



## Audit Committee Report

<b>REPORT OF</b>	<b>Assistant Director Finance – Business Partnering and Internal Audit</b>	<b>DATE</b>
		<b>14/11/2013</b>

<b>SUBJECT</b>	<b>Compliance with the ‘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>	This report summarises the progress made to ensure compliance with the Public Sector Internal Auditing Standards and highlights the work still required. The PSIAS checklist has been completed to inform the assessment.
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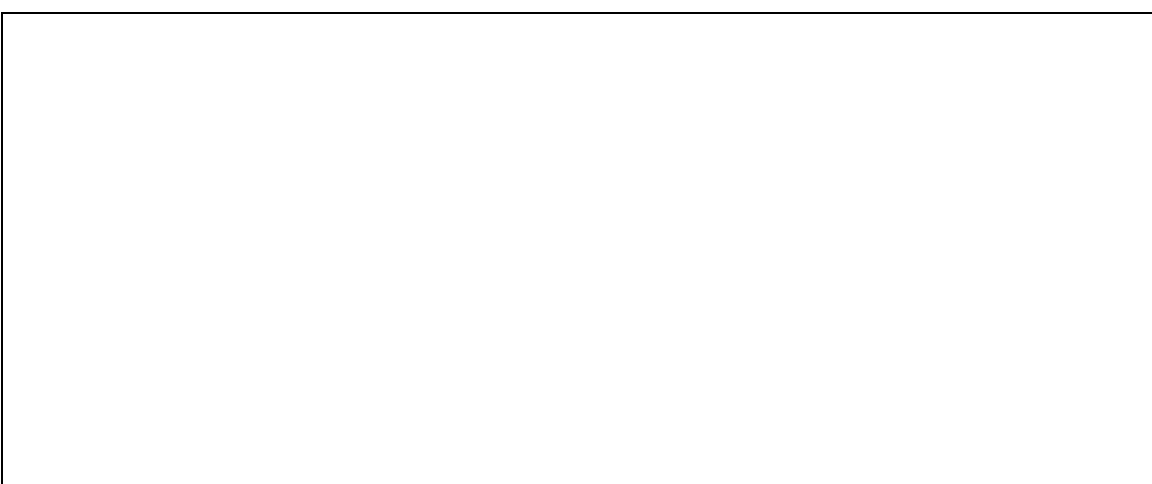
**RECOMMENDATIONS**

That members note where progress has been made in implementing the new standard.

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

<b>FINANCIAL IMPLICATIONS CLEARED BY</b>	<b>No Laura Pattman</b>	<b>PARAGRAPHS</b>
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<b>BACKGROUND PAPERS</b>		
<b>CONTACT POINT FOR ACCESS</b>	<b>Laura Pattman</b>	<b>TEL NO. 273 5763</b>



**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**

14<sup>th</sup> November 2013

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

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

1. This report summarises the evaluation results of the PSIAS compliance checklist and highlights where additional work is still required.

#### **BACKGROUND**

2. The **Public Sector Internal Audit Standards (PSIAS)** came into force on 1 April 2013, and aims to promote further improvements in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
3. 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.
4. 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.
5. 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**

6. 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)

## **Evaluation Checklist**

7. In order to assist authorities in assessing compliance with the PSIAS, the IIA have developed a checklist which allows self-evaluation as part of the required Quality Assurance and Improvement Programme.
8. I have completed the checklist and have attached this to the report for information (Appendix A).
9. As reported in April, the 2 main areas where our local arrangements differ from the standard are : reporting arrangements and remuneration (falls within the Independence and Objectivity Attribute Standard) and external assessments (falls within the Quality Assurance and Improvement Programme Attribute Standard).

## **Requirements of the PSIAS**

### **Attribute Standards**

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

10. 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.

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

11. The Internal Audit Charter has been reviewed and updated to reflect the new reporting arrangements. This was submitted and approved by the Audit Committee in September 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. 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

15. 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.
16. There are no barriers to reporting audit issues corporately when the need arises, and this is outlined in the Audit Charter. I am currently preparing a Declaration of Endorsement which will formally demonstrate approval of the reporting access to the Executive Director, Resources, the Chief Executive and the Chair of the Audit Committee. I will submit this to the Audit Committee with the Annual Report for 2014.
17. The remuneration of the CAE is determined in line with Council-wide HR procedures and standard pay structures and this arrangement will not change. For the 2014/15 appraisal cycle, feedback will be sought from the Chief Executive (or equivalent).

#### 1300 – Quality Assurance and Improvement Programme

18. 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.
19. 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.
20. 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

21. This is a new requirement and currently there are no arrangements for an independent external assessment to be undertaken. The feasibility of 'peer reviews' within the Core Cities Chief Auditors Group are actively being considered and developed.
22. 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. This review is scheduled to be undertaken in December 2013.

23. The attached table summarises the progress made to date with implementing the new requirements and any work further required to be undertaken by Internal Audit. This is an updated version of the table provided to the Audit Committee in April.

### **Performance Standards**

24. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.
25. 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, with some minor areas of improvement.

### **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 where progress has been made in implementing the new standard.

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

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

Requirement	Local Procedure	Work Required	Progress
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.  Define 'the Board', Senior Management, and Chief Audit Executive.	Complete  Approved by Audit Committee 25.9.13
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.  Declaration of reporting arrangements to be included in the CAE annual report on compliance with the PSIAS.	Declaration currently being drafted. A copy will be reported to the Audit Committee with the 2014 Annual report.
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.	Declaration currently being drafted. A copy will be reported to the Audit Committee with the 2014 Annual report.
The remuneration of CAE to be approved by the board.  The Chief Executive (or	Remuneration is determined in line with formal pay structures and HR Policies and Procedures.	Include arrangements for determining remuneration of CAE in annual report.	No further action required.

<p>equivalent) carries out, countersigns or contributes feedback to the performance appraisal of the CAE. Feedback is also sought from the Audit Committee Chair.</p>	<p>The CAE will be appraised in line with the Corporate Process by the Assistant Director of Finance.</p>	<p>Seek feedback from the Audit Committee Chair and Director of Finance to contribute to the performance appraisal of CAE.</p>	<p>To introduce for the 2014 appraisal cycle.</p>
<p>Undertake Internal Assessments as part of the quality assurance and improvement programme.</p>	<p>Ongoing monitoring of performance and output is already undertaken and reported.</p> <p>Quality Audits, undertaken annually, in line with BSI standards.</p>	<p>The scope of the Internal Quality Audits is to be reviewed to include compliance with the PSIAS.</p>	<p>Internal Quality Audit scheduled for December 2013.</p>
<p>External Assessment of Compliance with PSIAS every 5 Years, by a qualified, independent assessor/assessment team.</p>	<p>External Audit has scheduled a review of Internal Audit into their 2013/14 work programme.</p>	<p>Explore possibility of a cycle of peer reviews with Core City Authorities, on a cyclical basis.</p>	<p>To raise at next Core Cities meeting expected to be in January 2014.</p>