

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date 25 November 2013

Report of: Director of Finance and Resources

Subject: **PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND REVISED
INTERNAL AUDIT CHARTER**

SUMMARY

This report informs the Audit and Governance Committee of the introduction of the new Public Sector Internal Audit Standards. As part of this work we have updated the Internal Audit Charter in accordance with the new requirements.

RECOMMENDATION

The Committee approves the revised Internal Audit Charter, attached as [Appendix B](#) to this report.

INTRODUCTION

1. This report brings for member approval, a revised Internal Audit Charter which conforms to the requirements of the new Public Sector Internal Audit Standards (PSIAS).

CHANGES TO THE AUDIT STANDARDS

2. The Accounts and Audit Regulations 2011 require Councils 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*”.
3. Previously, the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice for Internal Audit in Local Authorities in the United Kingdom was recognised as the “proper practices” under this regulation and the Head of Internal Audit’s Annual Report included an assessment of our level of compliance with this Code each year.
4. The new Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and are now cited by CIPFA, on clarification with the Department of Communities and Local Government, as being the recognised ‘proper practices’ from 2013/14.
5. The Standards reaffirm the importance of robust, independent and objective internal audit arrangements to provide Audit Committees and Senior Management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.
6. They are intended to produce consistency in the professionalism, quality and effectiveness of internal audit across the whole public sector. They also encompass the mandatory elements of the Global Institute of Internal Auditors International Professional Practices Framework. (IPPF)

REVIEW OF CONFORMANCE

7. Appendix A lists the subjects covered by the new Standards. There are 104 in total. Most of the content within the Standards is a continuation and further development of existing best practice.
8. The Internal Audit and Assurance team in liaison with the Audit Contractor are carrying out a self-assessment of their conformance to the standards which will feed into the Head of Audit’s Annual report in June 2014.

INTERNAL AUDIT CHARTER

9. The current charter was adopted in 2006 and is a support document to Financial Regulation 11 – Audit Arrangements. A new version has been produced to meet the requirements of the new standards, as attached as [Appendix B](#).
10. In particular the standards require the charter to:
 - (a) recognise the mandatory nature of the standards;
 - (b) define the purpose, authority and responsibility of the internal audit activity;
 - (c) define the terms ‘board’ and ‘senior management’ for the purposes of the internal audit activity;
 - (d) establish the audit activity’s position within the organisation, including the Head of

Audit's functional reporting relationship with the board;

- (e) define the nature of assurance services provided to the organisation;
- (f) define the scope of internal audit activities including the nature of consulting services and the role in fraud-related work;
- (g) authorise access to records, personnel and physical properties relevant to the performance of engagements;
- (h) cover the arrangements for appropriate resourcing;
- (i) cover the arrangements for avoiding conflicts of interests.

11. The standards also require the charter to be approved by the 'board'.

RISK ASSESSMENT

12. There are no significant risk considerations in relation to this report.

CONCLUSION

13. The update of the Audit Charter will strengthen the framework in which the annual audit plans are developed each year and will improve the service's compliance with its governing practices.

Appendices:

Appendix A – Structure of the Public Sector Internal Audit Standards

Appendix B – Proposed New Internal Audit Charter 2013 ([Separate Attachment](#))

Background Papers: None

Reference Papers:

Chartered Institute of Public Finance and Accountancy (CIPFA) 2013 – Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards.

Report to Audit Committee on Audit Strategy and Charter on 11th April 2006

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

STRUCTURE OF THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

1	Definition of Internal Auditing
2	Code of Ethics
	Standards
3	Attribute Standards
1000	Purpose, Authority and Responsibility
1100	Independence and Objectivity
1200	Proficiency and Due Professional Care
1300	Quality Assurance and Improvement Programme
4	Performance Standards
2000	Managing the Internal Audit Activity
2100	Nature of Work
2200	Engagement Planning
2300	Performing the Engagement
2400	Communicating Results
2500	Monitoring Progress
2600	Communicating the Acceptance of Risks