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| <b>DECISION-MAKER:</b>              | GOVERNANCE COMMITTEE  |
| <b>SUBJECT:</b>                     | INTERNAL AUDIT: PUBLIC SECTOR INTERNAL AUDIT STANDARDS – INTERNAL AUDIT CHARTER |
| <b>DATE OF DECISION:</b>            | 30 APRIL 2013   |
| <b>REPORT OF:</b>                   | CHIEF INTERNAL AUDITOR  |
| <b>STATEMENT OF CONFIDENTIALITY</b> |   |
| Not Applicable                      |   |

### **BRIEF SUMMARY**

With effect from 1 April 2013 all public sector bodies will be required to adopt the Public Sector Internal Auditing Standards [the Standards]. The objectives of the Standards 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; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning

The purpose of this paper is to provide the Governance Committee with an overview and implications of the Public Sector Internal Audit Standards.

### **RECOMMENDATIONS:**

- (i) That the Governance Committee note the implications and actions necessary to meet compliance with the Public Sector Internal Audit Standards and that they approve the Internal Audit Charter.

### **REASONS FOR REPORT RECOMMENDATIONS**

1. In accordance with the Public Sector Internal Audit Standards, the Governance Committee is required to approve the Internal Audit Charter.

### **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. None

### **DETAIL (Including consultation carried out)**

3. Organisations in the UK public sector are currently covered by a variety of internal audit standards. Within Local Government (up until the 1 April 2013) the Standards were those prescribed in the Chartered Institute of Public Finance and Accounts (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
4. A collaboration between CIPFA and the Institute of Internal Auditors (IIA) has led to an agreement between the relevant internal audit standard setters to develop a set of internal audit standards applicable to all areas of UK public sector.
5. With effect from 1 April 2013 internal audit services across the public sector will be governed by the Public Sector Internal Audit Standards.

The Standards consist of three component parts:

- Definition of internal audit;
- Code of Ethics
- A series of 'attribute' and 'performance' standards

6. The foundations of the Standards are not fundamentally different to those adhered to under the CIPFA Code. However, there are some key variances which include the requirement for:

- **Internal Audit Charter** – a formal document that defines the purpose, authority and responsibility of the internal audit activity. The proposed charter is attached at Appendix 1.

The Charter must be reviewed periodically (as a minimum annually) by the Chief Internal Auditor and presented to Senior Management and the Board

- **Organisational Independence** –to ensure independence and transparency the Standards prescribe organisational independence as being effectively achieved when the Chief Internal Auditor reports functionally to the Board. The reporting requirements are detailed within the Internal Audit Charter.

The Board is defined as:

*'the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Governance Committee'*.

- **Quality review and improvement programme** - the Chief Internal Auditor must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

The quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the '*Definition of Internal Auditing*', the '*Standards*' and an evaluation of whether internal auditors effectively apply the '*Code of Ethics*'. The programme also assesses the efficiency and effectiveness of the internal audit activity, identifying opportunities for improvement.

The quality assurance and improvement programme must include both internal and external assessments.

**Internal assessments** – consist of periodic self assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

**External Assessments** – must be conducted at least every five years by a qualified, independent assessor or assessment team from outside of the organisation.

7. Any areas of non-conformance must be reported to Senior Management, the Board and detailed within the Annual Report and Opinion. More significant concerns must be considered for inclusion in the governance statement.

## RESOURCE IMPLICATIONS

### Capital/Revenue

8. None

### Property/Other

9. None

## LEGAL IMPLICATIONS

### Statutory power to undertake proposals in the report:

10. The Accounts and Audit (England) Regulations 2011 require the Council to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'

### Other Legal Implications:

11. None

## POLICY FRAMEWORK IMPLICATIONS

12. None

|                |         |                          |      |              |
|----------------|---------|--------------------------|------|--------------|
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**KEY DECISION?** No

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|------------------------------------|-----|
| <b>WARDS/COMMUNITIES AFFECTED:</b> | N/A |
|------------------------------------|-----|

## SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

### Appendices

|    |                        |
|----|------------------------|
| 1. | Internal Audit Charter |
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### Documents In Members' Rooms

|    |      |
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| 1. | None |
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### Integrated Impact Assessment

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| Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out. | No |
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### Other Background Documents

**Integrated Impact Assessment and Other Background documents available for inspection at:**

|                              |  |
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| Title of Background Paper(s) | Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable) |
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| 1. | None |  |
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