

CYNGOR SIR POWYS COUNTY COUNCIL

AUDIT COMMITTEE 17th January 2014

REPORT AUTHOR: Cabinet Member for Finance and Value

SUBJECT: Public Sector Internal Audit Standards

REPORT FOR: Information

1. Purpose

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
- outline corrective actions for any areas of non-compliance

2. Background

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 required standards and proper practices.

2.2 The Relevant Internal Audit Standard Setters 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). The Chartered Institute of Public Finance and Accountancy (CIPFA) have developed an accompanying Local Government Application Note to support the new standard.

The PSIAS and the Local Government Application Note together supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The Application Note has been developed as the sector specific requirements for local government organisations within the UK.

2.3 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
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

2.4 There are a number of changes from the previous standards, the most significant of which are:

- There is now a requirement to have in place an Internal Audit Charter.
- There is now a requirement to have a Quality Assurance and Improvement Programme (QAIP) in place.

3. Self Assessment

- 3.1 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.
- 3.2 On the whole Internal Audit complies with the requirements of the PSIAS and Local Government Application Note. Although, as with any new standard, there have been some areas identified where Internal Audit does not comply. The areas of non-compliance broadly fall into two areas – requirements which are new (or enhanced) and those which Internal Audit are simply not currently complying with.

All areas of non-compliance have been assessed and either accepted for action (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.

4. Areas for Action

- 4.1 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 relationships, organisational independence and scope of internal audit activities. It is a requirement of the PSIAS that the Internal Audit Charter is presented Audit Committee for approval and that an annual review is undertaken.
- 4.2 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 results of the QAIP must be reported to senior management and the Audit Committee on an annual basis.
- 4.3 In addition to the two main new requirements above, the PSIAS and Local Government Application Note now require the Head of Internal Audit to confirm annually to the Audit Committee (or its sub groups) 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.

4.4 Reports enabling compliance with the above will be presented to the Audit and/or Audit Sub-Committees

5.0 Conclusions

- 5.1 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.
- 5.2 This report sets out the key actions needed to implement the new or enhanced requirements of the standards.
- 5.3 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.

6. Powys Change Plan

- 6.1 Conformance with the standards will ensure that all Internal Audit resources are used efficiently and effectively and will contribute to the overall corporate governance framework within which the corporate strategic plans are delivered.

Recommendation:	Reason for Recommendation:
Members are requested to note the report and its action plan in Appendix	To comply with mandatory codes of professional practice

Relevant Policy (ies):	
Within Policy:	Y
Within Budget:	Y

Relevant Local Member(s):	N/A
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Person(s) To Implement Decision:	Internal Audit Manager
Date By When Decision To Be Implemented:	ASAP

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Background Papers used to prepare Report:

Public Sector Internal Audit Standards 2013
Local Government Application Note 2013

Powys Internal Audit - Action Plan

This action plan sets out the actions, responsibilities and timescales for ensuring compliance with the PSIAS. All other significant requirements have been met and Internal Audit will continue to review the PSIAS on an annual basis to ensure compliance.

Action	Responsibility	Timescale
Internal Audit Charter to be presented to Audit Committee for approval. This is a new requirement.	Internal Audit Manager	April 2014
External Assessment mechanism of Internal Audit to be formalised. This needs to be done at least every 5 years. First external assessment to be undertaken by 2018 at latest. This is a new requirement.	Internal Audit Manager / Strategic Director of Resources	June 2014
Quality Assurance and Improvement Programme (QAIP) to be developed. This is a new requirement.	Internal Audit Manager	June 2014
An annual reporting process will be developed that will include the following : a) Annual review of Internal Audit Charter b) confirmation that the internal audit function is organisationally independent c) Results of QAIP, associated improvement plans and progress against improvement plans d) Statement that Internal Audit activity conforms with the PSIAS, provided results of QAIP support this. e) Any instances of non-conformance with the PSIAS and if those significantly impact on the governance statement This is a new requirement.	Internal Audit Manager	Sept 2014
The audit plan for 2014/15 will set out how it incorporates local and national issues and risks. This requirement has been enhanced from previous standards.	Internal Audit Manager	April 2014
Assurance mapping will continue to be developed and evolve during the 2014/15. This requirement has been enhanced from previous standards.	Internal Audit Manager	March 2015
Provide improved information to the Audit Committee sub group on the on-going performance of the internal audit function.	Internal Audit Manager	April 2014

