

Report to Audit Committee



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PORTFOLIO	Resources and Performance Management
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Public Sector Internal Audit Standards (PSIAS)

PURPOSE

1. To inform members the requirements of the Public Sector Internal Audit Standards

RECOMMENDATION

2. The Committee considers the report and comments on its contents.
3. The Committee notes the requirement for the Council to adopt with the new Standards with effect from April 2013.

REASONS FOR RECOMMENDATION

4. Members can see that the Council's Internal Audit service complies with appropriate professional standards.
5. Members can monitor the implementation of these standards.
6. Members note the arrangements for reviewing the effectiveness of the Internal Audit Service for 2012/13

SUMMARY OF KEY POINTS

7. **Background**
There has been work to apply a consistent set of internal audit standards for the public sector. The Chartered Institute of Public Finance and Accountancy (CIPFA) has its own guidelines which were last produced in 2006, which the Council works to. There is also an international set of standards which are maintained by the Institute of Internal Auditors (IIA). The new Public Section Internal Audit Standards (PSIAS) apply these international IIA standards to the UK public sector and this includes Local Government. There is a great deal of overlap between the CIPFA and IIA standards but there are differences in terminology. These arise because whereas the CIPFA standard was tailored for Local Government the IIA standards are generic and based in private sector organisation. A straight forward link is that older CIPFA use the term 'Head of Internal Audit' whereas the IIA refer to a 'Chief Audit Executive'. The Public Sector Internal Audit Standards provide advice and guidance as to how the IIA standards apply to the UK Public Sector. These standards are effective for the Council from April 2013.

8. **Common Elements**

As stated there is a lot of common ground in the standards as would be expected – independence, objectivity, ethics, reporting & access & roles. The fundamental principles remain the same. In practice there will be little change in the function of Internal Audit delivery.

9. **Definition of Internal Audit**

There is little difference in the definition and this definition is currently provided on the cover of Internal Audit report. The ‘consulting activity’ includes for example fraud and irregularity investigations.

10. **Code of Ethics**

All Internal Audit staff currently sign a Code of Ethics annually, this is in addition to the Council wide requirements of the Code of Conduct for employees. The Code of Ethics enhances on the Code of Conduct and covers the requirements of the PSIAS. Any breach of this code could be considered as grounds for disciplinary action.

11. **Standards**

Internal Audit Charter

There is a requirement in the PSIAS for a charter for internal audit. Although Burnley has a Charter it is some time since it was reviewed and approved. This is because these have generally been replaced by Internal Audit Terms of Reference and the Internal Audit Strategy. These will need to be reviewed to meet the requirement to define ‘board’ and ‘senior management’ for the implementation of standards. Without this clarity there is a risk that independence, reporting and other key elements may be confused and ultimately compromised. In addition mandatory requirements need to be included.

Independence and Objectivity

There is a particular concern in ensuring organisational independence where there is a requirement to report to the ‘board’, and involving the ‘board’ in key activities. There are specific requirements for this and an interpretation. The ‘board’ may have different definitions for example Management Team, the Chief Executive, the Director of Resources, the Audit Committee and the Chair of the Audit Committee. As stated the aim is to ensure that the independence of the chief audit executive is not inappropriately influenced by those subject to audit.

Proficiency and Due Professional Care

This is not significantly different from current requirements. Ensuring that auditors are competent and suitably trained/qualified and that work is carried out with due professional care. At Burnley these requirements are included into the Code of Ethics resigning process to ensure that auditors are aware of these requirements.

Quality Assurance and Improvement Programme.

These features are already incorporated into Burnley’s Internal Audit. The new requirement is that at least once every five years there should be an external assessment. This could be fulfilled in several ways. In the past the Council has relied on External Audit reviews of Internal Audit and also undertaken a peer review. These has meant that we have already met these requirements but these arrangements will need to be formally monitored in future to ensure compliance. Where the Council does not conform with the Standards these should be reported and if serious then consideration should be given to reporting this as part of the Annual Governance Statement.

Managing the Internal Audit Activity

There are no new requirements identified in this area. It still requires a risk based plan designed to provide assurance via an annual internal audit opinion. There are policies and procedures that guide internal audit activity included as part of an Audit Manual. Co-ordination is required with other assurance providers to minimise duplicate efforts.

Nature of Work

There are a few new areas for the standards in this area. However, there is nothing that is not already incorporated into our current activities. There is a closer link with ensuring that the organisation has effective risk management in place as well as effective controls. This is a slight change in emphasis that recognises the strong contribution that risk management can provide to organisational assurance.

Performing the Engagement.

This is about how audit activity is undertaken. Guidance is already provided to auditors in the Audit Manual on these issues.

Communicating Results

This is about the reporting of audits. It requires an opinion were appropriate. These requirements have already been incorporated into our current audit reports. There is a new requirement in that the Annual Internal Audit Opinion should report a statement of conformity with the PSIAS.

Monitoring Progress

This is about ensuring that there is an effective monitoring progress of actions that have been agreed with management. There are current arrangements to ensure this occurs.

Communicating the Acceptance of Risk

Where managers accept a risk which may not be corporately acceptable this requires a reporting processes to senior management and the board. There are reporting lines which enables any auditor to communicate these issues to appropriate elements of the Council

12. **Glossary**

There are definitions which are general and in particular an Public sector definition for Audit Committee;

'The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.'

This could be a useful and concise definition for the Council to consider for its terms of reference for this committee.

13. **Further Guidance.**

CIPFA plan further guidance on the interpretation of the PSIAS.

14. **Internal Audit Effectiveness 2012/13**

The Council is required by the Accounts and Audit Regulations 2011 (Section 6 paragraph 3) to conduct an annual review of the effectiveness of its internal audit. This year the intention is to measure compliance with the existing CIPFA requirements, although in future compliance with the PSIAS are likely to be considered. The standards do require internal audit to periodically review its effectiveness as described in the paragraph on Quality Assurance and Performance above.

In addition the service has benchmarked with other local authorities internal audit during 2012/13 and this will assist this year's review of effectiveness.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

15. Implementation of these requirements will be within current resources.

POLICY IMPLICATIONS

16. These Standards are likely to be proper practices as required under the Accounts and Audit Regulations 2011.
17. The Council is required to conduct an annual review of the effectiveness of its internal audit.

DETAILS OF CONSULTATION

18. Executive Member for Resources and Performance Management
Chair of Audit Committee
Director of Resources
Head of Finance and Property Management
Head of People, Law and Regulation
Chair of Resources

BACKGROUND PAPERS

19. PSIAS
<http://www.cipfa.org/Policy-and-Guidance/Standards/-/media/Files/Publications/Standards/Public%20Sector%20Internal%20Audit%20Standards.pdf>

FURTHER INFORMATION

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