

AUDIT COMMITTEE – 11 JUNE 2013

NEW PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Report of the: Chief Executive Designate

Status: For Consideration

This report supports the Key Aim of Corporate Performance Plan “Effective Management of Council Resources”

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager, Financial Services – Adrian Rowbotham.

Recommendation:

It be RESOLVED that Members note the contents of this report.

Introduction

- 1 This report provides a summary to Audit Committee Members on the new Public Sector Internal Audit Standards which came into effect on 1 April 2013. The report sets out the key changes which will affect the arrangements for internal audit going forward.
- 2 The new Public Sector Internal Audit Standards have been developed from the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). A link to access a copy of the full standards is attached at the end of this report (see background papers). The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They have been revised to take account of comments received during consultation process with relevant stake holders. The standards 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.

Purpose of the new standard

- 3 The new standards have been developed to provide coherent and consistent standards for internal audit across the UK public sector.
- 4 The new standards replace the existing standards in local government, including the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Internal Audit in Local Government. The standards apply across the UK public sector and have been adopted by CIPFA, HM Treasury and Department of Health.

Objectives

5. The new standards have four key objectives as follows:
 - To define the nature of internal auditing within the UK public sector
 - To set basic principles for carrying out internal audit in the UK public sector
 - To Establish a framework for providing internal audit service which adds value to the organisation, leading to improved organisational processes and openness
 - To establish the basis for the evaluation of internal audit performance and to drive improvement planning

Implications of the new standards

6. **Internal Audit Charter** – The new standards does not require an Internal Audit Service to have an Audit Strategy. However, it requires a formal Audit Charter which must formally define the purpose, authority and responsibility of the internal audit activity. The Council’s internal audit team already has a charter, however, this will have to be revised to ensure full compliance with the new standards.
7. **Quality Assurance** – The new standards requires the quality of the service to be rigorously checked under a quality assurance improvement programme which requires on-going internal assessments of all aspects of internal audit activity, as well as external assessment every five years. This is intended to assess the efficiency and effectiveness of internal audit as well as to identify opportunities for improvements. There is a requirement for the chief audit executive to include a section on the quality assurance and improvement programme within the internal audit annual report. This will commence from the next internal audit annual report, in June 2014.
8. **Internal Assessment** – There will be an increase in the level of assessments which will involve monitoring the department’s activity and will be in line with the current quality review procedures. Additionally there will be periodic assessments carried out by other officers of the organisation, who will have sufficient knowledge of internal audit practices. The Council will need to determine how this will come about and who will be involved in the process going forward.
9. **External Assessments** – The assessments will need to be performed by qualified and independent assessors, or assessment teams that are external to the organisation. Peer reviews are not allowed. The process can be undertaken as a full external evaluation or a self-assessment with independent external validation, but it cannot be carried out on a rolling basis. This may involve the commissioning of a private accountancy firm or our current external auditors. It is not yet clear whether the process should start at the end of this financial year, or in the next five years.
10. **Effective Communication** – The standards specify a requirement for “effective communication” between the chief audit executive and the audit committee and there is specific reference to effective communication with the committee chair. In

this context “effective communication” refers to the engagement of the committee’s membership and of the chair in particular, in discussions with the chief audit executive about: the Council’s risk and assurance requirements; the level of assurance provided; issues of concern raised by audit work undertaken; and the implementation of agreed recommendations and enhanced assurance arising. This would involve frequent meetings between internal and the chair of the audit committee. The Initial meeting with the Chair of this committee has already established a protocol which is consistent with this requirement.

11. There would be a need to review the internal audit arrangements of this Council and to assess its preparedness to meet the new standards going forward. CIPFA has prepared guidance on implementing the new standards. Proposals need to be developed in consultation with senior management and the Chair of this committee going forward, in order to ensure that the Council is compliant with the new standard. The CIPFA guidance will be used to inform relevant proposals. This committee will be consulted and advised of further developments in due course.

Key Implications

Financial

- 12 None

Community Impact and Outcomes

- 13 An effective internal audit arrangement contributes towards the overall effectiveness of the council in providing quality services and good value for money for the local community..

Legal, Human Rights etc.

- 14 None

Resource (non-financial)

- 15 None

Value For Money

- 16 A robust internal audit arrangement will improve the assurance process and enhance the Council’s ability to minimise waste and inefficiencies whilst maximising value for money.

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

SUSTAINABILITY CHECKLIST

Not applicable

CONCLUSIONS

- 17 The report updates Members of changes on the mandatory elements of the requirements of the new public sector internal audit standards which came into effect on 1 April 2013. Members are required to note the report. Proposals for complying with the new standards will be brought to this committee in due course.

RISK ASSESSMENT STATEMENT

- 18 The Council will need to ensure that its internal audit arrangements complies with the new standards within a reasonable timescale, to mitigate the risk of poor external assessments and to maximise the opportunities presented for an effective internal audit arrangement going forward. As a first step, obtaining the CIPFA guidance and using it as a basis for consultation and developing proposals will mitigate the risk of non-compliance.

Appendices

None

New Public Sector Internal Audit Standards Link:

Background Papers

<http://www.cipfa.org/-/media/files/Publications/Standards/Public%20sector%20Internal%20Audit%20Standards.pdf> [copy and paste link on to Google]

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