



## **AGENDA ITEM: 6**

**AUDIT AND GOVERNANCE COMMITTEE:**

**26 March 2013**

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**Report of: Borough Treasurer**

**Relevant Managing Director: People and Places**

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**SUBJECT: PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

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Wards affected: Borough wide

### **1.0 PURPOSE OF THE REPORT**

1.1 To advise of changes to the Standards applying to internal audit in the UK public sector.

### **2.0 RECOMMENDATION**

2.1 That the changes to standards be noted.

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### **3.0 BACKGROUND**

3.1 The Accounts and Audit Regulations 2011 require the Council to undertake an audit of its accounting records and system of internal control in accordance with proper practices.

3.2 Guidance accompanying the legislation identified that In the case of principal local authorities in England, "Proper practices" are those contained 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). These were therefore the standards that applied to internal audit in the Council.

3.3 CIPFA is just one of a number of bodies responsible for setting standards in the UK public sector and tailoring them to the different requirements of the legislation from which audited bodies draw their powers and the diverse

governance arrangements applying in the different segments of the public sector.

- 3.4 At the instigation of the Treasury and various other standard setters, including CIPFA, the Internal Audit Standards Advisory Board was established to draft new standards which were published in December 2012.
- 3.5 The new standards known as the United Kingdom Public Sector Internal Audit Standards (PSIAS) will apply across the UK public sector in local authorities, central government departments and the NHS.
- 3.6 From the 1st April 2013 these become mandatory for all principal local authorities subject to the Accounts and Audit (England) Regulations 2011 including the Council.

#### **4.0 CONTENT OF THE PSIAS**

- 4.1 The PSIAS are based on the Institute of Internal Audit's International Standards (IIAIS) with a limited number of additional requirements and interpretations to adapt them for use in the public sector. After an introduction and statement of applicability their format mirrors the IIAIS within the following sections.
  - Definition of internal auditing
  - Code of Ethics
  - Standards
- 4.2 A Definition of Internal Auditing is key to the standards and the IIA definition has replaced the CIPFA definition previously used in the public sector. The new definition is "Internal auditing is 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."
- 4.3 The Code of Ethics sets out a series of Principles relevant to the profession and practice of internal auditing under the headings of Integrity, Objectivity, Confidentiality and Competency with more detailed Rules of Conduct defining the behaviour expected of auditors as an aid to interpreting the Principles.
- 4.4 The Standards themselves are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework and are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 4.5 A line by line dissection of the document is beyond the scope of this report but a link to the full text of the PSIAS has been provided as an appendix to this report and the Audit Manager can provide printed copies to Members on request.

#### **5.0 ISSUES**

- 5.1 CIPFA acknowledge that the PSIAS are new and complex, and recognise the need to provide guidance for the bodies applying them. It intends to produce a Local Government Application Note specifically to provide that guidance.
- 5.2 Previously, the Application Note was simply guidance and referred to as such. However, after discussion with DCLG with regards to what constitutes 'proper practices' in internal control as per the Accounts & Audit Regulations 2011, the status has altered so that 'proper practices' for UK local government is the PSIAS in conjunction with the Local Government Application Note.
- 5.3 The mandatory sectoral requirements for local authorities are therefore the PSIAS as well as this Application Note and the content of both documents must be followed in order to satisfy proper internal audit practices.
- 5.4 The application note has not yet been published and its expected release date according to the CIPFA website is currently stated to be the 3rd April.
- 5.5 Once the application note is received a further report will be brought setting out any implications of the changes for the Council.

## **6.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY**

- 6.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

## **7.0 FINANCIAL AND RESOURCE IMPLICATIONS**

- 7.1 All the activity referred to in this report is covered by existing budget provisions.

## **8.0 RISK ASSESSMENT**

- 8.1 Working in accordance with the PSIAS is essential to ensure that Internal Audit's work is carried out to standards which allow stakeholders such as this Committee to rely on the assurance it provides.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

### **Appendices**

1. Public Sector Internal Audit Standards Applying the IIA International Standards to the UK Public Sector (Document available on the Council Information System 'CoInS') Paper copies are available on request from the Audit Manager.