

Report to	Standards & Audit Committee
Date	25 June 2013
By	Chief Finance Officer
Title of Report	Public Sector Internal Audit Standards
Purpose of Report	The purpose of this report is to inform Members of the new Public Sector Internal Audit Standards (PSIAS)

Recommendation: That the Committee is recommended to note:

- 1) the key changes associated with the Public Sector Internal Audit Standards effective from 1 April 2013; and**
 - 2) further actions to meet the requirements of these standards.**
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1. Introduction

- 1.1 The new Public Sector Internal Audit Standards (PSIAS) came into effect on 1st April 2013. These standards are mandatory and provide a clear specification for the arrangements that the Authority should put in place for this service.
- 1.2 Following the publication of this document, a Local Authority Application Note has been published in April 2013 by the Chartered Institute of Public Finance & Accounting (CIPFA). The application note specifically refers to its application to National Park Authorities.
- 1.3 This report sets out the key changes highlighting areas where these differ from the previous Code of Practice for Internal Audit in Local Government (CIPFA).

2. Background

- 2.1 The Public Sector Internal Audit Standards (PSIAS) replaces the CIPFA Code of Practice for Internal Audit in Local Government (2006). This was regarded as providing “standards for proper practices” as per the Accounts and Audit Regulations 2011. The CIPFA Code provided a both an operational framework and a method of providing assurance that the service was delivered in accordance with required standards.
- 2.2 The PSIAS are based on the International Standards of Internal Auditing and developed and issued by CIPFA, the Chartered Institute of Internal Auditors UK (CIIA) and HM Treasury. They provide a coherent and consistent internal audit framework for the whole of the public sector.
- 2.3 The objectives of the PSIAS are to:
 - Define the nature of internal audit 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 adds 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 improved planning.
- 2.4 The PSIAS apply to all internal audit service providers, whether in-house, shared service or outsourced.
- 2.5 The PSIAS contains a revised definition of internal audit as follows:
‘Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s 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’.

3. Key Changes Identified

- 3.1 The CIPFA Code of Practice and the Public Sector Internal Audit Standards are similar documents but there are a number of clarifications and areas where there is a change in the terminology used.
- 3.2 One specific change is that the purpose, authority and responsibility of internal audit activity must be formally defined in an Internal Audit Charter. This will replace the current Internal Audit Terms of reference which was most recently approved as part of the Annual Internal Audit Plan in March 2013. The Internal Audit Charter must:
- Define the terms “board” and “senior management” for the purpose of internal audit activity
 - Recognise the mandatory nature of the PSIAS (the Definition of Internal Auditing, Code of Ethics and the Standards themselves)
 - Define reporting relationships;
 - Confirm the access rights of Internal Audit;
 - Cover arrangements for appropriate resourcing;
 - Explain the role of internal audit in any fraud related work; and
 - Include arrangements for avoiding conflicts of interest and how addressed.
- 3.3 The PSIAS use the term “Board”. This must be defined with the Internal Audit Charter but would normally be defined as the Standards & Audit Committee.
- 3.4 The PSIAS also uses the generic term Chief Audit Executive. For the purpose of the South Downs National Park Authority (the Authority) this officer is the Head of Audit and Business Risk (resourced from Brighton and Hove City Council). Day to day management of the service to this Authority will continue to be provided by the Audit Manager (also resourced from Brighton and Hove City Council).
- 3.5 The PSIAS require compliance with the Chartered Institute of Internal Audit’s Code of Ethics containing principles and rules of conduct covering integrity, objectivity, confidentiality and competency. This recognises the seven Nolan principles of public life.
- 3.6 The new PSIAS include a greater focus on internal audit activity in ensuring value for money.
- 3.7 The PSIAS includes the following additional requirements in respect of independence:
- The Chief Audit Executive must confirm their independence annually to the Board;
 - The Chief Audit Executive must report functionally to the Board;
 - The Chief Executive must undertake, countersign, and contribute feedback on the annual performance of the Chief Audit Executive’s performance assessment.
 - Chief Audit Executive must have unfettered access to the Chief Executive and Chair of the Audit Committee;
 - Any significant consultancy activity not on the Annual Audit Plan must be approved in advance.
- 3.8 A Quality Assurance and Improvement Programme must be in place including periodic internal assessments of compliance with the PSIAS an independent external assessment every five years; and the Chief Audit Executive must provide an annual opinion on whether IT governance supports the organisation’s strategic objectives.
- 3.9 The PSIAS contain a more detailed role for Internal Audit in Risk Management.
- 3.10 The published PSIAS also includes examples of functional reporting to the Board which are not typically seen as the responsibility of an Audit Committee including:
- Approving decisions regarding the appointment and removal of the Chief Audit Executive;
 - Approving the remuneration of the Chief Audit Executive; and
 - Approving the Internal Audit Budget and Resource Plan.

4. Actions Required

- 4.1 It is considered that the Authority's Internal Audit function complies with the majority of the new PSIAS.
- 4.2 An Audit Charter (replacing previous Terms of Reference for Internal Audit) is in the process of being drafted and will be presented to the next Standards and Audit Committee for approval.
- 4.3 An internal review of the service against the PSIAS and the Application Note is also being undertaken. The outcome of this review will also be reported to the Standards and Audit Committee.

5. Resources

- 5.1 The costs of compliance with the PSIAS are contained within the approved Internal Audit fee.

6. Risk management

- 6.1 Internal Audit has an important role to play in relation to effective risk management for the organisation. The PSIAS reinforce this alignment

7. Human Rights, Equalities, Health and Safety

- 7.1 There are no implications arising from this report.

8. Sustainability

- 8.1 The work of Internal Audit and Business Risk takes account of the principles within the Sustainability Strategy in both the method of delivering the service and the work undertaken. Whilst individual reviews tend to focus on financial risks and controls sustainability considerations are built into audit terms of reference where applicable.

9. External Consultees

- 9.1 None

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Appendices	None
SDNPA Consultees	Chief Executive Officer, Director of Corporate Services, Director of Planning, Director of Strategy and Partnerships, Director of Operations, Chief Finance Officer, Deputy Chief Finance Officer, Monitoring Officer & Legal Services.

Background Documents	Public Sector Internal Audit Standards (2013) Local Authority Application Note Code of Ethics from Chartered Institute of Internal Auditors (CIIA) CIPFA Code of Practice for Internal Audit in Local Government (2006)
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