

Internal Audit Standards

Audit Committee Briefing

Russell Heppleston: Dartford & Sevenoaks Audit Partnership
September 2019

DARTFORD & SEVENOAKS AUDIT PARTNERSHIP

A bit of history



IIA Statement of Responsibilities of Internal Auditors 1947

“Internal auditing is the independent appraisal activity within an organisation for the review of the accounting, financial, and other operations as a basis for protective and constructive service to management. It is a type of control which functions by measuring and evaluating the effectiveness of other types of control. It deals primarily with accounting and financial matters but it may also properly deal with matters of an operating nature”

IIA Statement of Responsibilities of Internal Auditors 1947

*“Internal auditing is the **independent appraisal** activity within an organisation for the review of the **accounting, financial**, and other **operations** as a basis for **protective** and **constructive** service to management. It is a type of control which functions by **measuring** and **evaluating** the effectiveness of other types of control. It deals primarily with accounting and financial matters but it may also properly deal with matters of an operating nature”*

A bit of history

Role of Internal Audit 1981

*“Internal auditing is the **independent appraisal** function established within an organisation to examine and evaluate its activities as a **service to the organisation**”*

A bit of history

Role of Internal Audit 1981

*“Internal auditing is the **independent appraisal** function established within an organisation to examine and evaluate its activities as a **service to the organisation**”*

Role of Internal Audit 1947

*“Internal auditing is the **independent appraisal** activity within an organisation for the review of the accounting, financial, and other operations as a basis for protective and constructive **service to management**”*

A bit of history

Role of Internal Audit reviewed again in **1999** leading to current definition

Role of Internal Audit 2013 & 2017

“Internal auditing is an independent, objective assurance and consultancy activity designed to add value and improve and organisations 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”

A bit of history

- Shift from finances and accounting to more broader 'activities' to a more defined scope (internal controls, governance and risk management)
- Developed from being a 'service to management' to being a 'service to the organisation'
- Shift from be a compliance and appraisal activity to assurance and consultancy
- Move from being service providing objective feedback, to being designed to improve decision making and achievement of objectives

Development of the Standards

As the role of internal audit evolved and developed, as did the standards regime:

- **1972: Local Government Act (Section 151)**
- **1978: *Standards for the Professional Practice of Internal Auditing***
- **2002: *Professional Practices Framework***
- **2006: *Code of Practice for Internal Audit in Local Government***
- **2009: *International Professional Practices Framework (IPPF)***
- **2013: *Public Sector Internal Audit Standards (PSIAS)***
- **2015: *Revisions to the IPPF***
- **2015: *Accounts and Audit Regulations (proper Internal Audit Practices)***
- **2017: *Revisions to the PSIAS***

DARTFORD & SEVENOAKS AUDIT PARTNERSHIP

Public Sector Internal Audit Standards (PSIAS)

Public Sector Internal Audit Standards

Applying the IIA International Standards to the UK Public Sector

- From 1 April 2013 – revised in March 2017
- Based on global standards (+ ‘public sector’)
- Internal Audit Standards Advisory Board



DARTFORD & SEVENOAKS AUDIT PARTNERSHIP

Standards are at the core of what we do:



IPPF 2015

Mission:

to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight

Mandated Guidance

*Core principles
Definition of Internal Audit
Code of Ethics
Standards*

Recommended guidance

*Implementation guidance
Supplementary guidance*

DARTFORD & SEVENOAKS AUDIT PARTNERSHIP

PSIAS Contents

- Internal Audit Definition
- Code of Ethics
 - Supplementary to professional bodies
- Attribute Standards
 - Purpose, authority, responsibility
 - Audit Charter
 - Independence & objectivity
 - Proficiency & competence
 - Minimum qualifications
 - Quality assurance & improvement
 - Including external assessment
- Performance Standards
 - Internal audit management
 - Risk-based planning
 - Nature of the work
 - Engagement planning
 - Performing engagements
 - Communicating results
 - Including annual opinion
 - Monitoring progress
 - Communicating risk
 - Especially accepted risks

Public sector requirement

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 committee.

Public sector interpretation

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.

Assessing Internal Audit

- Quality Assurance & Improvement Programme
- Report annually (at least) on quality to Audit Committee, including plans to improve quality
- External assessment (with Audit Committee approving scope & assessor) at least every 5 years
 - 2015 PWC EQA
 - 2017 PWC follow-up
 - **2020 EQA**
- **Kent Context:** Mid Kent Audit was first local government shared service to be assessed as “fully conforming” in Kent, followed by KCC, then Gravesham & Medway. EKA unassessed

DARTFORD & SEVENOAKS AUDIT PARTNERSHIP

Internal vs External Audit

Area	Internal Audit	External Audit
Purpose	Risk & business practice	Annual accounts (& Code)
Personnel	In-house or outsourced	Outsourced registered auditors
Plan	Approved by Members based on authority objectives	Set by auditors based on standards & code demands
Report	To officers and Members	To the public (via Members)
Report style	Tailored to authority, some Standards demands	Heavily set by Standards demands
Follow-up	Makes recommendation & requires follow-up	No follow-up requirement (except in following year's planning)
Required?	Yes, via Regulations	Yes, via primary legislation
Standards	Public Sector Internal Audit Standards & Code of Ethics	International Standards on Auditing (UK&I) & Code of Ethics

DARTFORD & SEVENOAKS AUDIT PARTNERSHIP

Assessing External Audit: Public Sector

- Public Sector Audit Appointments report quarterly and annually on audit quality
- Includes regulatory compliance plus direct quality review testing commissioned from FRC
- Regulatory Compliance and Quality Review Programme Annual Report 2018

Table 1: Combined regulatory compliance and audit quality performance scores (Principal Audits)

Firm	BDO	EY	GT	KPMG	Mazars
Combined firm score	A	A	A	A	G
Combined regime score	A				

9 In the limited assurance regime, we assessed whether the work performed by the firms met the required standard.

10 We were satisfied that:

- all firms produced work to an acceptable standard;
- all firms met PSAA's regulatory requirements; and
- the risks of failure in the regime were low.

DARTFORD & SEVENOAKS AUDIT PARTNERSHIP



Russell Heppleston

Russell.heppleston@dartford.gov.uk

Tel: **07841 026186**