

Gloucester City Council

Meeting:	GLT	Date:	10th September 2013
	Audit & Governance Committee		23rd September 2013
Subject:	Public Sector Internal Audit Standards (PSIAS)		
Report Of:	Audit, Risk & Assurance Manager		
Wards Affected:	Not Applicable		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Terry Rodway Audit, Risk & Assurance Manager		
	Email: Terry.Rodway@gloucester.gov.uk	Tel:	396430
Appendices:	None		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To inform Members of changes to the Internal Audit standards.

2.0 Recommendations

- 2.1 Audit & Governance Committee is asked to **RESOLVE** to:

- (1) Note the identified changes.
- (2) Recommend acceptance of the proposed actions to help demonstrate compliance with the PSIAS.

3.0 Background and Key Issues

- 3.1 The 1st April 2013 saw the introduction of the new United Kingdom Public Sector Internal Audit Standards (PSIAS) that apply across the whole of the public sector. The PSIAS are based on the Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow the PSIAS to be adopted for the public sector.
- 3.2 At the previous meeting of the Audit & Governance Committee, Members received a report on the new PSIAS. The report indicated that a review of the Standards was being undertaken and that any changes identified from implementing the new Standards will be presented to the September 2013 meeting of this Committee.
- 3.3 The review has now been completed. The identified gaps between the previous CIPFA Standards and the new PSIAS have been detailed in paragraphs 4.0 to 6.0 below, together with details of the proposed action:-

4.0 Internal Audit Charter

- 4.1 The Public Sector Internal Audit Standards (PSIAS) require that the purpose authority and responsibility of the internal audit activity must be formally defined in an internal audit charter. The Audit, Risk & Assurance Manager must periodically review the charter and present it to senior management and the board for approval. For the purposes of the Standards, and the revised Charter, 'senior management' has been defined as 'Gloucester Leadership Team (GLT)', and the 'board' has been defined as the 'Audit and Governance Committee'.
- 4.2 The existing Internal Audit Charter, which was approved by the Audit Committee in September 2008, has been reviewed and updated to include the requirements of the PSIAS. The revised Internal Audit Charter is included in Appendix A.
Proposed Action:- The revised Internal Audit Charter be approved – see Appendix A.

5.0 Organisational Independence

- 5.1 Organisations must ensure that the Audit, Risk & Assurance Manager's independence is protected so that conflicts of interest, real or perceived, are avoided. The following examples can be used to help assess the organisational independence of the internal audit activity:-
- 5.2 The Audit and Governance Committee approves the internal audit budget and resource plan.
Proposed Action:- Within Local Government in the UK it is unusual for the Audit and Governance Committee to approve the budget for internal audit. However, the Audit & Governance Committee will be notified of the impact of resource limitations and significant interim changes.
- 5.3 The Audit and Governance Committee approves decisions relating to the appointment and removal of the Audit, Risk & Assurance Manager.
Proposed Action:- – The public sector definition of the PSIAS recognises that in the UK public sector this would be unusual and indeed would be inconsistent with the recruitment/dismissal of other officers at a similar level within the council.
- 5.4 The Chief Executive countersigns/contributes feedback to the performance appraisal of the Audit, Risk & Assurance Manager.
Proposed Action:- Acceptance of this action would be inconsistent with the performance appraisal system of officers at a similar level within the council. However, significant audit matters are raised and discussed with the Chief Executive as appropriate.
- 5.5 Feedback is sought from the Chair of the Audit & Governance Committee for the Audit, Risk & Assurance Manager's performance appraisal.
Proposed Action:- Again, acceptance of this action would be inconsistent with the performance appraisal system of officers at a similar level within the council. However, the Audit, Risk & Assurance Manager, and the Director of Resources, both attend briefing sessions with the Chair and Vice Chair of the Audit & Governance Committee.

5.6 Audit & Governance Committee approval must be obtained for any significant additional consulting services that have not already been included in the agreed annual audit plan. This approval by the Audit & Governance Committee must be sought and given before the engagement is accepted.

Proposed Action:- Where any activity is likely to have a significant effect on the agreed Internal Audit Plan, a revised Plan will be submitted for approval by the Audit & Governance Committee.

5.7 As a result of recent Management Re-alignment process, the Audit Risk & Assurance Manager now has responsibility for the council's risk management strategy.

Proposed Action:- Maintain current position. Arrangements will be made with a third party to provide independent assurance of the adequacy of, and compliance with, this policy.

6.0 External Assessment

6.1 As part of the Quality Assessment, the PSIAS includes a requirement for an external assessment to be carried out at least once every five years which may be satisfied by either arranging for a full" external assessment", or by undertaking a self-assessment with "independent" validation.

6.2 The Audit, Risk & Assurance Manager must discuss the format of the external assessments with the Audit and Governance Committee and therefore the Audit, Risk & Assurance Manager will have to consider the pros and cons for each type of external assessment before presenting the outcome of such a deliberation to the Audit & Governance Committee.

Proposed Action:- A report will be produced at the appropriate time for consideration by the Audit & Governance Committee.

6.3 In ascertaining whether the external assessor is appropriately qualified, it is key that the two areas of competence as set out in the PSIAS are met i.e. professional practice of internal auditing and the external assessment process.

Proposed Action:- An assessment will be carried out at the appropriate time and a report will be produced at the appropriate time for consideration by the Audit & Governance Committee.

6.4 The Audit, Risk & Assurance Manager must set out and discuss with GLT and the Audit and Governance Committee the qualifications and independence of the external assessor/demonstrate their competence.

Proposed Action:- An assessment will be carried out at the appropriate time and a report will be produced at the appropriate time for consideration by the Audit & Governance Committee.

6.5 The local authority must find an appropriate sponsor. This is intended to further safeguard the independence of the external assessment process

Proposed Action:- The nominated sponsor to be agreed by the Director of Resources in consultation with the Chair of Audit & Governance Committee.

7.0 Alternative Options Considered

7.1 No alternative options considered, as the PSIAS apply to all public sector internal audit service providers.

8.0 Reasons for Recommendations

8.1 A review of the PSIAS has identified gaps between the previous CIPFA Standards and the PSIAS. Agreement of the proposed recommendations will help to demonstrate compliance with PSIAS.

9.0 Future Work and Conclusions

9.1 The Accounts and Audit Regulations 2011 require the council to, at least once a year, conduct a review of the effectiveness of its internal audit. This review will help identify any non-compliance with the PSIAS.

10.0 Financial Implications

10.1 There are no significant financial implications arising from this report however the requirement to undertake an external assessment of the effectiveness of internal audit once every five years will be an additional cost to the service.

(Financial Services have been consulted in the preparation this report.)

11.0 Legal Implications

11.1 There are no significant legal implications arising directly from the recommendation in this report. Compliance with the regulations and guidance referred to will provide assurance that the Council's financial affairs are conducted lawfully.

(Legal Services have been consulted in the preparation this report.)

12.0 Risk & Opportunity Management Implications

12.1 A professional, independent and objective internal audit service is one of the key elements of good governance in local government. The contents of both the PSIAS and the CIPFA Application Note must be followed in order to satisfy proper internal audit practices.

13.0 People Impact Assessment (PIA):

13.1 A requirement of the Accounts & Audit Regulations 2011 is for the council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in-house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the council's equality policies

13.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

14.0 Other Corporate Implications

Community Safety

- 14.1 There are no Community Safety implications arising from the recommendation made in this report.

Sustainability

- 14.2 There are no Sustainability implications arising from the recommendation made in this report.

Staffing & Trade Union

- 14.3 There are no Staffing and Trade Union implications arising from the recommendation made in this report.

Background Documents: Public Sector Internal Audit Standards (PSIAS)
CIPFA Local Government Application Note for the United Kingdom PSIAS.

INTERNAL AUDIT CHARTER

1.0 Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the purpose, authority and responsibility for the internal audit activity must be formally defined in an internal audit charter.
- 1.2 The PSIAS require that the charter should define the terms 'board' and senior management' for the purposes of internal audit activity. With regard to Gloucester City Council (GCC), the Audit & Governance Committee will perform the role of the 'board', and in relation to 'senior management', this will be the Gloucester Leadership Team (GLT).

2.0 Definition

- 2.1 Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of GCC.
- 2.2 It assists GCC in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

3.0 Role

- 3.1 Regulation 6 of the Accounts & Audit Regulations (England) 2011 requires GCC 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. The Corporate Director of Resources has been designated as the Proper Officer in relation to this requirement

4.0 Professionalism

- 4.1 The internal activity will govern itself by adherence to the "proper practices" in relation to internal control for the purposes of the Accounts & Audit Regulations 2011. The PSIAS and the CIPFA Local Government Application Note (for the UK PSIAS) constitute proper practices to satisfy the requirements of the Accounts and Audit Regulations. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
- 4.2 In addition, the internal audit activity will adhere to GCC's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

5.0 Authority

- 5.1 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel, including those of partner organisations, pertinent to carrying out any engagement. All employees, and

staff of partner organisations, are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to senior management and Members.

6.0 Organisation

6.1 The Audit, Risk and Assurance Manager will report functionally to the Audit & Governance Committee and administratively to the Corporate Director of Resources.

7.0 Independence and objectivity

7.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

7.2 The Audit, Risk and Assurance Manager has direct access and freedom to report in his own name and without fear or favour to all officers and Members, in particular to those charged with governance.

7.3 Internal audit staff will have no direct operational responsibility or authority over any of the activities audited except for risk management where the Audit, Risk and Assurance Manager has responsibility for developing and maintaining the council's risk management strategy. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgement.

7.4 In order to demonstrate independence and objectivity, arrangements will be made with a 3rd party to audit, and report upon, the adequacy of, and compliance with, the council's risk management strategy.

7.5 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant facts and circumstances and not be unduly influenced by their own interests or by others forming judgements.

7.6 Internal auditors must act objectively and be perceived as doing so therefore. All internal auditors are required to sign an annual Declaration of Interest form. However, this objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. Internal Audit staff will not be assigned to work areas where they have had operational or other involvement within a previous twelve month period.

7.7 The Audit, Risk and Assurance Manager will confirm to the Audit & Governance Committee, at least annually, the organisational independence of the internal audit activity.

8.0 Responsibility

8.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk

management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:-

- Consistency of operations or programmes with established objectives and goals and effective performance.
- Economic, effectiveness and efficiency of operations and employment of resources.
- Compliance with established policies, plans, procedures, laws and regulations.
- Reliability and integrity of management and financial information processes including the means to identify, measure, classify, and report such information.
- Safeguarding of assets from losses of all kinds, including those arising from fraud, irregularity or corruption.

8.2 Where key systems are being provided to GCC by other organisations, the Audit, Risk and Assurance Manager will agree with the appropriate Client Monitoring Officer, and the Corporate Director of Resources, whether Internal Audit conduct the work to derive the required assurance on the adequacy of the control environment, or rely on the opinion of other auditors.

9.0 Internal audit plan

9.1 At least annually, the Audit, Risk and Assurance Manager will submit an Internal Audit Plan, including risk assessment criteria, to GLT for review, and to the Audit & Governance Committee for review and approval. The Internal Audit Plan will include the resource requirements for the next financial year. The Audit, Risk and Assurance Manager will communicate the impact of resource limitations and significant interim changes to GLT and the Audit & Governance Committee.

9.2 The Internal Audit Plan will be developed based on a prioritisation of the audit universe using a risk-based methodology. In order to identify the auditable systems and establish areas of risk or specific importance within the authority, the Audit, Risk and Assurance Manager will adopt an approach involving discussion and review of the current position. Information will be gathered by meeting key officers within the authority including the Chief Executive, Corporate Directors, and other key officers within the authority. The Audit, Risk and Assurance Manager will also discuss the requirements of the External Auditors to ensure those areas upon which they would seek to place reliance on internal audit work are included within the draft plan.

9.3 The resultant draft Annual Audit Plan derived from the above process will be submitted for approval at the relevant March meeting of the Audit & Governance Committee.

9.4 Any significant deviation from the approved Internal Audit Plan will be reported through the periodic activity reporting process.

10.0 Reporting and monitoring

10.1 All internal audit assignments will result in a formal report. The primary purpose of the audit report is to provide an independent and objective opinion to the organisation on the framework of governance, risk management, and internal control, in operation, and to stimulate improvement.

10.2 Any key issues arising during the course of the audit review will be promptly brought to management's attention during the course of the review to enable remedial action to be taken prior to being formally published in the audit report.

10.3 At the conclusion of the audit, a draft report will be sent to the appropriate manager for agreement of the factual content of the report. The report will include a 'level' of opinion on the adequacy of controls in the area that has been audited, classified in accordance with the following definitions:-

CONTROL LEVEL	DEFINITION
Good	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority)
Satisfactory	Sufficient framework of controls – provides satisfactory level of assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly Rank 3 (Low Priority), but one of two in Rank 2 (Medium Priority)
Limited	Some lapses in framework of controls – provides limited level of assurance. A number of areas identified for improvement. Mainly Rank 2 (Medium Priority) recommendations, but one or two Rank 1 (High Priority) recommendations
Unsatisfactory	Significant breakdown in framework of controls – provides an unsatisfactory level of assurance. Unacceptable risks identified – fundamental changes required. A number of Rank 1 (High Priority) recommendations.

10.4 The draft internal audit report is an internal document which is used as a discussion document for agreeing the factual content of the report. Circulation of the draft report must be restricted only to those individuals named on the report circulation list.

10.5 The report will include a Recommendation Sheet which the appropriate manager will be required to complete and return. The completed Sheet must show the actions that have been taken/planned to be taken, in relation to each recommendation, and the agreed implementation date. If any recommendation is not accepted by the manager, this must also be stated.

10.6 Audit recommendations will be prioritised as follows:-

RANK		DEFINITION
1	High Priority	Necessary due to statutory obligation, legal requirement, Council policy, major risk of loss or damage to Council assets, information or reputation, or, compliance with External Audit identified key control.

2	Medium Priority	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.
3	Low Priority	Current procedure is not best practice and could lead to minor inefficiencies.

10.7 Following discussion of the draft report, a clear, concise and constructive 'Final' report, following a standard format, will be produced, outlining:-

- The overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance
- Audit recommendations, along with management response and implementation date
- An executive summary of the key findings and conclusions

10.8 The 'Final' report will be sent to the appropriate manager, with a copy being sent to the appropriate Corporate Director. In addition, a requirement of the Joint Working Protocol with the Council's External Auditor, is that a copy of audit reports with a 'Limited' or 'Unsatisfactory' opinion is sent to the External Auditor at the time of issue, where the report is relevant to the work of the External Auditor.

10.9 Internal Audit staff should normally obtain the consent of management, and vice versa, before reports are issued to third parties.

10.10 Agreed recommendations are subject to a follow up review, normally within three months of the agreed implementation date, in order to ascertain that the recommendations have been implemented. Any identified Rank 1 (High Priority) recommendations that have not been implemented within the agreed timescale, will be reported to the Audit & Governance Committee.

11.0 Fraud Related Work

11.1 Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal Audit may be requested by management to assist with fraud related work.

11.2 The Audit, Risk and Assurance Manager has made arrangements via GCC's Financial Regulations to be informed of all suspected or detected fraud, corruption or improprieties so that he can consider the adequacy of relevant controls, and evaluate the implication of fraud and corruption for his annual opinion on the internal control environment.

12.0 Ad Hoc/Consultancy Work

- 12.1 A small element of Contingency will be included in the Internal Audit Annual Plan. This is to cater for any assignments which could not have been reasonably foreseen e.g. fraud investigations.
- 12.2 Where Internal Audit staff have been consulted, and have given advice and recommendations on planned significant changes to internal controls, this is given without prejudice to the right of Internal Audit to review and make further recommendations on the relevant policies, procedures, controls and operations, at a later date.

13.0 Periodic assessment

- 13.1 The Audit, Risk and Assurance Manager is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan. The results of this self-assessment will be reported to GLT and the Audit & Governance Committee.
- 13.2 In addition, the Audit, Risk and Assurance Manager will report to GLT and the Audit & Governance Committee on the internal audit activity's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.
- 13.3 An annual review of Internal Audit, sufficient to meet the requirements of the Accounts & Audit (England) Regulations 2011 will be undertaken and the results reported to GLT and the Audit & Governance Committee. The review will consist of a self-assessment against the PSIAS.
- 13.4 In compliance with the PSIAS, the external assessment must be carried out at least once every five years by a qualified, independent assessor. The timing, scope and appointment of the assessor will be agreed with the Corporate Director of Resources in consultation with the Chair of Audit & Governance Committee.

14.0 Review of Internal Audit Charter

- 14.1 The PSIAS state that the Audit, Risk and Assurance Manager must periodically review the charter and present it to senior management and the board for approval. This Charter will be reviewed annually by the Audit, Risk and Assurance Manager and any significant changes brought to the attention of GLT and the Audit & Governance Committee. The 'full' Charter will be referred to GLT and the Audit & Governance Committee for formal approval every three years.

August 2013