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| <b>REPORT OF</b> | <b>Assistant Director Finance – Business Partnering and Internal Audit</b> | <b>DATE</b>      |
|                  |  | <b>17/4/2013</b> |

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| <b>SUBJECT</b> | <b>The new ‘Public Sector Internal Auditing Standards’ (PSIAS), which become mandatory on the 1<sup>st</sup> April 2013.</b> |
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| <b>SUMMARY</b> | <p>This report summarises the content of the Public Sector Internal Auditing Standards and highlights the new requirements and how these apply in the public sector. It also explains the current functional arrangements in place in SCC’s Internal Audit Service, together with additional work required to ensure compliance with the standard.</p> |
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**RECOMMENDATIONS**

That members note the differences between the new Public Sector Internal Auditing Standards and the CIPFA Code of Practice.

That members note where the SCC approach is different from the Standard

That members endorse the work to be undertaken to ensure compliance with the PSIAS.

That members receive a further report of progress made with compliance in 6 months’ time.

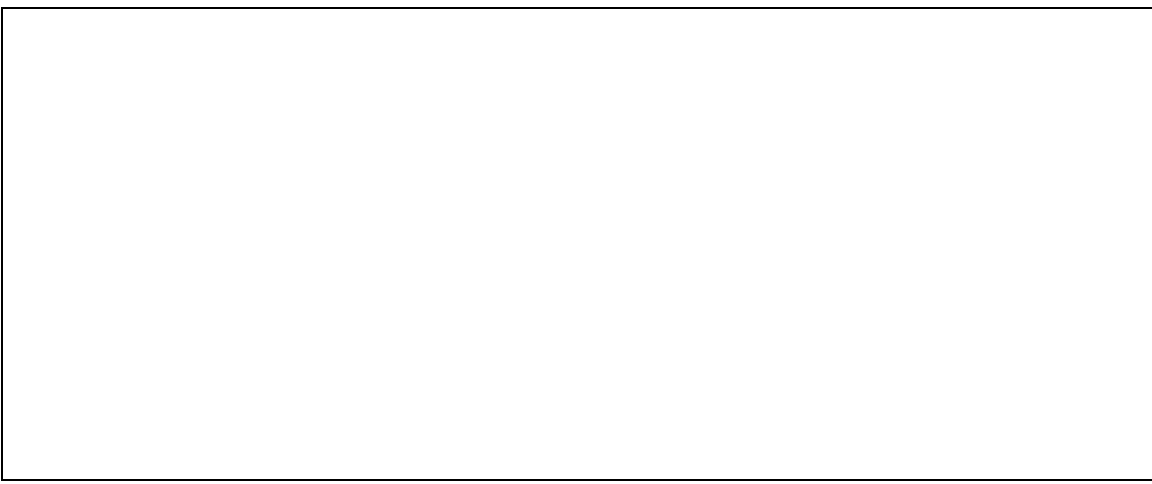
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|  |                                   |                   |
|--|-----------------------------------|-------------------|
| <b>FINANCIAL IMPLICATIONS CLEARED BY</b> | <b>No</b><br><b>Laura Pattman</b> | <b>PARAGRAPHS</b> |
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**BACKGROUND PAPERS**

|                                 |                      |                                   |
|---------------------------------|----------------------|-----------------------------------|
| <b>CONTACT POINT FOR ACCESS</b> | <b>Laura Pattman</b> | <b>TEL NO.</b><br><b>273 5763</b> |
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**CATEGORY OF REPORT**

Open

## Statutory and Council Policy Checklist

|   |
|---|
| <b>Financial implications</b>   |
| <del>YES</del> /NO      Cleared by: L Pattman   |
| <b>Legal implications</b>   |
| <del>YES</del> /NO  |
| <b>Equality of Opportunity implications</b>   |
| <del>YES</del> /NO  |
| <b>Tackling Health Inequalities implications</b>  |
| <del>YES</del> /NO  |
| <b>Human rights implications</b>  |
| <del>YES</del> /NO  |
| <b>Environmental and Sustainability implications</b>  |
| <del>YES</del> /NO  |
| <b>Economic impact</b>  |
| <del>YES</del> /NO  |
| <b>Community safety implications</b>  |
| <del>YES</del> /NO  |
| <b>Human resources implications</b>   |
| <del>YES</del> /NO  |
| <b>Property implications</b>  |
| <del>YES</del> /NO  |
| <b>Area(s) affected</b>   |
|   |
| <b>Relevant Scrutiny Committee if decision called in</b>  |
| Not applicable  |
| <b>Is the item a matter which is reserved for approval by the City Council? <del>YES</del>/NO</b> |
|   |
| <b>Press release</b>  |
| <del>YES</del> /NO  |

**REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE**  
**17<sup>th</sup> April 2013**

**Assistant Director of Finance Report – Public Sector Internal Audit Standards (PSIAS)**

**PURPOSE OF THE REPORT**

1. This report summarises the content of the PSIAS and highlights where there are new requirements and how these will apply in the public sector.
2. It also explains the current functional arrangements in place in SCC's Internal Audit Service, together with additional work required to ensure compliance with the PSIAS.

**BACKGROUND**

3. The **Public Sector Internal Audit Standards (PSIAS)** come into force on 1 April 2013, and aim to promote further improvements in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
4. 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 adapted for the public sector.
5. The PSIAS replace the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006*. Sheffield City Councils' Internal Audit service currently complies with the requirements of the CIPFA Code of Practice, and this is referred to in the Job Descriptions of all auditors.
6. In local government, the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011, the Accounts and Audit (Wales) (Amended) Regulations 2010, Section 95 of the Local Government (Scotland) Act 1973, and Section 54 of the Local Government Act (Northern Ireland) 1972.
7. The PSIAS refer to a post of 'Chief Audit Executive'. Within Sheffield City Council this is deemed to be the post of Senior Finance Manager (Internal Audit). The Chief Audit Executives are expected to report conformance on the PSIAS in their annual report. Any instances where an authority takes a different approach to the standard should be reported. Any significant variations must be considered for inclusion in the Annual Governance Statement.

## **Summary of the Standards**

8. The PSIAS contains :

Section 1 – Introduction

Section 2 - Applicability

Section 3 – Definition of Internal Audit (changed slightly from that included in the CIPFA Code of Practice)

Section 4 – Code of Ethics (in line with the CIPFA Code of Practice)

Section 5 – Standards – split into Attribute Standards and Performance Standards. (broadly in line with the CIPFA Code of Practice)

## **Requirements of the PSIAS**

### **Attribute Standards**

#### **1000 – Purpose, Authority and Responsibility**

9. 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. This document should establish the internal audit activity's position within the organisation, including the nature of the 'Chief Audit Executives' functional reporting relationship with the board; authorises access to records, personnel and property relevant to the performance of engagements and defines the scope of internal audit activity. It must also cover arrangements for appropriate resourcing, and defining the role of internal audit in fraud-related work.
10. The Internal Audit Charter must define the terms 'board' and 'senior management'. The 'board' in the case of SCC will either be the Executive Management Team or the Audit Committee depending upon the standard being considered.

#### **Current Arrangements in Internal Audit**

11. The Internal Audit Charter and Terms of Reference cover most of the above however this needs to be reviewed and updated to reflect the new reporting arrangements to be implemented from April 2013.

## 1100 – Independence and Objectivity

12. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out their responsibilities in an unbiased manner. To achieve the degree of independence necessary, the CAE must have direct and unrestricted access to senior management and the board.
13. The CAE must report functionally to the board, and establish effective communication with the Chief Executive and Chair of the Audit Committee.
14. Examples of functional reporting to the board involve the board;
  - Approving the IA Charter
  - Approving the risk-based internal audit plan;
  - Approving the internal audit budget and resource plan;
  - Receiving communications from the CAE on the internal audit activity's performance
  - Approving the remuneration of the chief audit executive
15. Governance arrangement in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. This can be achieved by ensuring the Chief Executive (or equivalent) undertakes countersigns or contributes feedback to the performance appraisal of the CAE.

### Current Arrangement in Internal Audit

16. The CAE reports functionally to the Assistant Director of Finance rather than to a member of the Executive Management Team. This arrangement has been endorsed by the Director of Finance and the Executive Director, Resources.
17. There are no barriers to reporting audit issues corporately when the need arises.
18. Approval for the plan and budgets currently sits with the Director of Finance, and reports on audit activity are made to the Audit Committee on, at least, a quarterly basis.
19. The remuneration of the CAE is determined in line with Council-wide HR procedures and standard pay structures.

## 1200 – Proficiency and Due Professional Care

20. Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity

collectively must possess or obtain the knowledge, skills and other competencies required.

#### Current Arrangement in Internal Audit

21. 3 members of staff are Consultative Committee of Accountancy Bodies (CCAB) qualified, 3 are studying CCAB, 2 are Chartered Members Institute of Internal Auditors (CMIIA), 2 are Practitioner Institute Internal Auditors (PIIA), 1 officer holds the Institute of Internal Auditors IT Auditing Certificate, 1 holds Professionalism in Security (PINS) and 3 are Associate of Accounting Technicians (AAT) qualified. All auditors are appraised annually.

#### 1300 – Quality Assurance and Improvement Programme

22. The CAE must maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This should enable an evaluation of the internal audit activity's conformance with the PSIAS.
23. The quality assurance and improvement programme must include both internal and external assessments. External Assessments must be undertaken every 5 years by a qualified, independent assessor /assessment team from outside the organisation.
24. The CAE must communicate the results of the quality assurance and improvement programme to senior management and the board, in the annual report. Instances of non-conformance must be reported to the board.

#### Current Arrangement in Internal Audit

25. This is a new requirement and currently there are no arrangements for an independent external assessment to be undertaken. As part of the External Audit work programme for 13/14, a review of Internal Audit is to be carried and the feasibility of 'peer reviews' within the Core Cities Chief Auditors Group are actively being considered and developed.
26. Internal Assessments to monitor the on-going performance of Internal Audit are already carried out on a quarterly basis. The periodic assessment of compliance with the PSIAS will be incorporated into the annual 'quality audit' using a self-assessment methodology.

#### **Performance Standards**

27. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.
28. This section of the PSIAS includes :

- Managing the internal audit activity – the CAE must effectively manage the internal audit activity to ensure it adds value to the organisation.
  - Nature of the work – the internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.
  - Engagement planning – Internal Auditors must develop and document a plan for each engagement, including the engagements objectives, scope, timing and resource allocations.
  - Performing the engagement – Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement objectives.
  - Communicating results – Internal auditors must communicate the results of engagements.
  - Monitoring progress – The CAE must establish and maintain a system to monitor the disposition of result communicated to management through effective follow-up processes.
  - Communicating the acceptance of risks – When the CAE concludes that management are accepting unacceptable levels of risk, this must be discussed with senior management, and reported to the board if it is not satisfactorily resolved.
29. There are no fundamental differences between the new PSIAS Performance Standards and the CIPFA Code of Practice and therefore the current arrangements are considered to be satisfactory.
30. The attached table summarises the new requirements and any work required to be undertaken by Internal Audit to ensure compliance with the standards.

### **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from the report.

### **EQUAL OPPORTUNITIES IMPLICATIONS**

There are no equal opportunities implications arising from the report.

### **RECOMMENDATIONS**

That members note the differences between the new PSIAS and the CIPFA Code of Practice.

That members note where the Sheffield City Council approach is different from the Standard.

That members endorse the work to be undertaken to ensure compliance with the PSIAS.

That members receive a further report of progress made with compliance in 6 months' time.

**Laura Pattman**  
**Assistant Director of Finance**

| Ref  | Requirement   | Local Procedure  | Work Required   |
|------|---|--|---|
| 1000 | Produce a formal document that defines the internal audit activity's purpose, authority and responsibility. | This is currently included in the Internal Audit Charter and Terms of Reference.   | Amalgamate and update the Internal Audit Charter, Terms of Reference and Protocol into a single Charter.<br><br>Define 'the Board', Senior Management, and Chief Audit Executive.   |
| 1100 | The CAE must report functionally to the board, in this case the Executive Management Team.                  | Due, in part to the current economic climate and budget cuts, the CAE reports to the Assistant Director of Finance. However there are no barriers to reporting audit issues corporately when the need arises. Approval for the plan and budgets currently sits with the Director of Finance. | Declaration of Endorsement of reporting arrangements from Executive Director of Resources and/or Chief Executive to be updated and retained.<br><br>Declaration of reporting arrangements to be included in the CAE annual report on compliance with the PSIAS. |
| 1100 | Establish effective communication with the Chief Executive and Chair of Audit Committee.                    | Already in Place   | Declaration of Endorsement of reporting arrangements from Director of Resources and/or Chief Executive to be updated and retained.  |
| 1110 | The remuneration of CAE to be approved by the board.  | Remuneration is determined in line with formal pay structures  | Include arrangements for determining remuneration of CAE in   |



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|      | The Chief Executive (or equivalent) carries out, countersigns or contributes feedback to the performance appraisal of the CAE. Feedback is also sought from the Audit Committee Chair. | and HR Policies and Procedures.<br><br>The CAE will be appraised in line with the Corporate Process by the Assistant Director of Finance.                | annual report.<br><br>Seek feedback from the Audit Committee Chair and Director of Finance to contribute to the performance appraisal of CAE. |
| 1311 | Undertake Internal Assessments as part of the quality assurance and improvement programme.   | Ongoing monitoring of performance and output is already undertaken and reported.<br><br>Quality Audits, undertaken annually, in line with BSI standards. | The scope of the Internal Quality Audits is to be reviewed to include compliance with the PSIAS.  |
| 1312 | External Assessment of Compliance with PSIAS every 5 Years, by a qualified, independent assessor/assessment team.  | External Audit has scheduled a review of Internal Audit into their 2013/14 work programme.   | Explore possibility of a cycle of peer reviews with Core City Authorities, on a cyclical basis.   |

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