



AUDIT & GOVERNANCE COMMITTEE
21 February 2013

Public Sector Internal Audit Standards

SUMMARY AND PURPOSE:

The purpose of this report is to inform Members of the new Public Sector Internal Audit Standards (PSIAS) which come into effect on 1 April 2013. These standards are mandatory and should underpin the Internal Audit arrangements within the Council. The Chief Internal Auditor will be expected to report on conformance with the PSIAS in her annual report.

RECOMMENDATIONS:

With effect from 1 April 2013, the Committee adopts the Public Sector Internal Audit Standards as best practice for the delivery of a quality Internal Audit Service in Surrey County Council (SCC) for the benefit of both the Council as a whole and the residents of Surrey.

BACKGROUND:

- 1 The CIPFA Code of Practice for Internal Audit in Local Authorities in the United Kingdom is recognised as best practice and has been adopted by the County Council and previous effectiveness reviews of the effectiveness of Internal Audit have assessed the level of compliance with this standard.
- 2 A collaboration announced by CIPFA and the Institute of Internal Auditors (IIA) in May 2011 has led to the development of a new set of Internal Audit Standards – the Public Sector Internal Audit Standards (PSIAS) - which will provide a coherent and consistent internal audit framework for the whole of the public sector. These new standards - which effectively replace the CIPFA Code of Practice for Internal Audit in Local Authorities in the United Kingdom - were formally published in December 2012 and are effective from 1 April 2013.
- 3 This report sets out the key requirements of the PSIAS and highlights areas where these differ slightly from the CIPFA Code of Practice. This year's review of the effectiveness of the system of internal audit in Surrey Council Council is being undertaken by external assessors from CIPFA and will consider the Council's readiness for the new standards. A report on the findings of this review will be presented to Audit and Governance Committee in March 2013.

PSIAS – Key Requirements :

- 4 The PSIAS contain a number of key public sector requirements as follows:
 - (i) Compliance with the IIA Code of Ethics

5 The IIA Code of Ethics sets out key principles and rules of conduct covering the following:

Integrity; Objectivity; Confidentiality; and, Competency

6 Where individual auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation. The PSIAS also require that internal auditors who work in the public sector have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life* (sometimes referred to as the "Nolan Principles")

(ii) Purpose, Authority and Responsibility

7 The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter which should:

- define the terms "board" and "senior management" for the purposes of internal audit activity
- cover arrangements for appropriate resourcing
- define the role of internal audit in any fraud-related work; and,
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities

8 Within Surrey County Council it is anticipated that the Audit and Governance Committee will fulfill the functions of the "board"

(iii) Independence and Objectivity

9 The Chief Internal Auditor must report to a level within the organisation that allows the internal audit activity to fulfill its responsibilities. The Chief Internal Auditor must report functionally to the board. In practice this means the Audit and Governance Committee (as the Board) will be involved in:

- approving the internal audit charter
- approving the risk based internal audit plan
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations

10 The published PSIAS also include some examples of functional reporting to the board which are not typically seen as the responsibility of an Audit Committee in a Local Authority eg:

- approving decisions regarding the appointment and removal of the Chief Internal Auditor;
- approving the remuneration of the Chief Internal Auditor; and,
- approving the Internal Audit budget and resource plan

11 The underlying principle here is that the independence of the Chief Internal Auditor is safeguarded by ensuring that his/her remuneration or performance assessment is not unduly influenced by those subject to audit. In practice it is suggested that this may be achieved through the Chief Executive contributing feedback to the performance appraisal of the Chief Internal Auditor and that feedback is also sought from the Chairman of the Audit Committee.

(iv) Impairment to Independence or Objectivity

12 Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which they had operational responsibility within the preceding year, however internal auditors may provide consulting (advisory) services for activities for which they were previously responsible.

- 13 Approval must be sought from the board (Audit and Governance Committee) for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

(v) Proficiency and Due Professional care

- 14 Engagements must be performed with proficiency and due professional care. Internal auditors must possess the knowledge skills and other competencies needed to perform their individual responsibilities.
- 15 The Chief Internal Auditor must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.
- 16 Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

(vi) Quality Assurance and Improvement Programme

- 17 The Chief Internal Auditor must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This must include both internal and external assessments.
- 18 Internal assessments must include both integral day to day monitoring and supervision of activity as well as periodic self assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.
- 19 An external assessment should be conducted at least once every five years and progress against any improvement plans, agreed following external assessment, must be reported to senior management and the board (Audit and Governance Committee).
- 20 Instances of non-conformance with the PSIAS should be reported to the board (Audit and Governance Committee) and if there are significant deviations these should be considered for inclusion in the Annual Governance Statement.

(vii) Managing the Internal Audit Activity

- 21 The Internal Audit plan must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board (Audit and Governance Committee) must be considered in this process.
- 22 Internal Audit must evaluate the effectiveness and contribute to the improvement of risk management processes.
- 23 Internal auditors must develop and document a plan for each engagement including the engagement's objective, scope, timing and resource allocations.
- 24 Internal auditors must document relevant information to support the conclusions and engagement results.
- 25 The Chief Internal Auditor must deliver an annual internal audit report that can be used by the organisation to inform its governance statement. This annual report must include an internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report should also include:
 - a summary of work that supports the opinion; and,

- a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme (in SCC this is the annual review of the effectiveness of Internal Audit)

PSIAS v CIPFA Code – Key Differences:

- 26 The PSIAS have been developed following collaboration between CIPFA and the IIA, professional bodies that have complementary strategies and values and a shared commitment to Internal Audit. It therefore comes as no surprise that there are no fundamental differences between the PSIAS and the CIPFA Code of Practice.
- 27 The main differences between PSIAS and the Local Government Code appear to be around the following:

Independence and Objectivity – the PSIAS is not so concerned with “line management arrangements” but more with independence of function and reporting.

Impairment to Independence and Objectivity – the PSIAS set a timeframe (one year) whereby objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which they previously had operational responsibility.

Quality Assurance and Improvement Programme – the PSIAS require an external assessment of the internal audit activity at least once every five years.

Risk Management – the PSIAS contain more detail on the role of Internal Audit in risk management

Overall Opinion – PSIAS require the annual audit opinion to be accompanied by a statement on how the mandatory standards have been complied with.

IMPLICATIONS:

- 28 Financial Equalities
Risk management and value for money
- 29 There are no direct implications (relating to finance, equalities, or value for money) arising from this report.
- 30 With regard to Risk Management, the PSIAS require Internal Audit to evaluate the effectiveness and contribute to the improvement of risk management processes.

WHAT HAPPENS NEXT:

- 31 A report on readiness for the PSIAS will be presented to the Audit and Governance Committee in March 2013. If necessary the Chief Internal Auditor will agree an improvement plan and report progress on implementation of this to the Audit and Governance Committee as appropriate.

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Sources/background papers: Public Sector Internal Audit Standards; CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006