



Committee and Date

Audit Committee

27 March 2013

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Item

8

Public

AUDIT COMMITTEE – PUBLIC SECTOR INTERNAL AUDIT STANDARDS

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1. 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) have developed in collaboration with the Chartered Institute of Internal Auditors (CIIA) and which come into force from 1st April 2013.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment the adoption of the PSIAS with effect from the 1st April 2013.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The use of a consistent framework for internal audit across the UK public sector has benefits for both partnership working and for internal auditors who work across different parts of the public sector. The standards are designed to drive improvement and lead to better public finance arrangements.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.3 There are no direct environmental, equalities, climate change or consultation consequences of this proposal.

4. Financial Implications

5. Background

- 5.1 In May 2011, the Chartered Institute of Public Finance & 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.
- 5.2 The PSIAS will come into force from 1st April 2013 and consist of the following:
- Definition of Internal Auditing;
 - Code of Ethics; and
 - Standards for the Professional Practice of Internal Auditing.
- 5.3 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.
- 5.4 In April 2013, CIPFA will be producing a Local Government Application note. Following its release, the Audit Service Manager will consider this guidance and review the service against it to ensure compliance and identify any gaps which will drive a clear improvement plan to move to a position of full compliance, reporting any activity in this respect to a future Audit Committee.
- 5.5 A noticeable difference to the traditional Code of Practice is the look and feel of the new PSIAS. Individual standards are numbered with subsections and the additional public sector requirements and interpretations are displayed in separate additional boxes. This allows for amendments without disturbing the flow of the standards.
- 5.6 Terminology is also different, for example the PSIAS use the term 'chief audit executive', the description used internationally, rather than 'head of internal audit' or 'chief internal auditor' which are more common in the UK public sector.

Relevant Issues and Options

- 5.4 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 Accounting Officers (the Section 151 Officer) with the key assurances they need to

support them both in managing the council and in producing the annual governance statement.

5.5 Overall, it appears that most of the content within the Standards looks to be a continuation of existing best practice. Listed below are some key points for the Audit Committee's consideration.

1. 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 Audit Service Manager is required to give an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.
2. 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.
3. There is a requirement that the purpose, authority and responsibility of the internal audit activity is formally defined in an internal audit charter along with the nature of consulting services and the terms 'board', and 'senior management'. It will also cover arrangements for avoiding conflicts of interest if internal audit carries out any non- audit activities which are subject to regular review and there is a requirement for the Audit Service Manager to confirm to the appropriate part of the organisation annually the organisational independence of the internal audit activity. Whilst the term 'internal audit charter' is not well known within local government, the internal audit activity has terms of reference which is similar to this.
4. 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.
5. The quality of the internal audit services will also need to be rigorously checked under the quality assurance and improvement programme (QA&IP) which must include both internal and external assessments. The QA&IP requires on going internal assessments of all aspects of internal activity, as well as an external assessment at least once every five years. The QA&IP is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. The Audit Service Manager will need to include a statement on the results of the QA&IP in an annual report.
6. The internal assessments can be divided into two parts. The first will be monitoring the services activity, in much the same way as under current quality review procedures. The other will comprise 'periodic' self-assessments or assessments carried out by other officers in the organisation who will have to have sufficient knowledge of internal audit practices.

7. 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 basis.
8. Implementation of these standards is not expected to involve considerable work; however; some minor revision to the Internal Audit Terms of Reference and the formulation of an Internal Audit Charter will be required as well as consideration of how best to deliver against the external assessment requirements.

5.12 In order to assist the Audit Committee in ensuring that due consideration has been given by the Committee to all aspects of their core functions a copy of the Public Sector Internal Audit Standards is attached at **Appendix A**.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Public Sector Internal Audit Standards 2013

Cabinet Member (Portfolio Holder) Keith Barrow (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

Local Member n/a

Appendices: A: Public Sector Internal Audit Standards 2013