

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 9th July 2015

Subject: Internal Audit Quality Assurance and Improvement Programme Framework and Internal Audit Charter

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. From 1st April 2013 the Public Sector Internal Audit Standards (PSIAS) and accompanying Local Government Application Note have superseded the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom as the standards by which local government internal auditors must comply.
2. The standards require the Chief Audit Executive¹ to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The PSIAS also require the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter
3. The Internal Audit Quality Assurance and Improvement Programme (QAIP) and Internal Audit Charter were presented to members at the November 2013 Corporate Governance and Audit Committee meeting as part of the report on the Public Sector Internal Audit Standards. The Committee noted the programme and approved the Charter.
4. The annual review of conformance with PSIAS has been undertaken and the QAIP Framework and Internal Audit Charter have been reviewed and updated.

¹ Within Leeds City Council, the role of the Chief Audit Executive as defined by PSIAS is fulfilled by the Head of Internal Audit.

Recommendations

5. Members are requested to approve the Internal Audit Charter (Appendix 1.)
6. Members are requested to note the Quality Assurance and Improvement Programme Framework (Appendix 2.)

1 Purpose of this report

- 1.1 The purpose of this report is to seek approval for the Internal Audit Charter and to note the Internal Audit Quality Assurance and Improvement Programme (QAIP) Framework as defined by the Public Sector Internal Audit Standards (PSIAS.)

2 Background information

- 2.1 A professional, independent and objective internal audit service is one of the key elements of good governance in local government. The foundation of an effective internal audit service is compliance with standards and proper practices.
- 2.2 As reported to the Corporate Governance and Audit Committee in November 2013, the Relevant Internal Audit Standard Setters² adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.
- 2.3 The PSIAS and the Local Government Application Note (the Application Note) together supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code). The Application Note has been developed as the sector specific requirements for local government organisations within the UK.
- 2.4 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.
- 2.5 The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:
- Definition of Internal Auditing
 - Code of Ethics, and
 - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary.)

² The Relevant Internal Audit Standard Setters are HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding foundation trusts) and the Chartered Institute of Public Finance and Accountancy in respect of Local Government across the UK.

3 Main issues

- 3.1 A key requirement of the PSIAS (Attribute Standard 1000) is that the purpose, authority and responsibility of the internal audit activity must be formally defined in an Internal Audit Charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The Chief Audit Executive must periodically review the Internal Audit Charter and present it to senior management and the board³ for approval.
- 3.2 In addition, Attribute Standard 1300 requires the Chief Audit Executive to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity.
- 3.3 The Internal Audit Quality Assurance and Improvement Programme (QAIP) and Internal Audit Charter were presented to members at the November 2013 Corporate Governance and Audit Committee meeting as part of the report on the Public Sector Internal Audit Standards. The Committee noted the programme and approved the Charter.
- 3.4 In line with the requirements of PSIAS for periodic reviews, these documents have now been reviewed and updated.

Internal Audit Charter

- 3.5 The Internal Audit Charter has been updated to ensure it reflects all the requirements of the Standards as follows:
- Recognise the mandatory nature of the PSIAS (specifically the Definition of Internal Auditing, Code of Ethics and the Standards)
 - Defines the terms 'Chief Audit Executive', 'Board' and 'Senior Management' for the purposes of internal audit activity.
 - Sets out the responsibility of the 'Board' and also of the statutory officers with regard to Internal Audit as defined in the Council's Financial Regulations.
 - Establish responsibilities and objectives of Internal Audit.
 - Define the scope of Internal Audit activities.
 - Defines the nature of consulting services.
 - Cover the arrangements for appropriate resourcing.
 - Establish the organisational independence of Internal Audit.
 - Establish the accountability, reporting lines and relationships between the Chief Audit Executive (CAE) and:
 - The Board
 - Those to whom the CAE must report functionally
 - Those to whom the CAE may report administratively.
 - Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.
 - Set out the arrangements that exist within the organisation's anti-fraud and anti-corruption policies, requiring the CAE to be notified of all suspected or detected fraud, corruption or impropriety, to inform his or her annual internal audit opinion and the risk-based plan.

³ Within Leeds City Council, the role of the Board as defined by the PSIAS is fulfilled by the Corporate Governance and Audit Committee.

- Define the role of internal audit in any fraud-related work.
- Recognise that internal audit's remit extends to the entire control environment of the organisation and not just financial controls.
- Establish internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations where appropriate, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Quality Assurance and Improvement Programme (QAIP) Framework

3.6 The key changes to the QAIP Framework are as follows:

- Clarification in the approaches to internal quality assessment processes (including details of how quality is ensured at both an audit assignment and for the whole team) and external quality assessment processes;
- Removal of the action plan from the QAIP Framework. The results and any Improvement Action Plan from internal assessment processes will be reported to Corporate Governance and Audit Committee as part of the annual Internal Audit report. The results and any Improvement Action Plan for the external assessment process (once every five years) will be reported to Corporate Governance and Audit Committee following the external assessment process.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 There is no requirement to consult or engage with any stakeholders other than Corporate Governance and Audit Committee and senior management (Section 151 officer.)

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 No equality and diversity issues have been identified.

4.3 Council policies and the Best Council Plan

4.3.1 The terms of reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the Council's corporate governance arrangements. This report forms part of the suite of assurances that provides this evidence to the Committee. The work undertaken by Internal Audit in accordance with its Charter has links with each of the 6 strategic objectives for 2015-16 and has close links with the council's value of spending money wisely.

4.4 Resources and value for money

4.4.1 Conformance with the standards should ensure that all Internal Audit resources are used efficiently and effectively and that a value for money service is delivered.

4.5 Legal Implications, Access to Information and Call In

4.5.1 No legal implications identified.

4.6 **Risk Management**

4.12.1 No risk management issues identified.

5 **Conclusions**

5.1 The updated Internal Audit Charter and Quality Assurance Improvement Programme will enable Internal Audit to meet the requirements of the PSIAS.

6 **Recommendations**

6.1 Members are requested to approve the Internal Audit Charter (Appendix 1.)

6.2 Members are requested to note the Quality Assurance and Improvement Programme Framework (Appendix 2.)

7 **Background documents**

7.1 None.