

**INTERNAL AUDIT
PUBLIC SECTOR INTERNAL AUDITING STANDARDS**

Summary:

This report describes the results of a self-assessment carried out by the Audit Manager against the Public Sector Internal Auditing Standards (PSIAS) and sets out a plan to address or minimise any non-compliance.

Recommendations:

Members are requested to consider the self-assessment and endorse the Quality and Assurance Improvement Plan, as set out at Appendix B.

1 Introduction

- 1.1 This report to the Licensing and General Purposes Committee:
- Sets out the Public Sector Internal Auditing Standards (PSIAS), which supersedes the CIPFA Code of Practice for Internal Audit that had been previously complied with by Internal Audit.
 - Highlights areas of partial or non-compliance against the new standards.
 - Provides actions required in order to address or minimise any non-compliance.

2 Overview of PSIAS

- 2.1 The Public Sector Internal Auditing Standards (PSIAS) and the Local Government Application Note (LGAN), hereafter referred to as 'the standards', together came into effect from April 2013 and supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government.
- 2.2 The standards have been developed in conjunction with numerous bodies including the Chartered Institute of Internal Auditors (CIIA) and the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 2.3 There are 11 overall standards, which are broken-down into 336 fundamental principles against which to achieve compliance.
- 2.4 The Accounts and Audit (England) Regulations 2015 state that the standards should be taken into account when evaluating the effectiveness of the Council's risk management, control and governance processes.

‘5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

3 Work carried out

- 3.1 CIPFA has prepared a Local Government Application Note and a checklist for assessing conformance with the standards in order to evaluate the effectiveness of Internal Audit’s performance. The checklist has been completed by Internal Audit, as a self-assessment to highlight areas of compliance, partial compliance and non-compliance within the Council.
- 3.2 Where the result of the self-assessment was deemed to be non-compliance or partial compliance, actions have been identified to enable compliance.

4 Findings

- 4.1 The self assessment identified that full non compliance was only applicable to 16 out of the 336 fundamental principles (5%). 278 fundamental principles (83%) were fully compliant and partial compliance had been achieved for 30 (9%). A summary of the results is set out at Appendix A, while Appendix C contains the full self-assessment.
- 4.2 Areas of non-compliance and partial compliance were highlighted and work required to be complaint in these areas was determined. Details of this can be seen in Appendix B. In order to be fully compliant with the standards a total of 73 days will be required. However, it should be noted that full compliance does not have to be achieved within one year. The Council is only required to demonstrate to external audit that work is underway to reduce the amount of partial or non-compliance each financial year until compliance is achieved.

5 Further action

- 5.1 Regulations state that as part of the evaluation of the effectiveness of the Council’s risk management, control and governance processes the standards ‘should be taken into account’. This would suggest that being fully compliant is not a key element but should be considered as part of the overall opinion. The Auditor’s opinion is set out in Report AUD 17/03 later on this agenda.
- 5.2 The Council’s external auditors, Ernst & Young have indicated that they would consider compliance towards the standards in their consideration of the Council’s overall control environment. They would look at non-compliant elements and may make a statement within their Audit Results Report depending on which area it related to. However, as long as the Council can demonstrate that it is working towards compliance then they would have no major issues.

- 5.3 A Quality Assurance Improvement Plan (QAIP) should be developed to show the work that will be undertaken over the next financial year towards compliance with the standards. In subsequent years, the QAIP should be updated to show the work that will be carried out until compliance is achieved. This should also be communicated to the Board and Committee.
- 5.4 Work is currently being carried out with the Systems Thinking team to review the way in which internal audit carry out their work. This will also enable changes to be made to processes to ensure further compliance with the standards.

Nikki Hughes
Internal Auditor

Contact Details: 01252 398810 nikki.hughes@rushmoor.gov.uk

Compliance with the Public Sector Internal Audit Standards – 2016/17

Section	Standard	Yes	Partial	No	N/A	Total	% Non compliance
1	Definition of Internal Audit	3	0	0	0	3	0%
2	Code of Ethics	13	0	0	0	13	0%
3	Attribute Standards						
3.1	Purpose, Authority and Responsibility	3	19	1	0	23	4%
3.2	Independence and Objectivity	24	1	2	3	30	7%
3.3	Proficiency and Due Professional Care	21	0	0	0	21	0%
3.4	Quality Assurance and Improvement Programme	19	4	4	0	27	15%
4	Performance Standards						
4.1	Managing the Internal Audit Activity	43	3	1	0	47	2%
4.2	Nature of Work	23	1	7	0	31	23%
4.3	Engagement Planning	55	0	0	3	58	0%
4.4	Performing the Engagement	22	0	0	0	22	0%
4.5	Communicating Results	46	2	1	6	55	2%
4.6	Monitoring Progress	4	0	0	0	4	0%
4.7	Communicating the Acceptance of Risks	2	0	0	0	2	0%
	Total	278	30	16	12	336	5%

Appendix B

Action	Audit days	Timing of work	Changes to standard compliance
Update the internal audit charter to include relevant elements	5 days	18/19	s.3.1 Action would move 19 partials and 1 non-compliance to full compliance
Update the internal audit policies and procedures	6 days	18/19	s.4.1 Action would move 2 partial and 1 non-compliance to full compliance
Update the overall audit opinion report to include the relevant areas as laid out in the PSIAS.	5 days (Extra days in 17/18 required as new format and structure to the report will need to be developed but in following years less days should be required as the standard format of the report will be in place.)	17/18	s.4.1 Action would move 1 partial compliance to a full compliance
Annually review compliance to the standards and report outcomes within the overall opinion as part of a quality assurance and improvement programme	5 days	17/18	s.3.4 Action would move 2 non-compliance and 3 partial compliance to full compliance
Within the audit plan, detail the approach to using other sources of assurance.	½ day	17/18	
Communicate changes to the audit plan with senior management and the board for review and approval.	1 day	17/18	
Include an ethics audit within the audit plan.	25 days	18/19	s.4.2 Action would move 3 non-compliance and 1 partial compliance to full compliance
Include a risk management audit within the audit plan.	25 days	18/19	s.4.2 Action would move 4 non-compliance to full compliance
Discuss the form of external assessment with the board and agree the scope with committee, CFO or CE.	1 day	17/18	s.3.4 Action would move 1 partial compliance and 2 non-compliance to full compliance

Prioritise recommendations in audit reports according to risk	Minimal	16/17	s.4.5 Action would move 1 partial compliance to a full compliance
When issuing engagement results to external auditors ensure that the limitations on distribution and use of the engagement results is communicated.	Minimal	16/17	s.4.5 Action would move 1 non-compliance to a full compliance
TOTAL	73 ½ days		