

# AUDIT & STANDARDS COMMITTEE

Agenda Item 94

Brighton & Hove City Council

**Subject:** Public Sector Internal Audit Standards  
**Date of Meeting:** 16<sup>th</sup> April 2013  
**Report of:** Executive Director of Finance and Resources  
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**Wards Affected:** All

## FOR GENERAL RELEASE

### 1. SUMMARY AND POLICY CONTEXT:

- 1.1 The purpose of this report is to inform Members of the new Public Sector Internal Audit Standards (PSIAS) which came into effect on 1<sup>st</sup> April 2013. These standards are mandatory and will underpin the effectiveness of internal audit arrangements within the Council.
- 1.2 The Head of Audit and Business Risk is required to report on conformance with the PSIAS in his annual report.
- 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. RECOMMENDATION:

- 2.1 That Audit & Standards Committee note
  - The key changes associated with the Public Sector Internal Audit Standards effective from 1 April 2013; and
  - That action will be taken to implement the new standards, as required.

### 3. BACKGROUND

- 3.1 The Public Sector Internal Audit Standards (PSIAS) replaces the Code of Practice for Internal Audit in Local Government (2006) by the Chartered Institute of Public Finance and Accountancy (CIPFA). This was regarded as “standards for proper practices” as per the Accounts and Audit Regulations 2011. Previous effectiveness reviews of Internal Audit have assessed the level of compliance with the Standard
- 3.2 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.

3.3 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.

3.4 The PSIAS apply to all internal audit service providers, whether in-house, shared service or outsourced.

3.5 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’.*

#### **4. PSIAS – KEY CHANGES IDENTIFIED**

4.1 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.

4.2 Greater focus on internal audit activity in ensuring value for money.

4.3 The purpose, authority and responsibility of internal audit activity must be formally defined in an Internal Audit Charter which should:

- Define the terms “board” and “senior management” for the purpose of internal audit activity
- Recognises the definition of Internal Audit;
- Define reporting relationships;
- Confirm 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.

The “Board” is defined in the Council’s Audit Charter as the Audit & Standards Committee and “Senior Management “ the Executive Leadership Team and Corporate Management Team.

4.4 The PSIAS includes the following additional requirements in respect of independence:

- The Head of Internal Audit (Audit Executive) must confirm their independence annually to the Board;
- The Head of Internal Audit must report functionally to the Board;
- The Chief Executive must undertake, countersign, and contribute feedback on the annual performance of the Head of Internal Audit performance assessment.
- The Head of Internal Audit 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;
- An assessment of compliance with the PSAIS must be undertaken annually with an external assessment every five year; and
- The Head of Internal Audit must provide an annual opinion on whether IT governance supports the organisation's strategic objectives.

4.5 The PSIAS contain a more detailed role for Internal Audit in Risk Management.

4.6 The published PSIAS also includes examples of functional reporting to the Board which are not typically seen as the responsibility of an Audit Committee in a Local Authority including:

- Approving decisions regarding the appointment and removal of the Head of Internal Audit;
- Approving the remuneration of the Head of Internal Audit; and
- Approving the Internal Audit Budget and Resource Plan.

Further guidance is expected to be available in the Application Note from CIPFA due to publication in April 2013. (se 5.4 below).

## **5. PSIA – ACTIONS REQUIRED**

5.1 It is considered that the Council's Internal Audit function complies with the majority of the new PSIAS. The Internal Audit Strategy and Audit Charter (replacing previous Terms of Reference for Internal Audit) have been updated and contained in the Internal Audit Strategy and Annual Audit Plan 2013/13.

5.2 The in-house Internal Audit Team and co-sourced contractors (Deloitte) will comply with the new PSIA from 1<sup>st</sup> April 2013. All staff have received a copy of the PSIA and full training will be given in April 2013.

5.3 The Head of Audit & Business Risk, Audit Manager and Engagement Manager (Deloitte) have the responsibility for ensuring compliance with the new PSIA.

5.4 A Local Government Application Note is due to be published by CIPFA in April 2013 that will provide further guidance and interpretation of requirements.

## **6. FINANCIAL & OTHER IMPLICATIONS:**

### 6.1 Financial Implications:

Adopting the Public Sector Internal Audit Standards (PSIAS) will ensure that financial governance standards are achieved. There are no direct financial implications as a result.

*Finance Officer Consulted: Anne Silley  
Head of Business Engagement*

*2 April 2013*

### 6.2 Legal Implications:

Taking the actions at 5.1 to 5.3, and any further recommendations contained in the CIPFA application note referenced in 5.4, should ensure the council's compliance with the new PSIAS.

*Lawyer Consulted: Oliver Dixon*

*Date: 2 April 2013*

### 6.2 Equalities Implications:

When carrying out audit work, any equality issues identified are reported to the appropriate level of management. The Internal Audit Strategy and Annual Audit Plan recognise the council's priorities in respect to Equality and Diversity and how Internal Audit will meet them.

### 6.4 Sustainability Implications:

When carrying out audit work, any sustainability issues identified are reported to the appropriate level of management.

### 6.5 Crime & Disorder Implications:

When carrying out audit work, any crime and disorder issues identified are reported to the appropriate level of management.

### 6.6 Risk and Opportunity Management Implications:

The preparation of the Internal Audit Strategy and Annual Audit Plan takes into account the outcomes of the council's risk management and other assurance processes. The work of Internal Audit assists the council in improving controls to mitigate risks. The Annual Audit Plan will be flexible to take account of emerging risks and priorities of the council.

### 6.7 Corporate / Citywide Implications:

Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

## **SUPPORTING DOCUMENTATION**

### **Background Documents**

1. Public Sector Internal Audit Standards (2013)
2. Code of Ethics from Chartered Institute of Internal Auditors (CIIA)
3. CIPFA Code of Practice for Internal Audit in Local Government (2006)

