

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	13 <sup>th</sup> March 2014

## NEW PUBLIC SECTOR INTERNAL AUDIT STANDARDS

### PURPOSE OF REPORT

- To appraise members of new requirements for Internal Audit as set out in recently published Public Sector Internal Audit Standards;
- To present an analysis showing the Council's existing compliance with the new Standards together with an action plan to address any areas of non-compliance;
- To present a new Internal Audit Service Charter for approval by members.

### RECOMMENDATION

- That the Committee:
  - notes the report, and
  - approves the adoption of the new Internal Audit Service Charter.

### EXECUTIVE SUMMARY OF REPORT

- The report summarises the results of an internal review which seeks to ensure that the Council's Internal Audit Service will continue to operate in accordance with the necessary industry standards and proper practices.

<b>Confidential report</b> Please bold as appropriate	Yes	No
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### CORPORATE PRIORITIES

- This report relates to the following strategic objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	<b>X</b>

## BACKGROUND

7. A professional, independent and objective internal audit function is one of the key elements of good governance in local government and the foundation of an effective internal audit service is compliance with standards and proper practices.
8. In 2013, a common set of Public Sector Internal Audit Standards (PSIAS) was adopted for the first time. The new PSIAS apply to all public sector internal audit providers, whether in-house, shared services or outsourced.
9. Following the adoption of the core PSIAS (which apply to all public sector organisations) has been the publication of a Local Government Application Note (LGAN) which specifies and clarifies how the core standards apply in practice to local authorities. The LGAN has been developed by the Chartered Institute of Public Finance & Accountancy (CIPFA) in collaboration with the Chartered Institute of Internal Auditors (IIA).
10. Taken together the PSIAS and the LGAN constitute proper practices to satisfy the internal audit requirements for larger relevant bodies as set out in the Accounts and Audit Regulations 2011. In so doing they also supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code).

## REVIEW OF COMPLIANCE

11. We have studied both the PSIAS and LGAN in detail to identify the specific new requirements impacting on the provision of Internal Audit. The table at **Appendix 2** lists those requirements and shows the extent to which they are already complied with, or otherwise, by the Council's Internal Audit Service. For ease of reference we have inserted titles and other descriptions which apply locally rather than the generic terms used in the source Standards.
12. Members will note that the Internal Audit Service has already adopted some of the practices and requirements set out in the new Standards, however the following changes will be introduced to ensure full compliance:
  - Approval by the Governance Committee of an Internal Audit Service Charter;
  - The Chair of the Governance Committee to provide feedback on the performance of the Head of Shared Assurance Services as part of his annual performance appraisal;
  - Arrange an independent external assessment of the Internal Audit Service's compliance with the new PSIAS at least once every 5 years;
  - Future Annual Audit Reports will contain a statement to verify compliance with PSIAS;
  - Internal Audit reports will confirm that reviews are conducted in conformance with PSIAS.
13. Members will note that one of the key changes required is the adoption of an Internal Audit Service Charter. This has now been drafted based on a prescribed template and is attached to this report at **Appendix 1**.

14. The Chief Executive will obtain feedback from the Chair of the Governance Committee on the performance of the Head of Shared Assurance Services and incorporate this within his next performance appraisal.
15. The arrangements for and timing of the external assessment of compliance with PSIAS will be agreed in due course and will most likely consist of a peer review by another local Internal Audit provider.
16. Commencing in 2014/15 all Internal Audit reports will contain statements to verify compliance with the new PSIAS.

#### **IMPLICATIONS OF REPORT**

17. This report has implications for all service areas within the Council.

#### **COMMENTS OF THE STATUTORY FINANCE OFFICER**

18. No comment.

#### **COMMENTS OF THE MONITORING OFFICER**

19. No comment.

**Garry Barclay**  
**Head of Shared Assurance Services**

#### **BACKGROUND PAPERS**

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
Local Government Application Note Public Sector Internal Audit Standards	April 2013		Internal Audit Office Town Hall

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Garry Barclay Dawn Highton	01772 625272 01257 515468	March 2014	

## **Chorley Council – Internal Audit Service Charter**

### **Introduction**

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Chorley Council. It assists Chorley Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

### **Role**

The Governance Committee has approved terms of reference which set out the role and functions of the Council's Internal Audit Service.

### **Professionalism**

The Internal Audit Service will govern itself by adherence to the Institute of Internal Auditors' mandatory guidance including the Public Sector Internal Audit Standards (PSIAS), Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Internal Audit Service's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the Internal Audit Service will adhere to Chorley Council's relevant policies and procedures and the Internal Audit Service's standard operating procedures manual.

### **Authority**

The Internal Audit Service, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit Service in fulfilling its roles and responsibilities. The Internal Audit Service will also have free and unrestricted access to the Governance Committee.

### **Organisation**

The Head of Shared Assurance Services will report functionally to the Governance Committee and administratively to the Chief Executive. Any decisions regarding the appointment, remuneration, performance evaluation or removal of the Head of Shared Assurance Services will be made by the Executive Cabinet on the recommendation of the Shared Services Joint Committee. The Head of Shared Services will communicate and interact directly with the Senior Management Team, including in formal meetings and between meetings as appropriate.

## Independence and Objectivity

The Internal Audit Service will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Head of Shared Assurance Services will confirm to the Governance Committee, at least annually, the organisational independence of the Internal Audit Service.

## Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programs with established objectives and goals and effective performance
- Effectiveness and efficiency of operations and employment of resources
- Compliance with significant policies, plans, procedures, laws, and regulations
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the Governance Committee in evaluating the quality of performance of external auditors and maintaining a proper degree of coordination with Internal Audit.

Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Governance Committee or management, as appropriate.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Governance Committee Board and to Senior Management, including fraud risks and governance issues.

## Internal Audit Plan

At least annually, the Head of Shared Assurance Services will submit to the Governance Committee an Internal Audit Plan for review and approval, including risk assessment criteria. The Internal Audit Plan will include timing as well as resource requirements for the next financial year. The Head of Shared Assurance Services will communicate the impact of resource limitations and significant interim changes to Senior Management and the Governance Committee.

The Internal Audit Plan will be developed based on a prioritization of the audit universe using a risk based methodology, including input of Senior Management and the Governance Committee. Prior to submission to the Governance Committee for approval, the Plan may be discussed with appropriate Senior Management. Any significant deviation from the approved Internal Audit Plan will be communicated through the periodic activity reporting process.

## Reporting and Monitoring

A written report will be prepared and issued by the Head of Shared Assurance Services or Principal Auditor following the conclusion of each Internal Audit engagement and will be distributed as appropriate. Internal Audit results will also be communicated to the Governance Committee. The Internal Audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The Internal Audit Service will be responsible for appropriate follow-up of findings and recommendations. All significant findings will remain in an open issues file until cleared.

## Periodic Assessment

The Head of Shared Assurance Services is responsible also for providing periodically a self-assessment on the Internal Audit Service as regards its consistency with the Audit Charter (purpose, authority and responsibility) and performance relative to its Plan.

In addition, the Head of Shared Assurance Services will communicate to Senior Management and the Governance Committee on the Internal Audit Service's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

**Internal Audit Service Charter approved this 13<sup>th</sup> day of March 2014**

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**Head of Shared Assurance Services**

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**Chair of the Governance Committee**

New PSIAS Requirements	Existing Compliance	Action Required
Internal Audit Service Charter to be produced with specific public sector requirements		Internal Audit Service Charter to be approved by the Governance Committee
The Chief Executive undertakes, countersigns, contributes feedback to or reviews the performance of the Head of Shared Assurance Services and that feedback is also sought from the Chair of the Governance Committee	The Chief Executive undertakes the performance appraisal of the Head of Shared Assurance Services	The Chief Executive will obtain feedback on the performance of the Head of Shared Assurance Services and incorporate this within performance appraisals
Approval must be sought from the Governance Committee for any significant consulting services not already included in the Audit Plan prior to accepting the engagement	Any deviations from the Audit Plan are reported to and agreed with the Governance Committee	
The Head of Shared Assurance Services should develop a quality assurance and improvement programme that covers all aspects of the Internal Audit Service and enables conformance with all aspects of the PSIAS to be evaluated and include both internal and external assessments. External assessments will be carried out at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.	The Internal Audit Service is ISO 9002 accredited and is externally assessed each year. Also internal assessments are already carried out as part of the annual governance assessment process	The arrangements for and timing of the external assessments of compliance with PSIAS will be agreed in due course and will most likely consist of a peer review by another local Internal Audit provider
The Head of Shared Assurance Services must include in the risk based Audit Plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.	Assurance is obtained from external providers on an annual basis where necessary.	

<p>The Annual Audit Report must incorporate a statement on conformance with PSIAS &amp; any instances of non-conformance must be reported to the Governance Committee. More significant deviations must be considered for inclusion in the Annual Governance Statement.</p>		<p>Commencing with 2013/14 all Annual Audit Reports will contain a statement to verify compliance with PSIAS</p>
<p>Internal Audit reports confirm that reviews are conducted in conformance with the PSIAS once the results of the quality assurance support such a statement</p>		<p>Internal Audit reports will confirm that reviews are conducted in conformance with PSIAS following the initial self-assessment</p>