

## The Highland Council

Audit and Scrutiny Committee – 26<sup>th</sup> September 2013

Agenda Item	6
Report No	AS/22/13

### New Public Sector Internal Audit Standards and revisions to the Internal Audit Charter

#### Report by Head of Internal Audit & Risk Management

##### Summary

This report provides details of the new Public Sector Internal Audit Standards and the internal audit charter which was updated to comply with the Standards.

## 1. Introduction

1.1 The [Public Sector Internal Audit Standards](#) (the Standards) came into effect on 1<sup>st</sup> April 2013 and this replaces the previous guidance which was set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006 (the Code). The Standards apply the IIA International Standards to the UK Public Sector and their objectives 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.

1.2 The Standards are similar to the Code but have been adopted by all the Relevant Internal Audit Standard Setters, including CIPFA and the Chartered Institute of Internal Auditors (CIIA), and for the first time a common set of Standards have been produced, and these set out specific public sector requirements. The Standards are broadly similar to the Code but there are some changes; the most significant are set out below together with details of the planned actions to address them.

- (i) Standard 1312 - external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive (Head of Internal Audit & Risk Management) must discuss with the board:
- The form of external assessments;
  - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Consideration is being given to entering into a reciprocal arrangement with another Council which will minimise the costs associated with this assessment. This assessment is likely to be arranged towards the end of

the five year period (i.e. must be undertaken by the end of 2017/18) which will allow for several internal assessments to be undertaken and to address any changes identified.

- (ii) Standard 1321 - the chief audit executive may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement programme support this statement. These results are based upon both internal and external assessments. Therefore, in addition to the external assessment referred to at (i) above internal assessments consisting of on-going monitoring of performance of the internal audit activity and periodic self-assessment or assessments by other persons within the organisation with sufficient knowledge of internal audit practices are required.

The Head of Internal Audit & Risk Management has decided that an annual exercise will be undertaken annually using the CIIA's self-assessment checklist. This is very detailed with key conformance criteria that must be met to demonstrate compliance with the Standards. Evidence must be gathered and this compared to the key conformance criteria to assess the degree of conformance which is defined as Generally Conforms/ Partially Conforms/ Does Not Conform. This information will then be used to provide an overall assessment of conformance with the Standards.

- (iii) Standard 1322 - any non-conformance with the Standards and the impact must be disclosed to senior management and the board. In addition, more significant deviations must be considered for inclusion in the governance statement.

Details of this will be provided within the Head of Internal Audit's Statement of Internal Control and Annual Report which is provided to the Audit & Scrutiny Committee in June each year.

## 2. Internal Audit Charter

- 2.1 Section 1000 of the Standards states that "The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval." It should be noted that within the Council, the term "board" refers to the Audit & Scrutiny Committee.
- 2.2 The Internal Audit section previously had a charter which was prepared in accordance with the requirements of the Code. This has now been updated to reflect the requirements of the Standards and as required, the revised charter is attached at **Appendix 1** for the Committee's approval. The main changes to the Charter are:
- Inclusion of definitions for the purposes of internal audit activities;
  - Reference is made to a risk-based plan;
  - Inclusion of the requirement to produce an annual internal audit opinion and report which is used to inform the Council's governance statement.
- 2.3 Members should also note that work has also been undertaken to update the

Section's Internal Audit Manual to reflect the updated requirements of the Standards.

### **3. Implications**

- 3.1 There are no Resource, Legal, Equalities, Climate Change/ Carbon Clever or Risk implications arising from this report.

#### Recommendation

Members are asked to:

- (i) Note the new Public Sector Internal Audit Standards and their requirements.
- (ii) Approve the revised Internal Audit Charter which is provided at Appendix 1.

Designation: Head of Internal Audit & Risk Management

Date: 2<sup>nd</sup> September 2013

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Background Papers: Public Sector Internal Audit Standards, April 2013

## INTERNAL AUDIT CHARTER

### Introduction

The purpose of this Charter is to define the purpose, authority and responsibility of Internal Audit within the Highland Council as required by the new CIPFA Public Sector Internal Audit Standards (PSIAS) which came into effect on 1<sup>st</sup> April 2013.

The [Public Sector Internal Audit Standards](#) (the Standards) provides the following definition of Internal Auditing as *"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 standards use the following terms which are defined within the Highland Council as follows:

"chief audit executive" - is the Head of Internal Audit & Risk Management.

"board" – is the Audit & Scrutiny Committee which under the terms of the Council's Scheme of Delegation has responsibility for internal audit activity.

"senior management" – refers to the Council's Senior Management Team.

### Organisational Status

The Head of Internal Audit & Risk Management reports directly to the Director of Finance. In addition, the Head of Internal Audit & Risk Management has direct access and freedom to report to the Chief Executive and senior management, the Audit & Scrutiny Chair, and/ or other Members as considered to be appropriate.

### Role and Responsibilities

Internal Audit aims to add value to the Council by undertaking independent audit reviews of the Council's activities and reporting the audit findings to Management. In addition to this primary assurance role, Internal Audit responsibilities include:

- an advice and consultancy role to Senior Management, including review of internal controls in the introduction of new systems;
- assisting the Council discharge its corporate governance requirements;
- the investigation of any suspected fraud or irregularity. This will include a systems weakness review to establish the reasons why the fraud/ irregularity occurred and the impact upon the Council's internal control environment.

In undertaking the above, Internal Audit will adopt a participative approach to audit activities and aim to maintain a good working relationship with all Clients.

### Scope

The scope of Internal Audit work allows for unrestricted coverage of the Council's activities and unrestricted access to any information necessary during the course of an audit review/ investigation including:

- the right of access at all reasonable times to all records, assets, personnel and premises including those of partner organisations, where relevant;
- the requirement to receive such explanations as are necessary concerning any matter under examination.

## Independence

Internal Audit must be independent of the activities which it audits in order to enable auditors to make impartial and effective professional judgements and recommendations. Internal Audit will have no operational responsibilities.

## Delivery of the Audit Service

The Head of Internal Audit & Risk Management is responsible for delivery of the audit service in accordance with the Charter.

The service is delivered on the basis of a risk-based plan as required by the standards. The plan sets out the audits required for Internal Audit to adequately review the Council's activities and takes into account the requirement to produce an annual internal audit opinion and the assurance framework. The plan will set out how the internal audit resources have been assessed in order to ensure that these are sufficient.

The plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments which could not be reasonably foreseen.

The Head of Internal Audit & Risk Management will ensure that an up to date Audit Manual is maintained which sets out the expected standards of the audit service, and will monitor compliance with these standards, including the planning, conduct, and reporting of audit activities. The appropriate training will be provided to ensure that all staff have the necessary skills to undertake their duties.

The Head of Internal Audit & Risk Management will liaise with External Audit to ensure that audit resources are utilised as effectively as possible. This will include co-operation between both parties to ensure that External Audit can place appropriate reliance upon the work of Internal Audit.

## Reporting

Draft audit reports are issued to the relevant client officers in accordance with Internal Audit procedures. The final report will incorporate the response from the client officer and will be copied to the appropriate Directors, Senior Managers and External Audit, for information. A summary report will be provided to the Audit & Scrutiny Committee. The Committee will also receive the following information:

- the annual audit plan and details of how the Section's resources have been assessed to meet the plan's requirements. Progress against the plan and details of any adjustments made during the year will also be reported to each Committee meeting;
- regular progress reports upon the operation of the Internal Audit Section;
- an annual assessment of the adequacy, reliability and effectiveness of the internal control systems within the Council. This is provided by the Head of Internal Audit & Risk Management's Annual Report and Statement on Internal Control and will be used to inform the Council's governance statement;

- regular updates to provide assurance that recommendations arising from audit reports have been implemented as agreed with management.

**This Charter will be regularly reviewed by the Head of Internal Audit & Risk Management in order to reflect changes which occur within the Council and the Auditing profession. Any such revisions will be approved by the Audit and Scrutiny Committee.**