

## **REPORT OF SERVICE DIRECTOR – FINANCE AND PROCUREMENT**

### **PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND AUDIT CHARTER**

#### **Purpose of the Report**

1. To inform Members of the new Public Sector Internal Audit Standards which come into force from 1<sup>st</sup> April 2013, recommend approval of their use by the Authority, and to recommend approval of an Internal Audit Charter as required by the standards.

#### **Information and Advice**

2. The Internal Audit Service complies with the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code sets out 11 standards which cover:-
  - \* Scope of Internal Audit
  - \* Independence
  - \* Ethics for Internal Auditors
  - \* Audit Committees
  - \* Relationships
  - \* Staffing, Training and Continuing Professional Development
  - \* Audit Strategy and Planning
  - \* Undertaking Audit Work
  - \* Due Professional Care
  - \* Reporting
  - \* Performance, Quality and Effectiveness
2. The Chartered Institute of Public Finance and Accountancy is the standard setter for internal audit in local government across the United Kingdom and has agreed, with other standard setters, a common set of Public Sector Internal Audit Standards (PSIAS) from 1st April 2013. The PSIAS have been developed to apply the Institute of Internal Auditors International Standards to the UK public sector.
3. The new standards are split into 2 categories: Attribute Standards and Performance Standards as set out below.

#### **Attribute Standards**

Purpose, authority and responsibility

Independence and objectivity  
Proficiency and due professional care  
Quality assurance and improvement programme

**Performance Standards**

Managing the internal audit activity  
Nature of work  
Engagement planning  
Performing the engagement  
Communicating results  
Monitoring progress  
Communicating the acceptance of risks

4. There is a large degree of consistency between the current Code of Practice and the new PSIAS. For example, both sets of standards set out the need for independence, due professional care and effective reporting / communication of the results of audit work.
5. The main changes introduced by the new standards are set out below.
  - \* There is a requirement for an internal audit 'charter' which must formally define the purpose, authority and responsibility of the internal audit activity, as well as the nature of consulting services and the terms 'board' and 'senior management'. It also has to cover the arrangements for avoiding conflicts of interest if internal audit carries out non-audit activities.
  - \* A periodic external assessment is required, to be carried out by qualified and independent assessors from outside the organisation.
  - \* A formal Quality Assurance and Improvement Programme is required which includes on-going internal assessments of all aspects of internal audit activity.
6. An Internal Audit Charter has been drafted, which sets out the purpose, authority and responsibility of internal audit within the Authority, and how the requirements of the PSIAS will be met. A copy of the draft is attached as Appendix A.
7. It is proposed that the role of the 'board' is fulfilled by the Audit Committee. The 'board' is defined in the PSIAS as:-

***“The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the ‘board’ may refer to the head of the organisation. ‘Board’ may refer to an audit committee to which the governing body has delegated certain functions.”***



8. The role of senior management will be fulfilled by the Corporate Leadership Team, which comprises the Chief Executive and Corporate Directors.
9. The role of the chief audit executive will be fulfilled by the Group Manager – Audit.

### **Other Options Considered**

10. This report sets out the requirements of the new Public Sector Internal Audit Standards, a proposed Internal Audit Charter and how the roles of the 'board', senior management and chief audit executive will be fulfilled. No alternative options have been considered.

### **Reason/s for Recommendation/s**

11. The new Public Sector Internal Audit Standards come into force from 1st April 2013. The Authority needs to confirm that it will comply with the standards, and agree an Internal Audit Charter setting out how compliance will be achieved.

### **Statutory and Policy Implications**

12. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

### **RECOMMENDATION/S**

13. Members are asked to:-

- \* Recommend to Full Council that the Authority should comply with the Public Sector Internal Audit Standards.

- \* Recommend to Full Council that the draft Internal Audit Charter is adopted by the Authority.

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**Constitutional Comments (KK 22/2/13)**

14. The proposals in this report are within the remit of the Audit Committee.

**Financial Comments (JMB 21/2/13)**

15. There are no direct financial implications arising from the report.

**Background Papers**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

Public Sector Internal Audit Standards

**Electoral Division(s) and Member(s) Affected**

All