

Audit Committee – 1 September 2014

Public Sector Internal Audit Standards

Summary of report

To update members on Internal Audit's compliance against the Public Sector Internal Audit Standards (PSIAS) that came into effect on 1 April 2013.

Background papers

Public Sector Internal Audit Standards, Audit Committee papers of 24 June 2013, 2 September 2013 and 24 February 2014.

Recommendations

1. To note the contents of this report.
2. Agree the recommendation for the 5 yearly external assessment of Internal Audit's PSIAS compliance.



20 August 2014

Introduction & 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, the national PSIAS, based upon the mandatory elements of the global CIIA's International Professional Performance Framework was developed.

The PSIAS were effective from 1 April 2013 and consist of the following:

- Definition of Internal Auditing.
- Code of Ethics.
- 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.

Public Sector Internal Audit Standards (PSIAS)

The new standards were 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 Audit Committees and senior management with the key assurances they need to support them both in managing the organisation and in producing the annual governance statement.

While the PSIAS come into force from 1 April 2013, it was not expected that all elements would be in place on day one. Many of the standards applied to activities that happen later in the audit year, for example annual assurance reporting and quality assurance and improvement processes. In addition, most of the requirements of the PSIAS were already in place, as they were required under the Code of Practice for Internal Audit in Local Government in the United Kingdom.

A summary of the PSIAS was reported to Audit Committee on 24 June 2013. Internal Audit's compliance against the standard was reported to Audit Committee on 2 September 2013, with an update report on 24 February 2014.

As at August 2014, of the 206 point checklist detailed within CIPFA's 'Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards', 10 now remain outstanding relating to the implementation of the 5 yearly external assessment of internal audit's PSIAS compliance. See **Appendix 1** for progress made.

5 yearly external assessment

The PSIAS require that an external assessment of Internal Audit's compliance against the standards is carried out at least once every five years. That means that an external assessment should be carried out at least by 1 April 2018.

The standards require that the Head of Internal Audit (HOIA) consider the pros and cons for the different types of external assessment (ie 'full' or self-assessment plus 'independent validation'). To this end, as a self assessment and evidence portfolio has already been prepared by Internal Audit, the Head of Internal Audit recommends that the scope of the assessment is a self assessment plus independent validation. This is considered to be the most time and cost effective means of delivering the assessment.

Following the suggestion of Audit Committee on 24 February 2014, the Head of Internal Audit, who hosts the Midland Audit Group (MAG), raised the potential for peer 'carousel' review with the other midlands heads of audit who attend MAG. Following discussion, it was agreed that this was to be progressed, however, most Heads of Audit indicated that they planned their assessment later on i.e. toward the April 2018 deadline.

The Head of Internal Audit has, however, subsequently been approached by the Director of Audit & Assurance of WM Assurance Services, an NHS internal audit consortium, to undertake their peer review in October 2014. It is therefore recommended, subject to Audit Committee's endorsement, that this is reciprocated for Walsall. The reciprocal nature of the arrangement would mean that this would be at no cost to either organisation.

Subject to the approval in principal of the above, the Head of Internal Audit will bring a subsequent report to the Audit Committee, as required by the PSIAS, detailing:

- the qualifications and independence of the assessor or assessment team; and
- the scope of the external assessment.

Resource and legal considerations

None directly related to this report.

Performance and risk management issues

Performance and risk management are features of the PSIAS on which there is a requirement for compliance.

Equality implications

None directly arising from this report.

Consultation

Consultation has taken place with the Chief Finance Officer and via this report, the Audit Committee.

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Appendix 1

Action Plan for Areas of Non or Partial Conformance with the Public Sector Internal Audit Standards – August 2014 Update

PSIAS No:	Conformance with the Standard	Y	P	N	Evidence / Comment	Action / Responsibility / Timescale	Status Update
19	Does the Chief Executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the HoIA?	✓			The Chief Executive or equivalent does not undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Internal Audit.	The Chief Finance Officer will request feedback from the Chief Executive for the performance appraisal of the Head of Internal Audit. Assistant Director - Finance 30 April 2014	Closed / Addressed This has now been addressed as part of the Head of Internal Audit's annual appraisal.
20	Is feedback sought from the chair of the audit committee for the HoIA's performance appraisal?	✓			Feedback is not sought from the Chair of the Audit Committee for the Head of Internal Audit's performance appraisal.	The Chief Finance Officer will request feedback from the Chair of Audit Committee for the performance appraisal of the Head of Internal Audit. Assistant Director - Finance 30 April 2014	Closed / Addressed This has now been addressed as part of the Head of Internal Audit's annual appraisal.
50	Has the HoIA developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity		✓		The HoIA has developed a QAIP but this needs to be updated to reflect the new requirements within the	The audit manual will be updated to reflect the QAIP compliance with the PSIAS.	Partially Closed / Addressed The audit manual

PSIAS No:	Conformance with the Standard	Y	P	N	Evidence / Comment	Action / Responsibility / Timescale	Status Update
	and enables conformance with all aspects of the PSIAS to be evaluated?				PSIAS.	Audit Managers 31 October 2014	has been partially updated. It will be further updated once PSIAS 63 has been addressed.
63	Has an external assessment been carried out or is planned to be carried out, at least once every five years?			✓		Conformance with the PSIAS will be self assessed annually and subject to external assessment at least every 5 years. Head of Internal Audit 31 October 2014	Open / Unaddressed A self assessment was first undertaken in 2012/13 as part of the Head of Internal Audit's 2012/13 annual report and has been undertaken again in 2014/15. Options for external assessment have now been considered and a recommendation is included within the main body of this report.
64	Has the HOIA considered the pros and cons for the different types of external assessment (ie 'full' or self-assessment plus 'independent validation')?			✓		As 63.	As 63.

PSIAS No:	Conformance with the Standard	Y	P	N	Evidence / Comment	Action / Responsibility / Timescale	Status Update
65	Has the HOIA discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the Audit Committee?			✓		As 63.	As 63.
66	Has the HOIA agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?			✓		As 63.	As 63.
67	Has the HOIA agreed the scope of the external assessment with the external assessor or assessment team?			✓		As 63.	As 63.
68	<p>Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process?</p> <p>Competence can be determined in the following ways:</p> <ul style="list-style-type: none"> a) Experience gained in organisations of similar size b) Complexity c) Sector (ie the public sector) d) Industry (ie local government), and e) Technical experience. <p>Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.</p>			✓		As 63.	As 63.

PSIAS No:	Conformance with the Standard	Y	P	N	Evidence / Comment	Action / Responsibility / Timescale	Status Update
69	How has the HOIA used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?			✓		As 63.	As 63.
70	Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs?			✓		As 63.	As 63.
187	Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?			✓		<p>A statement will be added to audit documentation.</p> <p>Audit Managers</p> <p>31 October 2014</p>	<p>Open / Unaddressed</p> <p>The Head of Internal Audit's annual report includes the self assessment of conformance against the PSIAS. This will be updated annually and following the outcome of an external assessment – see 63.</p>