

Appendix E – Public Sector Internal Audit Standards (PSIAS) Overview

1. Purpose of Report

The purpose of this report is to inform Members of the new PSIAS which came into effect on 1 April 2013. These standards are mandatory and should underpin the Internal Audit arrangements within the Council. The Head of Internal Audit will report on conformance with the PSIAS within the Annual Opinion.

2. Background

In May 2011, the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) agreed to collaborate in the development of the internal audit profession in the public sector. As a result, national PSIAS, based upon the mandatory elements of the global CIIA's International Professional Performance Framework, have been developed.

The PSIAS came into force on 1st April 2013 and consist of the following:

- Definition of Internal Auditing;
- Code of Ethics; and
- Standards for the Professional Practice of Internal Auditing.

The PSIAS replace the Code of Practice for Internal Audit in Local Government in the United Kingdom, last revised in 2006. In local government, the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011.

3. Issues

The CIPFA Code of Practice for Internal Audit in Local Authorities in the United Kingdom is recognised as best practice and has been adopted by the Council and previous reviews of the effectiveness of Internal Audit have assessed the level of compliance with this standard.

The new Standards are intended to promote further improvement in the professionalism, quality and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide managers with the key assurances they need.

Overall, most of the content within the Standards is a continuation of existing best practice and builds on the CIPFA Code of Practice for Internal Audit in Local Government (the CIPFA Code). As Internal Audit operates in compliance with the CIPFA Code, there will not be any material changes in day to day operational activities although amendments have been made to the Audit Charter and Strategy. Key issues and changes arising from the PSIAS are summarised below:

1. PSIAS require that the term 'board' be defined as "The highest level of governing body charged with responsibility to direct and oversee the activities and management of the organisation. The term 'Board' refers to the Audit Committee to which Full Council has delegated its authority".

Ealing: The Audit Committee will perform the role of the Board for the purposes of PSIAS. The Committee's Terms of Reference will be amended accordingly.

2. The Head of Internal Audit must report functionally to the Board. In practice this means the Audit Committee (as the Board) will be involved in:
 - Approving the Internal Audit Charter.
 - Approving the risk based Internal Audit Plan.
 - Receiving communication from the Head of Internal Audit on the Internal audit activity's performance relative to its Plan and other matters.
 - Making appropriate enquiries of management and the Head of Internal Audit to determine whether there are inappropriate scope or resource limitations
 - Approving any significant additional consulting services not already included in the audit plan, prior to any engagement being accepted.

Ealing: These functions are already undertaken by the Audit Committee.

3. PSIAS also include some examples of functional reporting to the Board which are not typically seen as the responsibility of an Audit Committee in a Local Authority e.g.:
 - Approving decisions regarding the appointment and removal of the Head of Internal Audit;
 - Approving the remuneration of the Head of Audit & Investigation; and,
 - Approving the Internal Audit budget and resource plan.

The underlying principle here is that the independence of the Head of Internal Audit is safeguarded by ensuring that his/her remuneration or performance assessment is not unduly influenced by those subject to audit. In practice it is suggested that this may be achieved through involvement of the Chairman of the Audit Committee in recruitment, removal or changes to remuneration of the Head of Internal Audit and providing feedback as a contribution to the performance appraisal of the Head of Internal Audit.

Ealing: Going forward, the Chair of Audit Committee will:

- Be involved in the recruitment process for a new Head of Audit & Investigation, including his/her remuneration, by being co-opted onto the Recruitment Panel;
 - Review the Head of Audit & Investigation's annual appraisal.
4. There is a new requirement within the PSIAS that the quality and assurance programme must include both internal and external assessments with an external assessment being conducted at least once every five years. The internal assessments must include on-going monitoring and periodic self-assessments.

Ealing: Internal Audit is subject to a Quality Assurance Programme that covers all aspects of internal audit activity. This consists of:

- Quality Assurance: A QA Questionnaire sent out at the completion of each audit and follow up of issues arising where required;
 - Internal Assessment: On-going performance monitoring and an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards; and
 - External Assessment. At least once every five years by a suitably qualified, independent assessor. Internal Audit was successfully reviewed by PricewaterhouseCoopers in 2009/10 and the next external review is planned for 2015.
5. There is a new requirement that the Head of Internal Audit's Annual Opinion includes a statement on conformance with the PSIAS.

Ealing: Please see attached HIA Opinion.

6. The PSIAS requires that Internal Audit must evaluate the effectiveness and contribute to the improvement of risk management processes. Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:
- Organisational objectives support and align with the organisation's mission;
 - Significant risks are identified and assessed;
 - Appropriate risk responses are selected that align risks with the organisation's risk appetite; and
 - Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

Ealing: The Council's Risk Management Framework is robust, complies with the above requirements and thus contributes to a sound system of internal control.

7. All Internal Auditors in the United Kingdom public sector organisations are required to conform to the Code of Ethics of both the Institute of Internal Auditors (IIA) and their own professional organisation.

Ealing: All members of the in-house team and the Council's Internal Audit Partners (Deloitte) are professionally qualified/following a professional course of studies and thus conform with Code of Ethics of their own professional organisation. Additionally both teams are required to conform to the IIA Code as documented within Ealing's Internal Audit Charter.

8. There is a requirement that the purpose, authority and responsibility of the internal audit activity is formally defined in an Internal Audit Charter which is subject to regular review and there is a requirement for the Head of Internal Audit to confirm the organisational independence of the internal audit activity to the Board annually.

Ealing: Please see attached Internal Audit Strategy and Charter (June 2013). The Head of Internal Audit will also confirm organisational independence of the Service to the Board annually via the Annual Opinion.

4. Recommendations

The Audit Committee adopts the Public Sector Internal Audit Standards as best practice for the delivery of a quality Internal Audit Service for the London Borough of Ealing.