

READING BOROUGH COUNCIL

REPORT BY (HEAD OF FINANCE)

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	29 SEPTEMBER 2016	AGENDA ITEM:	5
TITLE:	PUBLIC SECTOR INTERNAL AUDIT STANDARDS (SELF-ASSESSMENT)		
LEAD COUNCILLOR:	Councillor STEVENS	PORTFOLIO:	AUDIT & GOVERNANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	<a href="mailto:Paul.harrington@reading.gov.uk">Paul.harrington@reading.gov.uk</a>

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform the Audit & Governance Committee the results of the self-assessment carried out by the Chief Auditor against the Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF). Areas of non or partial compliance have been identified as part of the assessment, and a Quality Assurance and Improvement Programme (QAIP) has been produced that shows how these will be addressed.

1.2 The PSIAS contain a detailed checklist of over 200 questions which has been used as the basis for the self-assessment. It is designed to assess the performance of internal audit against the following categories:

- Code of Ethics - integrity, objectivity, confidentiality and competency
- Attribute Standards
  - Purpose, authority and responsibility
  - Independence and objectivity
  - Proficiency and due professional care
  - Quality assurance and improvement programme
- Performance Standards
  - Managing the internal audit activity
  - Nature of work
  - Engagement planning
  - Performing the engagement
  - Communicating results
  - Monitoring progress
  - Communicating the acceptance of risks

- 1.3 The Chartered Institute of Public Finance Accountants (CIPFA) has developed a comprehensive checklist for assessing compliance with the PSIAS and the Local Government Application Note which the Chief Auditor has completed.
- 1.4 Attached in appendix 1 is the action plan following the self-assessment.

## 2. RECOMMENDED ACTION

- 2.1 The Audit & Governance Committee notes the actions required for improvement in appendix 1.
- 2.2 Chief Auditor to arrange an external assessment completed via a peer review in 2017, the results of which will be reported to the Audit and Governance Committee.

## 3. PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 3.1 The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013. Compliance with these is a requirement of the Audit and Accounts Regulations and should underpin the Internal Audit arrangements within the Council. The Chief Auditor is expected to report on conformance with the PSIAS annually.
- 3.2 CIPFA's Local Government Application Note has been developed as the sector-specific requirements for local government organisations within the UK Public Sector Internal Audit Framework.
- 3.3 The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace internal auditors own professional bodies codes of ethics or those of the employing organisation. Internal auditors must also have regard to the Committee on Standards in Public Life's Seven Principles of Public Life, namely selflessness, integrity, objectivity, accountability, openness, honesty and leadership.
- 3.4 The Standards define 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'*.
- 3.5 The Standards refer to a 'Chief Audit Executive' which, for Reading Borough Council, is deemed to be the Chief Auditor. The Standards also refer to a 'Board' which, for Reading Borough Council, is deemed in most cases to be the Audit and Governance Committee on behalf of the Council.

- 3.6 The Chief Auditor must report functionally to the Board. In practice this means the Audit and Governance Committee (as the Board) will be involved in:
- Approving the internal audit charter
  - Approving the risk based internal audit plan
  - Receiving communications from the Chief Auditor on the internal audit activity's performance relative to its plan and other matters
  - Making appropriate enquiries of management and the Chief Auditor to determine whether there are inappropriate scope or resource limitations
  - Approving any significant additional (internal audit) consulting services not already included in the audit plan, prior to any engagement being accepted
  - To receive feedback for the Chief Auditor's performance appraisal
- 3.7 The published PSIAS also included some examples of functional reporting to the Board which are not typically seen as the responsibility of an Audit Committee in a Local Authority and would not be done by the Audit and Governance Committee e.g.:
- Approving decisions regarding the appointment and removal of the Chief Auditor
  - Approving the remuneration of the Chief Auditor
  - Approving the Internal Audit Budget and resource plan
- 3.8 The Chief Auditor undertakes periodic reviews of the quality of internal audit work completed and also reviews all draft and final reports issued. In delivering the Internal Audit Service, the planning, conducting and reporting on reviews have been completed in conformance with the requirements of the PSIAS and our self-assessment demonstrates compliance with the standards.
- 3.9 The Head of Finance (Sec 151 Officer) and Managing Director also periodically review Internal Audit work and discuss issues as necessary with the Chief Auditor through regular one-to-one meetings.
- 3.10 The PSIAS require an external assessment to be completed once every 5 years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.
- 3.11 Quotations for an external assessment provided by an external organisation (e.g. CIPFA, CMIIA, PWC etc.) range from £8k to £20k. Given the small team, we do not believe that such expense would offer value for money, especially given budget constraints. It is therefore the intention of the Chief Auditor to arrange an external assessment completed via peer review in 2017, the results of which will be reported to the Corporate Management Team (CMT) and the Audit and Governance Committee.

#### **4. CONTRIBUTION TO STRATEGIC AIMS**

- 4.1 Audit Services aims to assist in the achievement of the strategic aims of the Authority by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

#### **5. COMMUNITY ENGAGEMENT AND INFORMATION**

- 5.1 A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

#### **6. LEGAL IMPLICATIONS**

- 6.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation. Section 151 of the Local Government act 1972 requires every local authority to '*make arrangements for the proper administration of its financial affairs*' and to ensure the one of the officers has responsibility for the administration of those affairs. In England, more specific requirements are detailed in the Accounts and audit Regulations, in that authorities must '*maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices*'.

#### **7. FINANCIAL IMPLICATIONS**

- 7.1 There may be a financial implication depending on the route preferred to complete an external assessment. The level of finance required will depend upon the scope and who the Audit and Governance committee agrees to perform the external assessment.

#### **8. BACKGROUND PAPERS**

- 8.1 Regulation 4 of the Accounts and Audit Regulations 2011  
Public Sector Internal Audit Standards - applying the Institute of Internal Auditors International Standards to the UK Public Sector  
Local Government application Note