



AGENDA ITEM: 10

**AUDIT & GOVERNANCE COMMITTEE:
25 JUNE 2013**

Report of: Borough Treasurer

Relevant Managing Director: Managing Director (People and Places)

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SUBJECT: UNITED KINGDOM PUBLIC SECTOR INTERNAL AUDIT STANDARDS \ LOCAL GOVERNMENT APPLICATION NOTE

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To advise of the implications of the Chartered Institute of Public Finance and Accountancy (CIPFA) publication Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards.

2.0 RECOMMENDATION

2.1 That the position be noted.

3.0 BACKGROUND

3.1 The UK public sector has adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. A report to this Committee in March advising of the change noted that CIPFA were due to publish a Local Government Application Note (LGAN) to be used in conjunction with the PSIAS.

3.2 There is requirement under the Accounts and Audit Regulations 2011 for 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 Department for Communities and Local Government (DCLG) clarified that from 1 April 2013 “proper practices” would be those defined in the PSIAS in conjunction with the LGAN.

- 3.3 The LGAN was not published in time for the March meeting and it was noted that a further report would be brought setting out any implications of its content for the Council once it became available.
- 3.4 The PSIAS encompass the Mandatory Elements of the Global Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). As previously reported these are made up of The Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).
- 3.5 CIPFA acknowledge that the PSIAS are new and complex and the LGAN has been produced to provide interpretation and practical guidance on how to apply the PSIAS. It sets out sector specific requirements for internal audit in local government but only where this has been deemed necessary to ensure continuity of application in the local government context, for example where the requirements of The Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code) have not been explicitly addressed in the PSIAS.

4.0 WHERE THE CODE'S REQUIREMENTS WERE MORE SPECIFIC THAN THE PSIAS

- 4.1 There is inevitably a great deal of common ground between the PSIAS and its predecessor the Code. The application note generally amplifies the requirements in the PSIAS by reintroducing and clarifying local government specific requirements previously contained in the "Code" but absent from the PSIAS as they are not applicable to the wider public sector.

These form the backbone of the LGAN and include for example

- The requirement for internal audit's Terms of Reference to recognise that its remit extends to the entire control environment of the organisation enabling the Head of Internal Audit to deliver an annual audit opinion.
 - The requirement for the Head of Internal Audit to make arrangements within the organisation's anti fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety.
 - The requirement for the Head of Internal Audit to have direct access to, and freedom to report in his or her own name without fear or favour to, all officers and members and particularly 'those charged with governance'.
- 4.2 As a general rule, because these requirements were already contained in the Code they require no further action in West Lancashire.

5.0 DIFFERENCES IN TERMINOLOGY AND GOVERNANCE MODELS

- 5.1 The terminology in the original IPPF is not sector specific and has largely been retained in the PSIAS. The LGAN therefore provides guidance on interpretation of the provisions of the PSIAS in relation to UK public sector governance arrangements.

- 5.2 In many cases this is straightforward but there are some areas where the variety of governance models in place in local government require further interpretation to reflect local arrangements.
- 5.3 As an example in discussing requirements for Organisational Independence contained in the PSIAS, the LGAN notes the requirement for a local interpretation of the term “Board” (used in the PSIAS to represent the highest level of governing body in the organisation).
- 5.4 The LGAN recognises that the role of the board may be satisfied by the audit committee, the cabinet or even full council and that it is the responsibility of the Head of Internal Audit and the organisation to decide which group fulfils the definition in each standard and document this in the internal audit charter.
- 5.5 In order to achieve compliance in West Lancashire there will be a need to update the IA charter and review other documentation against the PSIAS and LGAN to ensure clarity.

6.0 WHERE THE PSIAS REQUIRMENTS ARE NEW OR MORE SPECIFIC THAN THE CODE

- 6.1 There are a small number of areas where the requirements in the PSIAS are more specific than those contained in the Code. Examples of these are included below.
- 6.2 The PSIAS have a narrower definition of ‘conflict of interest’ than was set out in the Code and more stringent requirements in relation to reporting any potential conflict of interest.
- 6.3 The Quality Assurance and Improvement Programme (QAIP) required by the PSIAS is a new requirement to support improvement in standards. In practice, this does not add significantly to existing requirements but it does introduce specific requirements in relation to Internal and External Assessments of the QAIP which will require new arrangements to be put in place to evidence compliance.
- 6.4 In order to achieve compliance in West Lancashire there will be a requirement for training on the PSIAS and LGAN for auditors and a small number of areas will require new arrangements to be put in place.

7.0 CONCLUSION

- 7.1 In practice WLBC internal audit’s existing Terms of Reference and working practices already comply with the majority of the Standards contained in the PSIAS and the LGAN.
- 7.2 The Audit Manager will review the operation of the service against the PSIAS and LGAN, refresh the internal audit Charter, provide training for staff on any new requirements and where necessary introduce new procedures to ensure full

compliance with the new standards. It is not anticipated that this will require any additional resources.

8.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY

8.1 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.

9.0 FINANCIAL AND RESOURCE IMPLICATIONS

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

10.0 RISK ASSESSMENT

10.1 Compliance with the PSIAS and the Application Note is effectively a statutory requirement. Compliance will be required in order for this Committee to be able to place reliance on the assurance gained from the work of internal audit.

Background Documents

CIPFA Local Government Application Note (held in the Internal Audit Office)

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

None