

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>13 MAY 2013</b>
<b>TITLE OF REPORT:</b>	<b>PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND INTERNAL AUDIT CHARTER</b>
<b>REPORT BY:</b>	<b>HEAD OF INTERNAL AUDIT</b>

## 1. Classification

Open.

## 2. Key Decision

This is not a key decision.

## 3. Wards Affected

County-wide.

## 4. Purpose

The purpose of this report is to update the Audit and Governance Committee on the new Public Sector Internal Audit Standards (PSIAS) and to present a new Internal Audit Charter for approval.

## 5. Recommendation

**THAT subject to any comments the Committee wish to make, the contents of this report are noted and the Internal Audit Charter is approved.**

## 6. Key Points Summary

- New professional standards governing internal audit work in the UK public sector have been introduced, which the Council's internal audit service must adhere to.
- One of the new requirements is the development of an Internal Audit Charter, which is appended for the Committee to consider and approve.

## 7. Alternative Options

- 7.1 The Council must adhere to the new PSIAS and therefore alternative options are not applicable.

## **8. Reasons for Recommendations**

- 8.1 To ensure the Council complies with recommended practice as set out in the PSIAS.

## **9. Introduction and Background**

- 9.1 The purpose of this report is to inform the Committee about recent changes to the professional standards governing internal audit services in the public sector. The report also introduces a new Internal Audit Charter, which is required by the PSIAS, for consideration and approval by the Committee.

## **10. Key Considerations**

### **Public Sector Internal Audit Standards**

- 10.1 Since 2006 internal audit work at local authorities has been governed by the Code of Practice for Internal Audit in local government in the United Kingdom, issued by Chartered Institute of Public Finance and Accountancy (CIPFA). This Code has now been replaced by the new PSIAS, which are effective from 1 April 2013.
- 10.2 The PSIAS are based on the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework and are intended to promote the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They have been adopted as a single set of standards to replace the previous sector specific requirements, including the 2006 CIPFA Code for local government. They also:
- define the nature of internal auditing within the UK public sector;
  - set basic principles for carrying out internal audit work;
  - establish a framework for providing internal audit services which add value and lead to improved organisational processes and operations; and
  - establish the basis for evaluation of internal audit performance and drive improvement planning.
- 10.3 The PSIAS contain a Code of Ethics, the purpose of which is to promote an ethical culture in the internal auditing profession. This is structured into the following 'principles' and 'rules of conduct' which describe the behaviour norms expected of internal auditors.
- 10.4 KPMG, which provides the management and professional leadership of the Council's internal audit team, already has established ethical policies and procedures which its staff must adhere to which meet the requirements of the Code of Ethics. The Council's in-house internal audit team have been briefed on these ethical requirements.
- 10.5 The standards themselves are structured as follows:
- Attribute standards: these relate to the characteristics of organisations and parties performing internal audit activities, covering:
    - purpose, authority and responsibility;
    - independence and objectivity;
    - proficiency and due professional care;

- quality assurance and improvement; and
  - Performance standards: these describe the nature of internal audit activities and provide quality criteria against which performance can be evaluated, covering:
    - managing the internal audit activity;
    - nature of work;
    - engagement planning;
    - performing the engagement;
    - communicating results;
    - monitoring results; and
    - communicating the acceptance of risks.
- 10.6 There are also specific ‘implementation standards’ which provide further detailed requirements that apply to work which is either of an assurance or consulting nature.
- 10.7 CIPFA has published a Local Government Application Note to provide sector-specific interpretations and additional guidance on the PSIAS. The detailed requirements of both the PSIAS and the CIPFA Application Note are broadly similar to those of the previous 2006 CIPFA Code. To that effect, their introduction does not require any fundamental review of, or changes to, the policies and procedures governing the Council’s internal audit work. A full and detailed review has however been undertaken by KPMG to ensure that any new or amended requirements are identified and complied with, and training is being provided to the Council’s in-house team.
- 10.8 There are, however, a number of differences between the 2006 CIPFA Code and the new standards including:
- the requirement for an Internal Audit Charter (see further below);
  - some differences in terminology (see further below); and
  - the requirement for a quality assurance and improvement programme.

### **Internal Audit Charter**

- 10.9 One specific requirement of the new PSIAS is the development of an Internal Audit Charter. This sets out the purpose, authority and responsibilities of internal audit, along with other detailed points required by the PSIAS. In effect, it acts as the terms of reference of the Council’s internal audit function.
- 10.10 An Internal Audit Charter has been drafted for the Council and this is appended to this report.
- 10.11 The PSIAS refers to ‘senior management’ and ‘the board’ and requires that these are defined within the Charter, but does not provide definitions. The CIPFA Application Note does address this in a local government context but does not provide a definitive view, recognising that in a local authority aspects of the role of a board may be fulfilled by an audit committee, cabinet or even full council. The Application Note therefore leaves it open to each authority to decide. The Internal Audit Charter therefore proposes that:
- the term ‘senior management’ is interpreted to mean one or more of the Council’s Leadership Team, Chief Executive and Chief Officer: Finance & Commercial; and

- the role of ‘the board’ will be fulfilled by the Audit and Governance Committee.

## **11. Community Impact**

11.1 This report does not impact on this area.

## **12. Equality and Human Rights**

12.1 This report does not impact on this area.

## **13. Financial Implications**

13.1 The PSIAS influence the way in which the internal audit service is delivered, but do not fundamentally impact on the cost to the Council of doing so. The internal audit service will continue to be delivered within the current budgeted level of resource and using the existing operating model of KPMG managing the ‘in-house’ team (who are employed by Hoople Ltd).

## **14. Legal Implications**

14.1 The Accounts and Audit Regulations 2011 require that local authorities in England “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”. The PSIAS and CIPFA’s Local Government Application note, taken together, represent *proper practices* in this context. Compliance with the PSIAS and the CIPFA Application Note, including the adoption of an Internal Audit Charter, therefore ensures compliance with the requirements of the 2011 Regulations.

## **15. Risk Management**

15.1 There is a risk that the Council does not comply with proper practices, as required by the 2011 Regulations.

15.2 The review of policies and procedures against the new PSIAS, and the adoption of the Internal Audit Charter, mitigate this risk.

## **16. Consultees**

16.1 The Leadership Team including the Chief Officer: Finance & Commercial were consulted in the drafting of this report.

## **17. Appendices**

17.1 Internal Audit Charter.

## **18. Background Papers**

18.1 None.