
REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	20 February 2013	CATEGORY:
REPORT FROM:	HEAD OF INTERNAL AUDIT PARTNERSHIP	
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SUBJECT:	Public Sector Internal Audit Standards	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 04

1.0 Recommendations

1.1 To note the report

2.0 Purpose of Report

2.1 This report provides members with an overview of the key elements of the new Public Sector Internal Audit Standards that come into effect from 1 April 2013.

3.0 Detail

3.1 Currently Internal Audit works to standards laid down by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice for Internal Audit in Local Government in the UK. However, collaboration between CIPFA and the Chartered Institute of Internal Auditors (IIA), which was launched in May 2012, led to an agreement between the Relevant Internal Audit Standard Setters to develop the UK Public Sector Internal Audit Standards (PSIAS). In July 2012, the Institutes announced the launch of a public consultation on the first unified set of public sector internal audit standards.

3.2 These standards, which are based on the mandatory elements of the IIA's International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The mandatory elements of the IPPF will be interpreted or adapted where necessary for the public sector to create the PSIAS. These requirements for the UK public sector will be inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

3.3 The PSIAS have been revised to take account of comments received during the consultation and reaffirm the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

3.4 Additional guidance for local authorities will be included in the Local Government Application Note on the PSIAS, which is planned to be published in March 2013.

The Application Note will supplement the PSIAS by providing more detailed guidance where required for local government circumstances.

3.5 The PSIAS come into force on 1 April 2013 and will create consistent standards for the practice of internal audit across the public sector and establish the basis for its quality assurance.

3.6 The Standards provide a new definition of Internal Auditing:

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.

3.7 The standards cover:

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

3.8 The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and
- To drive improvement planning.

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

3.9 The Standards include a number of defined public sector requirements. These are listed below:

Code of Ethics:

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below (Note: the Standard then defines the IIA Code). If an individual internal auditor has membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

Integrity:

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life

Attribute Standards:

1000 Purpose, Authority and Responsibility:

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the 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.

1100 Independence and Objectivity:

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit-sub committee.

Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

1200 Proficiency and Due Professional Care

The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

1300 Quality Assurance and Improvement Programme

The chief audit executive must agree the scope of external assessments with an appropriate sponsor e.g. the Accounting/Accountable Officer or chair of the audit committee as well as with the external assessor or assessment team.

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.

Performance Standards:

2000 Managing the Internal Audit Activity

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter, together with how it links to the organisational objectives and priorities.

The risk-based plan must explain how internal audit's resource requirements have been assessed. Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.

The chief audit executive must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

2450 Overall Opinions

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

3.10 The most fundamental change introduced by the PSIAS is the requirement to commission periodic reviews of the effectiveness of internal audit undertaken by an appropriately qualified and independent external assessor. The introduction of a mandatory review process will involve some – to be determined - additional costs. The Council's External Auditor monitors internal audit's compliance with the current auditing standards. Supplementary guidance indicates that the External Auditor would not be regarded as independent in this context. The PSIAS specifies that any external review must evaluate both conformance with prescribed policies and processes and the effectiveness of "internal audit activity". Supplementary guidance indicates that this term would encompass both the activities of the Internal Audit partnership and those of the Audit Sub-Committee.

3.11 The Standards specify a requirement for "effective communication" between the Chief Audit Executive and the organisation's equivalent of an Audit Committee. There is a specific reference to effective communication with the Chair. In this context "effective communication" refers to the engagement of the Audit Sub-Committee – and of the Chair in particular – in discussions with the Head of the Internal Audit Partnership about:

- the organisation's risks and assurance requirements;
- the level of assurance provided and issues of concern raised by audit work undertaken;
- the implementation of agreed recommendations and the enhanced assurance arising; and
- the performance of Internal Audit.

Two specific areas in which a higher level of engagement is specified are:

- the requirement that the Chair be formally consulted as part of any performance review of the Chief Audit Executive; and
- the requirement that the Sub-Committee consider proposals for Internal Audit to undertake any significant consultancy work not already included in the Annual Audit Plan – and to assure itself that the proposed work would not impair Internal Audit's independence or objectivity.

3.12 A further report will be brought to the Audit Sub-Committee when the Application Note on the PSIAS has been published.

4.0 Financial Implications

4.1 There may be a cost element to the periodic review (see paragraph 3.10).

5.0 Legal Implications

5.1 The Authority is obliged under the Accounts and Audit Regulations (England) 2011 to maintain an effective internal audit.

6.0 Corporate Implications

6.1 None

7.0 Community Implications

7.1 None

8.0 Background Papers

8.1 None