Agenda item:

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	27 June 2013
Title:	Public Sector Internal Audit Standards
Reference:	4944
Report From:	Director of Corporate Resources – Corporate Services

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1. Executive Summary

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

1.2. With effect from 1 April 2013 all public sector bodies were 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

2. Contextual information

2.1. Organisations in the UK public sector were 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 & Accounts (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

2.2. 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.

2.3. With effect from 1 April 2013 internal audit services across the public sector have been governed by the Public Sector Internal Audit Standards.

2.4. The Standards consist of three component parts:

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

2.5. 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 County Council this shall mean the Audit 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.

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.

3. Conclusion

3.1. The Public Sector Internal Audit Standards provide a framework for the internal audit activity to provide sound corporate governance, transparency and accountability.

3.2. The engagement of Senior Management and the Board is imperative in maximising the effectiveness of the internal audit activity and compliance with the Public Sector Internal Audit Standards.

3.3. The Internal Audit Charter will provide a compliant framework from which we can build to effect full compliance

4. Recommendation(s)

4.1. That the Audit 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.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because: Compliance with the Accounts and Audit (England) Regulations 2011 and the Public Sector Internal Audit Standards	

Other Significant Links

Links to previous Member decisions:		
Title Hampshire County Council internal audit strategy update 2010	Reference 2338	Date 9 December 2010
Direct links to specific legislation or Government Directives		
Title		Date

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

1.1. Equality objectives are not considered to be adversely affected by the proposals within this report

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime., however internal audit work has provided to ensure that controls are in place to minimise the risk of fraud and corruption against the County Council.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific changes

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change