

# CHESHIRE EAST COUNCIL

## REPORT TO: Audit and Governance Committee

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**Date of meeting:** 27 June 2013  
**Report of:** Audit Managers  
**Title:** Update on Public Sector Internal Audit Standards (PSIAS) and Audit Charter  
**Portfolio Holder:** Councillor Peter Raynes

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### **1.0 Report Summary**

1.1 The purpose of the report is to inform the Audit and Governance Committee of the new Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 and for the Committee to note the implications and further actions necessary to meet compliance with the PSIAS, including the development of an Audit Charter.

### **2.0 Recommendation**

2.1 That the Committee:

- notes the introduction of the new Public Sector Internal Audit Standards (PSIAS)
- notes the implications and further actions necessary to meet compliance with the new Standards, including the development of the Audit Charter, and that further updates will be brought to the Committee accordingly.

### **3.0 Reasons for Recommendation**

3.1 The new Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013. The Authority needs to comply with the Standards, and the relevant CIPFA/IIA Application Note, in order to satisfy proper internal audit practices.

3.2 CIPFA guidance recognises that not all elements of the PSIAS will be in place from 1 April 2013 and that certain areas within the Standards will require further discussion and agreement with senior management and Members.

3.3 In addition to the introduction of an Audit Charter, the adoption of the PSIAS will likely require amendments to the Constitution and the Audit and Governance Committee Terms of Reference.

#### **4.0 Wards Affected**

4.1 All wards.

#### **5.0 Local Wards Affected**

5.1 Not applicable.

#### **6.0 Policy Implications**

6.1 Not applicable.

#### **7.0 Financial Implications**

7.1 There are no direct financial implications arising from this report.

#### **8.0 Legal Implications**

8.1 The Accounts and Audit Regulations 2011 require the Council to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with *proper practices* in relation to internal control'. The PSIAS and the relevant CIPFA/IIA Application Note constitute *proper practices* as set out in the Regulations.

#### **9.0 Risk Management**

9.1 The PSIAS require Internal Audit to evaluate the effectiveness and contribute to the improvement of risk management processes. Failure to carry out "an adequate and effective audit..." as described in 8.1, could result in non-compliance with the Accounts and Audit Regulations 2011.

#### **10.0 Background and Options**

##### Background

10.1 Up until 1 April 2013, organisations within the UK Public Sector were covered by a variety of different audit standards. Within Local Government, those standards were set by the Chartered Institute of Public Finance and Accountancy (CIPFA) and set out in the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

10.2 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 the UK Public Sector.

10.3 With effect from 1 April 2013, the PSIAS apply to all UK Public Sector internal audit service providers.

## Purpose and content of Public Sector Internal Audit Standards (PSIAS)

- 10.4 The PSIAS have been developed to create consistency in the practice of internal audit across the public sector and establish the basis for quality assurance across the sector.
- 10.5 The purpose of the Standards is to:
- Define the nature of internal auditing in 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 that add value to the organisation, leading to improved organisational processes and operations
  - Establish the basis for the evaluation of internal audit performance and to promote continuous improvement.
- 10.6 The Standards consist of three component parts:
- Definition of internal audit
  - Code of ethics
  - A series of 'attribute' and 'performance' standards

## Comparison with CIPFA Code of Practice and main changes

- 10.7 The new PSIAS are not considered to be fundamentally different from the CIPFA Code of Practice. However, there are some key variances, which are highlighted below:
- 10.8 There is a requirement for an **Internal Audit Charter** which formally defines the purpose, authority and responsibility of the internal audit activity. A Charter is currently being drafted and will be discussed with senior management and Members when complete.
- 10.9 **Organisational Independence** – to ensure independence and transparency, the PSIAS prescribe organisational independence as being effectively achieved when the Head of Internal Audit reports functionally to the 'board' (see 10.10 below).
- 10.10 The terms **Board** and **Senior Management** within the PSIAS need to be interpreted in the context of governance arrangements within Cheshire East Council. The 'board' is defined in the PSIAS, as:

*The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does*

*not exist, the 'board' may refer to the head of the organisation. 'Board' may refer to an audit committee to which the governing body has delegated certain functions.*

- 10.11 The term **Chief Audit Executive (CAE)** is used within the PSIAS and refers to the Head of Internal Audit, or equivalent within the organisation.
- 10.12 **Quality review and improvement programme** – the Chief Internal Auditor must develop and maintain a formal quality assurance and improvement programme that covers all aspects of the internal audit activity. This programme must include both internal and external assessments. External assessments must be conducted at least every five years by a qualified, independent assessor or assessment team from outside of the organisation.
- 10.13 Within the PSIAS, there are certain requirements that the CIPFA/IIA Application Note recognises may be unusual for the public sector i.e. the implication that the 'board' (potentially the Audit and Governance Committee within this Council) would approve the remuneration of the CAE. CIPFA guidance suggests that within the public sector, as a minimum, feedback from the chair of the audit committee should be sought for the performance appraisal of the CAE. Requirements such as these will need further consideration by senior management and Members as to how the Council will comply with the new Standards.

#### Current compliance with the new Standards

- 10.14 As stated in 10.7, the new PSIAS are not considered to be fundamentally different to the CIPFA Code of Practice. As part of the Council's annual review of the effectiveness of its internal audit, and as reported in the Internal Audit Annual Report 2012/13 to this Committee, the internal audit service is being delivered to the required standard, with some areas for improvement.
- 10.15 It has been recognised that both the Internal Audit Terms of Reference and the Internal Audit Strategy now need updating. In accordance with the new Standards, an Audit Charter is currently being drafted and will replace both the Terms of Reference and the Strategy. Key aspects of the Charter will be dependent on the outcome of the current Management Review and Internal Audit reporting lines within the new structure, which is under development.

#### **11.0 Access to information**

The background papers relating to this report can be inspected by contacting the report writer:

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