



**Report of the Assistant Executive Director of
Finance (Audit and Risk Management)**

AUDIT COMMITTEE – 27th MARCH 2013

PUBLIC SECTOR INTERNAL AUDIT STANDARDS

1. Purpose of Report

- 1.1 This report provides the Audit Committee with information relating to the new Internal Audit professional standards for internal audit in the public sector. “The Public Sector Internal Audit Standards” (PSIAS) come into effect on the 1st April 2013 and this report has been prepared to provide the Audit Committee with information relevant to its responsibilities within its terms of reference (terms of reference item b).
- 1.2 The report covers :-
- i. Details of the new standards, why they were introduced, and the key changes in relation to the existing professional standards;
 - ii. How the service intends to respond to the changes arising from the new professional standards.

2. Recommendations

2.1 It is recommended that the Audit Committee: -

- i. Take note of and recognise the introduction of the new standards.**
- ii. Note that a detailed assessment is being undertaken by the Internal Audit Service in order to advise on how to comply with the new standards.**
- iii. Monitor the effectiveness of the Internal Audit function against the new standards in fulfilment of item b) of its Terms of Reference.**

3. Introduction / Background

3.1 The current professional standards, “The Code of Practice for Internal Audit in Local Government in the UK 2006” updated the previous 2003 Code”. The 2006 version was amended to reflect the changes arising from amendments to the Accounts and Audit Regulations 2006. The current standards comprise 11 standards as follows:

Introduction	Includes a definition of Internal Audit
Standard 1	Scope of Internal Audit
Standard 2	Independence
Standard 3	Ethics for Internal Auditors
Standard 4	Audit Committees
Standard 5	Relationships

Standard 6	Staffing, Training and Continuing Professional Development
Standard 7	Audit Strategy and Planning
Standard 8	Undertaking Audit Work
Standard 9	Due Professional Care
Standard 10	Reporting
Standard 11	Performance, Quality and Effectiveness

3.2 A set of new standards will come into effect from the 1st April 2013, "The Public Sector Internal Audit Standards". These new standards are based on the mandatory elements of the International Professional Practices Framework (IPPF) produced by the Chartered Institute of Internal Auditors (CIIA). A full copy of the new standards is available if required.

3.3 The new PSIAS cover the following:

Section 1	Introduction
Section 2	Applicability
Section 3	Definition of Internal Auditing
Section 4	Code of Ethics
Section 5	

Attribute Standards:

- Purpose, Authority and Responsibility
- Independence and Objectivity
- Proficiency and Due Professional Care
- Quality Assurance and Improvement Programme

Performance Standards:

- Managing the Internal Audit Activity
- Nature of Work
- Engagement Planning
- Performing the Engagement
- Communicating Results
- Monitoring Progress
- Communicating the Acceptance of Risks

4. Why the Change?

4.1 The collaboration announced by CIPFA and the CIIA in May 2011 has led to an agreement between the relevant Internal Audit Standard setters to develop a set of internal audit standards applicable to all areas of the UK public sector. This will ultimately provide consistency of standards within Internal Audit across the public sector.

5. Key Changes

5.1 Attribute and Performance Standards:

Attribute Standards are those that apply to organisations, for example local authorities, as well as to individual internal auditors who are providing internal audit services in local government. These seek to set out the particular levels of audit scope, behaviour, culture and ethics to be applied by both the organisation and individuals i.e. setting the tone for the whole audit process.

The Performance Standards are effectively a framework of prescriptive procedures that an internal audit service is to follow during the delivery phase of the audit.

5.2 Minor Change to the Definition of the Nature of Internal Audit:

CIPFA Definition within the Code of Practice is: "Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."

The new IPPF Definition of Internal Audit is: "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 revised definition encourages a more collaborative style of audit review which focuses on evaluating and improving the effectiveness of risk, control and governance and therefore beyond basic compliance. In many ways this new definition supports how Internal Audit has approached its work over the last few years.

5.3 Conflicts of Interest:

The reinforcement that conflicts of interest, whether real or perceived should be avoided at all times.

5.4 Changes in Terminology:

The new standards refer to the head of the audit function as the "Chief Audit Executive" (CAE) although the more commonly used title of "Head of Internal Audit" (HoIA) is likely to be used. In addition, the role will be linked to the relevant senior manager within each organisation.

5.5 Internal Audit Charter:

The new standards establish the requirement to have a Charter rather than a strategy. The Charter should define the internal audit activity's purpose, authority and responsibility. The Charter should establish Internal Audit's position within the organisation, including the nature of the HoIA's functional reporting relationship with the board; authorises access to records, personnel and physical properties and defines the scope of internal audit activities.

5.6 "Functional" v "Administrative" Reporting:

The standards set out an expectation that in functional terms the HoIA must not report to or be managed at a lower organisational level than the corporate

management team.

5.7 Resource Management:

The standards place a requirement that the Audit Committee should ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate.

5.8 Nature of Work:

There is a mandate for the internal audit activity to include a focus on ethics and information technology governance of the organisation.

5.8 Internal and External Reviews:

The triennial review performed by External Audit has been replaced by internal and external assessments of the Internal Audit Quality Assurance and Improvement Programme. The external assessments will be on a 5 yearly frequency. Internal assessments require ongoing monitoring of performance along with periodic assessment. The standards do not specify the expected frequency of a periodic assessment which is to be determined by each organisation.

5.9 Internal Audit Annual Report:

The HoIA is required to include a comment on conformance with the PSIAS and the results of the Internal Audit Quality Assurance and Improvement Programme.

6. Action in response to the new Standards:

- 6.1 Internal Audit are currently undertaking a full self assessment against the requirements of these new standards. CIPFA have prepared a specific Local Government Application Note with a sector specific checklist. Audit Committee members will be provided with the outcome of this assessment at the April 2013 Audit Committee meeting.

7. Local Area Implications

- 7.1 There are no Local Area Implications arising from this report.

8. Consultations

- 8.1 No specific consultation has been necessary in the preparation of this report. However, Internal Audit colleagues from neighbouring authorities have been consulted in terms of the impact of the new standard on their services.

9. Compatibility with European Convention on Human Rights

- 9.1 In the conduct of audit work and investigations particularly, Internal Audit operates under the provisions of the Data Protection Act 1998, the Regulation of Investigatory Powers Act 2000 and the Police and Criminal Evidence Act.

10. Reduction of Crime and Disorder

- 10.1 An inherent aspect of audit work is to prevent, detect and investigate incidents of fraud, theft and corruption. Internal Audit's anti fraud arrangements will need to be assessed against these PSIAs.

11. Risk Management Considerations

- 11.1 The underlying purpose of the work of Internal Audit is to address and advise on key risks facing management and, as such, risk issues arising from changes in the professional standards have been considered.

12. Employee Implications

- 12.1 There are no employee implications arising from this report.

13. Financial Implications

- 13.1 There are no financial implications arising directly from this report. The costs of the Internal Audit function are included within the Authority's base budget.

14. Background Papers

- 14.1 The Current Professional Standards - The Code of Practice for Internal Audit in Local Government in the UK 2006 and the new Public Sector Internal Audit Standards.
Local Government Application Note - CIPFA

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Date: 15th March 2013

