
PUBLIC SECTOR INTERNAL AUDIT STANDARDS

1 SUMMARY

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013. The Standards, which will be recognised as proper non-statutory practice, have been developed specifically for public sector organisations in the UK. In April 2013 the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Local Government Application Note with a checklist. This report gives consideration to the current level of compliance with this checklist.

2 INTRODUCTION

- 2.1 The PSIAS and the Local Government Application Note (the Application Note) together supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code). The previous code also included a checklist for compliance, which was reported to the Audit Committee in 2007. The PSIAS are said to comply with the requirements of the Accounts and Audit Regulation 2011 and the need for systems of internal control and the proper practice of these controls. The PSIAS checklist comprises around 350 questions under the key headings of:-

Attribute Standards – those that apply to the organisation, which means the local authority and the individual internal auditors

- Purpose, authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance and improvement programme

Performance Standards – they describe the nature of the internal audit service and the criteria against which it can be measured

- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communication results
- Monitoring progress

The majority of the areas are similar to the previous CIPFA checklist where Internal Audit had a high level of compliance.

3 CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 3.1 Due to the length of the PSIAS it is proposed to focus on the key elements of the requirements that are different to the previous checklist and where there are areas for improvement. For the purpose of compliance the interpretation of some terminology has been taken as follows:-

The Board would be 'The Audit Committee'

Senior Management consists of Chief Executive, Section 151 Officer and Monitoring Officer.

Engagement – relates to the audit work

Chief Audit Executive is the Audit & Performance Manager (APM)

- 3.2 Appendix 1 shows a summary table of compliance.

The key areas of non-compliance are:-

PSIAS	Response	Action
The Audit Committee does not appoint the APM or appraise her work.	The APM is appointed under the same arrangements as other senior managers' posts within the Council. APM work is reviewed by the Head of Finance and regularly reports to Audit Committee	No further action
Quality assurance improvement programme (QAIP)	Work of the auditors is reviewed but a formal plan of QAIP is not available	Produce a plan by end 2014
Compliance with an internal review and an external review	Full compliance can only occur once an external review has been undertaken, we have 5 years to undertake this	Internal self-assessment annually. External review by end 2016
Look at the ethics-related objectives, programmes and activities for the Council	Develop the audit plan to take into account the ethics-related action plan when developed.	2015/16 Audit Plan
Ensure the Council is meeting its Corporate Objectives	The achievement of the corporate objectives is not audited as a specific function.	2015/16 Audit Plan

- 3.3 Appendix 1 also shows a number of areas of partial compliance. Where it is felt necessary to improve this area a note has been made in the action

column. For a number of the areas they are either not applicable, for example, we do not undertake external consultations or it is considered that a partial compliance is sufficient for a small internal audit section like Rochford. Each of these areas will be reviewed annually internally and when the external review is undertaken then a further judgement on the acceptability of these areas of compliance will be made. At present the level of compliance is considered adequate given the level of resources available within our internal audit section.

Audit Charter

- 3.4 The Audit Charter is the key document that defines the role and responsibilities of Internal Audit and addresses the key requirements of the PSIAS. Previously Internal Audit reported on the strategic terms of reference for internal audit which has been updated to incorporate the new PSIAS and renamed the Audit Charter as shown in Appendix 2.
- 3.5 The PSIAS checklist is used as a means of measuring the performance of the Internal Audit Service ensuring it fits with the definition of Internal Auditing.

Definition of Internal Auditing

'Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

- 3.6 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. The annual internal audit opinion, which informs the governance statement, both emphasises and reflects the importance of this aspect of internal audit work. The organisation's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives

4 RISK IMPLICATIONS

- 4.1 The internal audit function contributes to the effectiveness of the Council's risk management arrangements.

5 RESOURCE IMPLICATIONS

- 5.1 The level of compliance is reflected by the resources available to Internal Audit.

6 RECOMMENDATION

6.1 It is proposed that the Committee **RESOLVES**

- (1) That the Audit Charter be agreed.
- (2) That the new Public Sector Internal Audit Standards be accepted.
- (3) That the approach to reviewing the new PSIAS and the action required to address the key areas of non compliance be agreed.

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Head of Finance

Background Papers:-

Chartered Institute of Public Finance and Accountancy – Local Government application note including the checklist for Public Sector Internal Audit Standards

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If you would like this report in large print, Braille or another language please contact 01702 318111.

APPENDIX 1

* See below

	Conformance with the Standard	Y*	P	N	Evidence/Action
	Definition of Internal Audit	✓ ₃			Within the Audit Charter
	Code of Ethics				Compliant
	Integrity	✓ ₄			
	Objectivity	✓ ₁	✓ ₂		Some social activities occur which audit staff may attend
	Confidentiality	✓ ₂			
	Competency	✓ ₄			
	Attribute Standards				
1000	<i>Purpose, Authority & Responsibility</i>				
	29 questions	✓ ₂₆	✓ ₃		Audit Charter defines the purpose, authority and responsibility Fraud investigation work sits within Revenues team
1110	Organisational Independence	✓ ₁₀	✓ ₂	✓ ₂	The Audit Committee does not appoint the APM or appraise her work.
1111	Direct Interaction with the Audit Committee		✓ ₁		Normally with the Head of Finance and through committee arrangements
1120	Individual Objectivity	✓ ₂			
1130	Impairment to Independence or objectivity	✓	✓	✓	Some of these questions were not applicable (n/a) as there has not been any impairment of independence or objectivity. Strict rotation cannot apply with limited staff numbers.
1200	<i>Proficiency and Due Professional Care</i>				
1210	Proficiency	✓ ₆	✓ ₃		Do not have specialist IT audit skills and do not use Computer Assisted Audit

	Conformance with the Standard	Y*	P	N	Evidence/Action
					Techniques (CAATs)
1220	Due Professional Care	✓ ₃	✓ ₂		Do not do formal probability and cost benefit calculations
1230	Continuing Professional Development	✓ ₃	✓ ₁		Training undertaken as necessary
1300 1310	Quality Assurance and improvement Programme (QAIP)	✓ ₁	✓ ₂	✓ ₂	A formal QAIP needs to be developed. External assessment needs to be undertaken
1311	Internal Assessments	✓ ₄	✓ ₃	✓ ₂	Compliance can only be confirmed after an internal review
1312	External Assessments				To be Considered
1320 1321 1322	Reporting on the QAIP				To be considered
	Performance Standards				
2010	Planning	✓ ₁₄	✓ ₆		The audit plan refers to the risk registers for each service area and corporately. Include reference to any declaration of interest by the auditors in pre-assessment.
2020	Communication and Approval	✓ ₃			
2030	Resource Management	✓ ₂		✓ ₁	The assessment of how Internal audit's (IA) resource requirements are set is not recorded.
2040	Policies and Procedures	✓ ₁	✓ ₂		Need to be assessed against PSIAS
2050	Coordination	✓ ₃	✓ ₁		The sources of assurance need to be regularly reviewed
2060	Reporting to Senior Management and the Board	✓ ₃			
2070	External Service Provider and Organisational Responsibility for Internal	✓ ₂			1 n/a We do not have an external provider.

	Conformance with the Standard	Y*	P	N	Evidence/Action
	Auditing				
2110	Governance	✓ ₅	✓ ₁	✓ ₂	Do not look at specifically at the ethics-related objectives, programmes and activities. Do not consider the proportionality of the amount of work required to assess the ethics and IT governance.
2120	Risk Management	✓ ₁₀	✓ ₁		2 n/a. IA has not reviewed risks around achieving the organisation's strategic objectives.
2130	Control	✓ ₄		✓ ₁	Not specifically reviewed the achievement of the organisation's strategic objectives. 1 n/a
2200	Engagement Planning	✓ ₁₃		✓ ₃	Some do not apply because IA does not undertake external audits.
2210	Engagement Objectives	✓ ₁₀	✓ ₁		2 n/a refer to consultation work
2220	Engagement Scope	✓ ₃	✓ ₂		4 n/a refer to consultation work
2230	Engagement Resource Allocation	✓ ₃			Resources allocated to Audit Plan reported to Audit Committee
2240	Engagement Work Programme	✓ ₁₁			Audit Plan reported to Audit Committee and Managers informed
2310	Identifying Information	✓ ₄			Reports are evidenced and information recorded linking conclusions and recommendations
2320	Analysis and Evaluation	✓ ₇			Experience and training.
2330	Documenting Information	✓ ₅			1 n/a as no audit records have been released to external parties
2340	Engagement Supervision	✓ ₂			Reviewed by APM
2400	Communication Results	✓ ₁			Reports to managers and Audit Committee
2410	Criteria for Communicating	✓ ₁₃	✓ ₃		No documents are released to external parties except the External Auditors
2420	Quality of Communications	✓ ₇			
2421	Errors and Omissions	✓ ₁			

	Conformance with the Standard	Y*	P	N	Evidence/Action
2430	Use of Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing			✓	Until an external review of IA compliance with the new standards has been completed this cannot be complied with
2431	Engagement Disclosure of Non-conformance			✓	As above
2440	Disseminating Results	✓ ₂			Some questions are not applicable as they relate to external consultation work.
2450	Overall Opinion	✓ ₁₅	✓ ₂	✓ ₁	Cannot do a statement on conformance with PSIAS yet
2500	Monitoring Progress	✓ ₂	✓ ₁	✓ ₁	Do not have consulting activities
2600	Communicating the Acceptance of Risks		✓ ₂		Risk is managed as part of the Corporate Risk Group

✓₂ The ticks indicate compliance and the number indicates the number of statements we are compliant with for that section. Where there is not a number there will only be one statement.

Y = Yes compliant

P = Partially compliant

N = Not compliant

ROCHFORD DISTRICT COUNCIL INTERNAL AUDIT CHARTER 2013/15

INTRODUCTION

To ensure that authorities make arrangements for the proper administration of their financial affairs, the Accounts and Audit (England) Regulations 2011 make statutory provision for a local authority to undertake an adequate and effective internal audit of its documents and records and of its system of internal control in accordance with proper internal audit practices.

With effect from April 2013 the Public Sector Internal Audit Standards (PSIAS) have been adopted nationally. These supersede the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

The objectives of the PSIAS are to;

- Define the nature of internal auditing in 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 Council, leading to improved organisational processes and operations
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning

The Internal Audit Charter (the Charter) formally defines the internal audit activity's purpose, authority and responsibility within the Council. The PSIAS requires the Charter to detail the relationship between Internal Audit, The Board and Senior Management

Supplementary guidance issued and endorsed by the Relevant Internal Audit Standard Setters as applicable to local government will also be complied with along with the Council's own policies and procedures.

DEFINITIONS

Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Board

At Rochford the role of The Board is carried out by the Audit Committee.

The Terms of Reference for the Audit Committee are: “To Exercise the Council’s functions in relation to:

- Matters arising out of internal audit and control reports;
- The scope of internal audit activity;
- Review of the adequacy of governance and risk management arrangements and internal control;
- Consideration of matters arising from external audit as are referred to it by the External Auditor

Including the management of the budget in respect of these functions.”

Senior Management

Senior Management, in the context of PSIAS, are the Chief Executive, Head of Finance, as the Section 151 Officer, and the Monitoring Officer.

However these, together with Heads of Service, comprise the Senior Management Team.

OBJECTIVE AND STATUS OF INTERNAL AUDIT

Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. As such, Internal Audit contributes to the Council’s overall governance framework and in particular to the production of the Annual Governance Statement.

This Charter establishes the terms of reference to enable Internal Audit to meet its objectives and responsibilities. To ensure that these are appropriate to changing circumstances the Charter will be reviewed and presented for consideration and approval to the Audit Committee annually.

The Audit & Performance Manager manages Internal Audit. The Audit & Performance Manager is responsible for the preparation of a risk-based Annual Audit Plan in conjunction with Senior Management and Heads of Service. The Audit Committee considers and approves the proposed Annual Audit Plan prior to its implementation. The Audit & Performance Manager is responsible for the effective management of the Annual Audit Plan.

The Audit & Performance Manager is responsible for ensuring that the resources of Internal Audit are sufficient to meet its responsibilities and achieve its objectives with an appropriate mix of qualifications, experience and audit skills and identification and implementation of ongoing training requirements and development of auditors. A report would go to the Human Resource Management Team via the Head of Finance to request changes to the resources and when necessary to Members for approval.

In view of the staffing levels within Internal Audit this could, if considered appropriate, include using specialist external audit providers, subject to prior approval.

A Quality Assurance and Improvement Programme will be developed and maintained by the Audit & Performance Manager. This is designed to enable an evaluation of Internal Audit's conformance with the PSIAS and relevant codes of ethics, effectiveness of working and identify areas for improvement. Together with an action plan to work towards compliance

Internal Audit is required to carry out an annual review of the level of compliance with the PSIAS. This can be by self-assessment or an assessment by others within the Council with sufficient knowledge of internal audit practices. At least once every 5 years the assessment must be carried out by or be reviewed by a qualified independent assessor from outside of the Council. The outcome of these assessments will be reported to Senior Management and the Audit Committee. These assessments form part of the Quality Assurance and Improvement Programme.

INDEPENDENCE OF INTERNAL AUDIT

In order to preserve its objectivity and independence, Internal Audit will not assume operational responsibilities for, and will remain independent of the activities it audits or reviews.

Internal Audit staff will carry out their work with honesty, diligence and responsibility. Auditors will maintain an impartial, unbiased and objective approach to audit work in line with Standard 3 of The Code; Ethics for Internal Auditors.

Auditors are required to have due regard to the standards expected within the "Seven Principles of Public Life"

In accordance with the Council's Officer Code of Conduct auditors must declare interests that can impact on objectivity. Implications of the Bribery Act must be considered and auditors must not accept gifts, hospitality, inducements or other benefits other than those permitted by the Council's Code, for which the appropriate registration of such items must be completed. Information obtained during the course of an audit engagement must not be used for personal gain by an auditor or made available to third parties unless specific authority is in place to do so.

To ensure objectivity, individual auditors will not be permitted to carry out audit work in areas where they have had operational responsibility within the same Financial Year, or longer until a suitable period has elapsed as determined by the Audit & Performance Manager.

Subject to available operational resources, audit engagements will be rotated within the Internal Audit Team to prevent over-familiarity and complacency with audit areas that could influence objectivity.

Potential for conflicts of interest or impairment to objectivity or independence will be considered as part of pre-audit work and documented as part of that work.

Heads of Service and line management are responsible for establishing and maintaining a proper and effective control environment and for managing risk within their area of operations. Line management also bears primary responsibility for the prevention and detection of fraud and corruption.

However, if the Audit & Performance Manager and / or the Audit Committee request or if requested by management, Internal Audit may review systems or procedures under development and advise on appropriate controls without prejudicing its right to subsequently review and make further recommendations on the relevant procedures, controls and operations at a later date.

ROLE & RESPONSIBILITIES OF INTERNAL AUDIT

Within the terms of the Financial Regulations of the Council, Internal Audit has been given, as representatives of the Head of Finance for the purpose of audit work, unrestricted access at any time to all records, documents and correspondence relating to any transactions of the Council, and can require any employees of the Council to produce cash, stores or any other Council property under their control. Internal Audit can also request explanations as considered necessary to confirm correctness of any matter under examination.

Where agreements exist, Internal Audit may also request access to relevant records of Partners / Contractors. Internal Audit is responsible for ensuring the confidentiality and safe keeping of all records accessed and information obtained in the course of its work.

The key roles of Internal Audit are to identify and understand the risks and objectives of the Council as a whole and of the individual Divisions and Service Areas, to examine and evaluate the adequacy and effectiveness of systems and controls employed and to report and make necessary recommendations for improvements on:

- The adequacy and reliability of control systems (including relevant technology) and procedures;
- Compliance with management, operational and financial controls including financial regulations and contract standing orders;
- Compliance with corporate objectives, strategies and policies including the Council's Constitution;
- Compliance with laws and regulations;
- The reliability and integrity of management information;
- Arrangements for the acquisition, custody and disposal of assets, and for verifying their existence; and
- Assessing value for money in respect of the economy, efficiency and effectiveness with which resources are employed.

In addition auditors must always be aware of potential for errors, fraud or conflicts of interest that could impact on good governance.

Members, Senior Management or Heads of Service may also request Internal Audit to:-

- Provide advice and support to ensure an effective control environment is maintained;
- Provide advice and guidance to ensure managers have developed effective arrangements to prevent or detect fraud and corruption;
- Undertake special investigations, in compliance with the Council's procedures, in relation to potential fraud and corruption, misuse of Council resources and allegations of breaches in procedures and controls; and
- Conduct service or procedural reviews, on a consultancy basis, to evaluate the effectiveness of controls or to assess value for money.

AUDIT METHODOLOGY

Internal Audit will review the procedures in place for determining the areas of risk for each Head of Service to ensure that areas of high risk from Strategic, Corporate, Service and Operational areas are identified and considered for inclusion in the Annual Audit Plan, including those identified by the External Auditors as part of their mandatory systems audit work. Senior Management, Heads of Service and relevant line management will contribute to the Annual Audit Plan prior to it being presented to the Audit Committee for consideration and approval to ensure effective audit coverage of the key issues affecting their service areas.

The Plan will set out the number of person-days, including a contingency, required for Internal Audit to adequately review the areas specified to ensure resourcing for high-risk engagements and to enable an effective opinion on the control environment to be made.

The process of reviewing risks to the Authority will be ongoing and regular meetings will be held with the External Auditors to ensure effective coverage of Internal Audit's work. Meetings will be held with Senior Management and other Regulators and Inspectors, as required, ensuring Internal Audit work keeps pace with changing national and local circumstances and requirements.

An Audit Brief, detailing objectives and scope for an audit engagement will be agreed by Heads of Service and key line management prior to the commencement of an engagement, giving details of the proposed areas to be reviewed and the subsequent reporting process. Recipients of the Audit Brief will be given the opportunity to request that work areas, not originally included in the Audit Brief, be included in the engagement to seek independent assurance of controls employed. Outline dates for undertaking the engagement will be agreed at that time.

Audit engagements will be undertaken in line with procedures held by Internal Audit to ensure consistency in structure and approach. Testing must be of sufficient size

and intensity to enable the auditor to reach a reasoned conclusion that could be replicated by another auditor independently carrying out the same testing.

In carrying out its duties Internal Audit will work constructively with management and staff. During the course of an engagement, management and staff are required to co-operate fully with the auditors' requirements. All auditors will conduct themselves in compliance with standard 9 of The Code; Due Professional Care.

If significant control failings are identified in testing, this fact will be referred to the Audit & Performance Manager and brought to the attention of relevant management during the course of the engagement for immediate action.

REPORTING ARRANGEMENTS

Post-Engagement

All outcomes will be fully discussed with operational management at the conclusion of an engagement. Management responses will be considered for the purposes of completing a final report of the engagement. Where weaknesses in controls or procedures are identified appropriate recommendations for improvements will be issued. An action plan, confirmed by line management, with realistic dates for implementation will be agreed. Internal Audit will monitor these for compliance.

Should Internal Audit and management fail to reach agreement on issues / recommendations, considered to be of material importance by Internal Audit, the final audit report will reflect the position of both and attention will be drawn specifically to these issues / recommendations in order that Senior Management and the Audit Committee may consider the options and take appropriate action.

If evidence or suspicion of fraud or corruption is identified during the course of an engagement the matter will be reported immediately to the Audit & Performance Manager without further reference to line management, for consideration and timely progression in line with the Council's Anti-Fraud & Corruption Policy.

On completion of post-engagement discussions an Audit Report will be produced which can be used by Heads of Service and line management as evidence of the level of control assurance within the Annual Governance Statement.

The Audit & Performance Manager will report completed Engagements directly to Senior Management. The report will be presented to the Audit Committee as soon as practicable after completion of each engagement to provide an Audit Opinion on the area reviewed. If considered appropriate by Members, Heads of Service or relevant line managers may be required to attend the Audit Committee on the date that the report is presented.

Other Reports to Audit Committee

An Annual Schedule of Business giving the nature and outline timetable of reports to be received by the Audit Committee will be produced as part of the annual planning process.

On a half-year basis the Audit & Performance Manager will report progress of the Annual Audit Plan to the Audit Committee. If a need for a material change to the Plan is identified (i.e. affecting over 20% of the planned audit assignments) as a result of unforeseen audit work and / or resourcing issues, a revision to the Annual Audit Plan will be placed before the Audit Committee, at the earliest opportunity, for consideration and approval.

At the end of the Financial-year an Internal Audit Annual Report and Opinion will be produced by the Audit & Performance Manager, based on the outcome of the year's engagements undertaken.

The outcome of the annual review of the PSIAS will form part of the Annual Audit Report and Opinion

These reports, together with other information provided by Heads of Service, key line managers and other relevant sources of information will be used as evidence in compiling the Annual Governance Statement that is published as part of the Annual Accounts.

Line management is responsible for the implementation of audit recommendations within the agreed timescale. Members of the Audit Committee monitor the implementation of these recommendations and where the agreed implementation date is significantly exceeded Members may request that the Head of Service or relevant Line Managers attend the Audit Committee to provide an explanation. All outstanding recommendations will be reported at subsequent Audit Committee meetings until confirmed as implemented or no longer required.

Internal Audit also assumes responsibility for monitoring implementation of recommendations arising from The Audit Commission, External Auditor and other Regulatory or Inspection Agencies as appropriate and reporting progress on these recommendations to the Audit Committee.

The Audit & Performance Manager may report independently to the Chief Executive or the Chairman of the Audit Committee if the Audit & Performance Manager considers this necessary.

Signed

Amar Dave
Chief Executive