

**Report of the Deputy Chief Executive**

**Report to Corporate Governance and Audit Committee**

**Date: 8<sup>th</sup> November 2013**

**Subject: Public Sector Internal Audit Standards**

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**

- From 1 April 2013 the Public Sector Internal Audit Standards (PSIAS) and accompanying Local Government Application Note ('the new standards') have superseded the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code)('the old standards') as the standards by which any Local Government Internal Audit Section must comply.
- A self review has been undertaken against the new standards. On the whole Internal Audit complies with the new standards, although as with any new standards a number of new requirements have been introduced. Of particular note, there is now a requirement for an Internal Audit Charter and a Quality Assurance and Improvement Programme to be in place.
- This report sets out the key actions needed to implement the new requirements of the PSIAS and highlights 2 identified areas of non-compliance. These are discussed in greater detail below.
- It should be noted that Internal Audit will continue to review compliance with all PSIAS requirements and will ensure the actions within the Action Plan (Appendix 1) are implemented within the designated timescales.

## **Recommendations**

5. Members are requested to note the Action Plan (Appendix 1))
6. Members are requested to approve the Internal Audit Charter (Appendix 2)
7. Members are requested to note the Quality Assurance and Improvement Programme (Appendix 3)

## **1. Purpose of this report**

1.1 The purpose of this report is to:

- inform members of the new standards
- to provide an assurance on compliance with the new standards
- to seek approval of The Internal Audit Charter and to note the Internal Audit Quality Assurance and Improvement Programme (QAIP) as defined by the Public Sector Internal Audit Standards (PSIAS).

1.2 In addition, Members are requested to note relevant actions to implement the new (or enhanced) requirements of the PSIAS as per Appendix 1 – ‘Action Plan’ and to accept the residual risk of the two areas of non-compliance whereby it is proposed no action should be taken. The two areas of non-compliance are discussed in further detail in 3.8 below.

## **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 The Relevant Internal Audit Standard Setters<sup>1</sup> have 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. The PSIAS have been developed by the Chartered Institute of Internal Auditors (CIIA).

2.3 The Accounts and Audit (England) Regulations (2011) state that ‘A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices<sup>2</sup> in relation to internal control’(6(1)).

2.4 Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should ‘make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs’. CIPFA has defined ‘proper administration’ in that it should include ‘compliance with the statutory requirements for accounting and internal audit’.

2.5 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

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<sup>1</sup> 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.

<sup>2</sup> Proper practices are now defined by the DCLG as being in accordance with the requirements of the PSIAS.

been developed as the sector specific requirements for local government organisations within the UK.

2.6 A self-review of LCC Internal Audit sections compliance with the PSIAS has been undertaken, the results of which are discussed below.

### **3 Main issues**

3.1 The PSIAS aim to apply the Institute of Internal Auditors International Standards to the UK Public Sector.

3.2 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.

There are a number of changes from the previous standards (2006 CIPFA Code of Practice for Internal Audit in Local Government), the most significant of which are:

- There is now a requirement to have in place an Internal Audit Charter. The purpose of the Charter is to define Internal Audit, the scope of its activities, its key stakeholders and reporting arrangements, its contribution to the review of the effectiveness of the control environment, its organisational independence and authority and its proficiency and due professional care. The Charter must be reviewed, updated and presented to senior management and the Corporate Governance and Audit Committee for approval on an annual basis.
- There is now a requirement to have a Quality Assurance and Improvement Programme in place. The QAIP covers all aspects of internal audit activity and enables conformance with the PSIAS to be evaluated. A key objective of the QAIP is to assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

3.3 A self review of compliance with the PSIAS and the Local Government Application Note has been undertaken. This has been done by completion of the Checklist for Assessing Conformance within the PSIAS and the Local Government Application Note as produced by CIPFA.

3.4 On the whole Internal Audit complies with the requirements of the PSIAS and Local Government Application Note although, as with any new standards, there have been some areas identified whereby Internal Audit does not comply. The

areas of non-compliance broadly fall into two areas – requirements which are new (or enhanced) and not previously included in the previous standards and those which Internal Audit are simply not currently complying with. All areas of non-compliance have been assessed and either accepted for action as they are new requirements (see Appendix 1 ‘Action Plan’) or have been assessed as having a low residual risk after the application of existing controls and therefore the risk of non-compliance has been accepted.

### **Areas for Action**

- 3.5 A new requirement of the PSIAS is the introduction of an ‘Internal Audit Charter’. The Internal Audit Charter sets out the formal definition of the purpose, the authority and responsibility of the internal audit activity. It also sets out key governance arrangements with respect to internal audit activity including the relationship between Internal Audit and senior management and the Corporate Governance and Audit Committee, organisational independence and scope of internal audit activities. It is a requirement of the PSIAS that the Internal Audit Charter is presented to the Corporate Governance and Audit Committee for approval and that the CGAC undertake an annual review of the Internal Audit Charter. The proposed Internal Audit Charter is attached – See Appendix 2.
- 3.6 A further new requirement of the PSIAS is the introduction of a Quality Assurance and Improvement Programme (QAIP). This covers all aspects of the Internal Audit activity and enables compliance with all aspects of the PSIAS to be evaluated. It allows for the assessment of the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. This is via both internal and external assessments. The requirement for an external assessment of the Internal Audit activity at least once every 5 years is a new requirement. The proposed QAIP is attached – See Appendix 3. The results of the QAIP must be reported to senior management and the CGAC on an annual basis.
- 3.7 In addition to the two main new requirements as per 3.5 and 3.6 above, the PSIAS and Local Government Application Note now require that the HOA confirm to the CGAC, at least annually, the following:
- An annual review of Internal Audit Charter has been undertaken;
  - The internal audit function is organisationally independent;
  - Results of QAIP, associated improvement plans and progress against improvement plans;
  - Statement that Internal Audit activity conforms with the PSIAS, provided results of QAIP support this.
  - Any instances of non-compliance with the PSIAS
  - Consideration of including any significant deviations from the PSIAS within the governance statement.
- 3.8 Reporting will be done via the Annual Internal Audit Report.

These are included as actions within the attached Action Plan – Appendix 1.

### **Areas of Accepted Non-Compliance**

- 3.8 The self review has identified two areas for which there is no associated action and by which Internal Audit are proposing to accept the residual risk. This is because after close analysis of the requirement and a review of current controls already in place relating to the requirement, the implementation of an action to meet the requirement would be unworkable and disproportionate. Existing controls in place are sufficient and operating well..

The two areas of non-compliance are:

- The Chief Executive does not undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Internal Audit.
- Feedback is not sought from the chair of the Corporate Governance and Audit Committee for the Head of Internal Audits performance appraisal

Existing controls within the Leeds City Council environment (i.e. the performance appraisal of the Head of Internal Audit is undertaken by the Chief Officer Audit and Investment in line with LCC appraisal policy) are deemed robust and adequate to feedback and review the performance appraisal of the Head of Internal Audit.

After the application of existing controls the two areas of non-compliance have been assessed as having a low residual risk.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 There is no requirement to consult or engage with any stakeholders other than CGAC 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 City Priorities**

- 4.3.1 No direct impact upon Council Policies or City Priorities.

### **4.4 Resources and value for money**

- 4.4.1 Conformance with the standards will 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.

## **4.6 Risk Management**

4.6.1 No risk management issues identified.

## **5 Conclusions**

5.1 It is pleasing to note that Internal Audit already complies with the majority of requirements of the PSIAS and Local Government Application Note. An action plan has been put in place and the two areas of accepted non-compliance have been reported to the CGAG.

## **6 Recommendations**

6.1 Members are requested to note the Action Plan (Appendix 1)

6.2 Members are requested to approve the Internal Audit Charter (Appendix 2)

6.3 Members are requested to note the Quality Assurance and Improvement Programme (Appendix 3)

## **7 Background Papers**

None