks from the issues identified in the report. The Standards provide a comprehensive framework for an effective internal audit service for the Council, and, by complying with the Standards, the Council will ensure that its internal audit service is professional, independent and objective. An effective internal audit service will support the Council's objectives and support the identification and mitigation of risks.

### **Staffing (including Trades Unions):**

4. None directly from this report.

### **Equalities/Human Rights:**

5. None directly from this report.

### **Public Health**

6. None directly from this report.

### **Community Safety:**

7. None directly from this report.

### **Sustainability:**

8. None directly from this report.

### **Procurement:**

9. None directly from this report.

## **RECOMMENDATIONS:**

### **The Committee is asked to:**

- 1. Consider and endorse, with appropriate comment, the adoption of the Public sector Internal Audit Standards (PSIAS), and**
- 2. Consider the action plan produced to ensure future full compliance with the Standards.**

## **Background**

10. In May 2011 the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) agreed to collaborate in the development of the internal audit profession in the public sector. As a result, national Public Sector Internal Audit Standards (PSIAS) based upon the mandatory elements of the global CIIA's International Professional Performance Framework have been developed.
11. The PSIAS came into force on 1<sup>st</sup> April 2013 and contain the following:
  - Definition of Internal Auditing
  - Code of Ethics, and
  - Standards for the Professional Practice of Internal Auditing.
12. The PSIAS replace the Code of Practice for Internal Audit in Local Government in the United Kingdom, last revised in 2006. In local government, the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011. The Audit Committee has regularly received assurance, through the Annual Audit Opinion Report, that Internal Audit has complied with the previous Code.
13. CIPFA has recently produced a Local Government Application note and this guidance has been considered and the Internal Audit Service has been reviewed against this to assess compliance and identify any gaps. A management action plan has been produced, aimed at moving the service to a position of full compliance, and this is considered later in the report.

14. A noticeable difference to the previous Code of Practice is the layout of the new PSIAS. Individual standards are numbered with subsections and the additional public sector requirements and interpretations are displayed in separate additional boxes.
15. Terminology is also different. For example, the PSIAS use the term “Chief Audit Executive”, rather than the Head of Internal Audit. They also use the term “the Board” throughout the standards to define particular governance and accountability roles. It is recognised that in different organisations the application of who the Board is will be different but generally it is appropriate to consider that the Audit Committee will undertake this role.

## **Relevant Issues**

16. The new standards are intended to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide the Chief Finance Officer and the Audit Committee with the key assurances needed to support them and also support the production of the Annual Governance Statement.
17. Much of the content within the Standards is a continuation of existing best practice. The following paragraphs set out some of the key points for the Committee’s consideration.
18. The scope of the PSIAS applies to all internal audit service providers, whether in-house, shared services, or outsourced. They set out that the provision of assurance is the primary objective of internal audit. The Head of Internal Audit is required to give an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.
19. All internal auditors in United Kingdom public sector organisations are required to conform to the Code of Ethics of both the Institute of Internal Auditors and their own professional organisation.
20. There is a requirement that the purpose, authority and responsibility of the internal audit activity are defined in an internal audit charter. A charter has been prepared and is presented to the Committee for approval elsewhere on this agenda.
21. There is no longer a requirement to produce an audit strategy. Instead a risk based plan must incorporate, or be linked to, a strategic or high level statement which sets out how the internal audit service will be provided and developed in accordance with the charter and how it will link to the Council’s objectives and priorities. This requirement will be taken into consideration when preparing and presenting the 2014/15 Audit Plan for approval.
22. The quality of the internal audit service will also need to be vigorously checked under the quality assurance and improvement programme (QA&IP) which must include both internal and external assessments. The QA&IP is designed to assess the efficiency and effectiveness of internal audit as well as identifying opportunities for improvement. A statement of the results of the QA&IP must be included within the Head of Internal Audit’s Annual Audit Opinion.

23. The internal assessments can be divided into two parts. The first element is the monitoring of internal activity, in much the same way as under current arrangements for quality review. The second element involves periodic self assessments or assessments carried out by other officers in the organisation who will have sufficient knowledge of internal audit processes. A self assessment against the former CIPFA Code was previously undertaken annually so it is proposed to continue this good practice.
24. External assessments will need to be carried out by a qualified independent assessor or assessment team from outside the organisation. They can be undertaken as a full external evaluation or a self assessment with independent external validation and cannot be carried out on a rolling programme.
25. An initial self assessment against the new standards has been undertaken using the guidance and checklist provided by CIPFA in the recently published Local Application Note. The self assessment has demonstrated that Internal Audit substantially complies with the new standards. Action has already been taken to move towards compliance, for example, the Internal Audit Charter has been documented and internal audit processes have been reviewed. However, there are some areas where further work is required in order to be fully compliant. An action plan has been developed to address these issues, and is attached at Appendix A .
26. The most significant areas of change identified are:
  - The revisions to the Internal Audit Charter
  - Revisions to the documentation of elements of the audit process, including developing the risk based plan and individual assignments
  - The development of a Quality Assurance and Improvement Programme, incorporating the need for an external inspection every 5 years
  - Further development of assurance mapping in order to identify and utilise other sources of assurance

A copy of PSIAS is available on request.

## **Conclusion and Next Steps**

27. The adoption of the revised standards will support the delivery of a robust internal audit service. The implementation of the management action plan and associated Quality Assurance Improvement Programme will ensure compliance with the PSIAS.

## **Appendices:**

Appendix A – Public Sector Internal Audit Standards – Management Action Plan

## **Background Papers:**

Public Sector Internal Audit Standards

## **Location of papers:**

N/A