

AUDIT COMMITTEE

Internal Audit Charter and New Public Services Internal Audit Standards 26 June 2013

Report of Internal Audit Manager

PURPOSE OF REPORT

To advise Members of the introduction of new professional standards relating to internal audit and to seek Members' approval for a revised Internal Audit Charter

This report is public

RECOMMENDATIONS

- (1) That the report is noted.
- (2) That the revised Internal Audit Charter is approved.

1.0 Background

- 1.1 The Accounts and Audit (England) Regulations 2011 require local authorities to undertake internal audit in accordance with "proper practices". Up until 1st April 2013, proper practices have been defined as those professional standards published by CIPFA¹. From 1st April 2013 these are replaced by the Public Sector Internal Audit Standards (PSIAS), a new set of standards developed for the UK's public services and based on the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF).
- 1.2 CIPFA have recently supplemented the new standards with an Application Note providing guidance on the specific requirements for local government organisations. All local authorities who are subject to the Accounts and Audit Regulations are required to make provision for internal audit in accordance with the PSIAS as well as the Application Note.

2.0 Report

- 2.1 The PSIAS categorises standards into "Attribute Standards", being those that apply to the organisation as well as to individual auditors; and "Performance Standards", which describe the nature of internal audit services and criteria for assessing performance.

¹ Code of Practice for Internal Audit in Local Government in the UK, 2006

2.2 The two categories include the following:

Attribute Standards:

- (a) Purpose, Authority and Responsibility
- (b) Independence and Objectivity
- (c) Proficiency and Due Professional Care
- (d) Quality Assurance and Improvement Programme

Performance Standards:

- (e) Managing the Internal Audit Activity
- (f) Nature of Work
- (g) Engagement Planning
- (h) Performing the Engagement
- (i) Communicating Results
- (j) Monitoring Progress

2.3 In the majority of areas, the substance of the PSIAS is not significantly different to the former Code of Practice. The PSIAS does raise a number of specific points of relevance for the Audit Committee, which vary from, or add to, the previous Code requirements. These are outlined in Appendix A.

2.4 The Application Note also contains an extensive checklist for assessing compliance with the PSIAS and this will be used in future assessments of the effectiveness of internal audit. A full, preliminary self-assessment is to be made against the checklist to inform future direction, identify any changes required, and develop an action plan as necessary.

2.5 One of the mandatory aspects of the PSIAS, which can be addressed immediately, is the requirement for organisations to have an Internal Audit Charter. A charter as such was not required under the previous Code, and although one has been in place in the council for many years, it is timely to review its purpose and content.

2.6 This links well with an ongoing review of the Council's Financial Regulations and Financial Procedures. The current Internal Audit Charter covers a number of matters which are also set out in the existing Financial Procedures; this provides an opportunity to simplify and rationalise the documents, making the Audit Charter the comprehensive and definitive source of reference.

2.7 A proposed draft Internal Audit Charter is attached at Appendix B. This incorporates the key organisational elements required to meet the requirements of the PSIAS.

2.8 Members are asked to consider and approve the proposed charter.

3.0 Details of Consultation

3.1 Management Team have been consulted in developing the draft Audit Charter.

4.0 Options and Options Analysis (including risk assessment)

4.1 The options available to the Committee are to:

- a. approve the draft charter, either as presented, or with suggested changes; or
- b. propose an alternative course of action.

4.2 Option a) is the preferred option as it will provide the council and its internal audit function with the basis to establish compliance with the PSIAS. It will be possible to consider further minor changes should any be deemed necessary following a thorough assessment of the internal audit function against the PSIAS.

5.0 Conclusion

5.1 It is timely and appropriate to review the council's Internal Audit Charter at this time and establish the basis for compliance with new professional standards for internal audit.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)
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Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments

LEGAL IMPLICATIONS

None directly arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS	Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/comm/audit/130626Charter
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Public Sector Internal Audit Standards
Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)

Considerations arising from the PSIAS having implications for the Audit Committee

- (a) Requirement to have an Internal Audit Charter, with specific requirements for the public sector
- (b) Definition of the body which will fulfill the role of “the Board” as referred to in each standard, and include this definition within the Charter. (For the time being, and pending a full assessment against the standards, any reference to “the Board” as used in the PSIAS is being taken to refer to the Audit Committee.)
- (c) Approval must be sought from the board for any significant additional consulting services not already included within the audit plan, prior to accepting the engagement.
- (d) An external assessment of internal audit will be required at least every five years. The format of the external assessment can be either a full external assessment or an internal assessment with independent validation.
- (e) Local authorities must find an “appropriate sponsor” to whom the results of the external assessment must be communicated. This could be the audit committee chair or another officer within the organisation. The aim is to further safeguard the independence of the external assessment process.
- (f) All instances of non-conformance with the Standards must be reported to the board