

## **Audit Committee – 24 February 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 and 2 September 2013.

#### **Recommendation:**

1. To note the contents of this report.



5 February 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**

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.

A self assessment of Internal Audit's compliance against the PSIAS was subsequently reported to Audit Committee on 2 September 2013 as part of Head of Internal Audit's annual report. It was concluded that practice generally conforms to the standard overall, but with some minor areas of non compliance. An improvement plan to ensure the full compliance was detailed as an Appendix to the report.

This report provides Audit Committee with an update on progress against the improvement plan which is detailed at **Appendix 1**.

**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 – February 2014 Update

PSIAS No:	Conformance with the Standard	Y	P	N	Evidence / Comment	Action / Responsibility / Timescale	Status Update
8	Does the internal audit charter:  (a) Establish the responsibility of the Audit Committee and also the role of the statutory officers (such as the chief finance officer (CFO), the monitoring officer and the head of paid service) with regards to internal audit?	✓			The audit charter establishes the responsibility of the Audit Committee, the Chief Finance Officer and the Head of Paid Service (Chief Executive), but not the role of the Monitoring Officer.	On its next revision, the charter will be updated to include the responsibility of the Monitoring Officer with regards to Internal Audit.  Head of Internal Audit  31 January 2014	<b>Closed / Addressed.</b>  The Charter has been updated and has been submitted to this meeting of the Audit Committee (24 February 2014) for approval.
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	<b>Open / Unaddressed</b>  This will be addressed at the Head of Internal Audit's annual appraisal.

PSIAS No:	Conformance with the Standard	Y	P	N	Evidence / Comment	Action / Responsibility / Timescale	Status Update
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	<b>Open / Unaddressed</b>  This will be addressed at the Head of Internal Audit's annual appraisal.
38	Does the HoIA ensure that up to date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?	✓			Job descriptions / employment specifications are reviewed / updated on recruitment; and were also reviewed as part of the pay & grading process. A review across all posts would be good practice and is due.	Job descriptions / employment specifications will be reviewed and updated.  Head of Internal Audit  31 October 2013	<b>Closed / Addressed.</b>  All job descriptions and employee specifications have now been reviewed and updated as appropriate.
45	Do internal auditors exercise due professional care during a consulting engagement by considering the:  a) Cost of the consulting engagement in relation to potential benefits?	✓			A risk assessment is undertaken prior to progressing any unplanned work. While an assessment of resources is considered as standard, the assessment does not include an assessment of the cost of the consulting engagement compared to potential benefits.	The unplanned risk assessment format will be updated to include a section regarding the cost of the consulting engagement compared to potential benefits.  Audit Managers  30 September 2013	<b>Closed / Addressed.</b>  The unplanned risk assessment format has now been updated accordingly.
50	Has the HoIA developed a Quality Assurance and Improvement		✓		The HoIA has developed a QAIP but this needs to be	The audit manual will be updated to reflect the QAIP	<b>Partially Closed / Addressed</b>

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	Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?				updated to reflect the new requirements within the PSIAS.	compliance with the PSIAS. Audit Managers 30 June 2014	The audit manual has been partially updated. It will be further updated once the results of the option appraisal at PSIAS 63 have 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 30 June 2014	<b>Open / Unaddressed</b>  A self assessment was undertaken in 2012/13 as part of the Head of Internal Audit's 2012/13 annual report and will be undertaken again in 2014/15.  Options for external assessment are being reviewed, for example: <ul style="list-style-type: none"> <li>• peer assessment or procured service; and</li> <li>• full external assessment or independently validated self</li> </ul>

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							assessment.  A report will be brought to a subsequent meeting of the Audit Committee on the preferred options.
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.
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	Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process?			✓		As 63.	As 63.

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	<p>Competence can be determined in the following ways:</p> <ul style="list-style-type: none"> <li>a) Experience gained in organisations of similar size</li> <li>b) Complexity</li> <li>c) Sector (ie the public sector)</li> <li>d) Industry (ie local government), and</li> <li>e) Technical experience.</li> </ul> <p>Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.</p>						
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.

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134	For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:  a) Objectives? b) Scope? c) The respective responsibilities of the internal auditors and the client and other client expectations?	✓			A risk assessment is undertaken prior to progressing any unplanned work which includes consulting engagements. Processes need to be updated to ensure the audit section's approach to consulting engagements is fully compliant with the PSIAS.	Processes will be updated to ensure the audit section's approach to consulting engagements is fully compliant with the PSIAS.  Audit Managers  31 October 2013	<b>Closed / Addressed.</b>  Processes have now been updated.
135	For significant consulting engagements, has this understanding been documented?	✓			As 134.	As 134.	As 134.
144	Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	✓			As 134.	As 134.	As 134.
145	Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?	✓			As 134.	As 134.	As 134.
149	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?	✓			As 134.	As 134.	As 134.
150	Where significant consulting opportunities have arisen during an	✓			As 134.	As 134.	As 134.

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	assurance engagement, where the results of the subsequent engagement communicated in accordance with the relevant consulting Standards?						
151	For a consulting engagement, was the scope of the engagement sufficient to address any agreed-upon objectives?	✓			As 134.	As 134.	As 134.
153	During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?	✓			As 134.	As 134.	As 134.
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?		✓		The PSIAS is a new standard. Following this self assessment, a statement will be added to audit documentation.	A statement will be added to audit documentation.  Audit Managers  30 September 2014	<b>Partially Closed / Addressed.</b>  The Head of Internal Audit's report included the self assessment of conformance against the PSIAS. This will be updated annually and following the outcome of an external assessment – see 63.
188	Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:	✓			The PSIAS is a new standard. Where any non conformance is identified, this will be reported in accordance with the PSIAS.	Where any non-conformance with the PSIAS impacted on a specific engagement, communication of the	<b>Closed / Addressed</b>  The audit manual has now been

<b>PSIAS No:</b>	<b>Conformance with the Standard</b>	<b>Y</b>	<b>P</b>	<b>N</b>	<b>Evidence / Comment</b>	<b>Action / Responsibility / Timescale</b>	<b>Status Update</b>
	a) The principle or rule of conduct of the code of ethics or standard(s) with which full conformance was not achieved? b) The reason(s) for non-conformance? c) The impact of non-conformance on the engagement and the engagement results?					results will disclose the following:  a) The principle or rule of conduct of the code of ethics or standard(s) with which full conformance was not achieved. b) The reason(s) for non-conformance. c) The impact of non-conformance on the engagement and the engagement results.  Head of Internal Audit  30 September 2013	updated for this requirement.
204	Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	✓			As 134.	As 134.	As 134.