



Watford Borough Council
Audit Committee
Public Sector Internal Audit Standards
(incorporating the SIAS Audit Charter)

June 2013

Recommendations

That Members give due consideration to this report and adopt the PSIAS with effect from 1 April 2013.

That Members accept the SIAS Audit Charter (shown at Appendix A) as part of compliance with the Public Sector Internal Audit Standards 2013.

That assurance from management that there have been no inappropriate scope or resource limitations on internal audit activity is confirmed to the Committee when the Head of Assurance's annual report is considered.

That Members note non-compliance and remedial action in respect of the Public Sector Internal Audit Standards

Contents

1. Introduction and Background
2. Reason for Recommendation
3. Compliance with PSIAS

Appendix A

SIAS Audit Charter 2013-14

Appendix B

Areas of non conformance with public sector internal audit standards at May 2013

1. INTRODUCTION AND BACKGROUND

- 1.1 In May 2011, the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) agreed to collaborate in the development of the internal audit profession in the public sector. As a result, national Public Sector Internal Audit Standards (PSIAS), based upon the mandatory elements of the global CIIA's International Professional Performance Framework have been developed.
- 1.2 The PSIAS are effective from 1 April 2013 and consist of the following:
- Definition of Internal Auditing;
 - Code of Ethics; and
 - Standards for the Professional Practice of Internal Auditing.
- 1.3 The PSIAS replace the Code of Practice for Internal Audit in Local Government in the United Kingdom, last revised in 2006. 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. They are also mandatory for the Office of the Police and Crime Commissioner, constabularies, fire authorities, national park authorities, joint committees and joint boards in the United Kingdom.

2. REASON FOR RECOMMENDATION

- 2.1 The new Standards are intended to promote further improvement in the professionalism, quality and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide Audit Committees and Senior Management with the key assurances they need to support them both in managing the organisation and in producing the annual governance statement.
- 2.2 Overall, most of the content within the Standards is a continuation and further development of existing best practice. Listed below are some key points of difference for the Audit Committee's consideration.

Existing requirements

- **The chief audit executive** – The chief audit executive (CAE) (referred to as the head of audit in the previous standards), must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The Head of Assurance (Chartered Public Finance Accountant) fulfils this role in respect of SIAS.
- **Annual report** – The requirement for the production of an internal audit annual report remains. The Annual Report to each Council will now need to include details of any non-conformance with PSIAS and the impact that non-conformance has had on the overall scope or operation of the internal audit

activity. More significant deviations must be considered for inclusion in the annual governance statement.

- **Risk-based audit plan** – There is still a requirement to produce a risk based audit plan. However, an audit strategy is no longer required and has been replaced with a risk based plan that incorporates or links to a strategic statement setting out how the internal audit service will be provided and how The Charter (see below) will link to the authority's objectives and priorities.
- **Ethical standards** - the internal audit manual already contains a set of ethical standards which are based upon those within the 2006 Cipfa Code. These are now replaced by those of the CIIA. The CIIA Code of Ethics has been further enhanced with the requirement that internal auditors in the public sector must also have regard to the Seven Principles of Public Life (the Nolan Principles).

New requirements

- **Internal Audit Charter (The Charter)** – The Charter must formally define the purpose, authority and responsibility of the internal audit activity. It will also cover arrangements for avoiding conflicts of interest if internal audit performs non-audit activities. A copy of the SIAS Audit Charter is included in this report at Appendix A.
- **Quality assurance** – The quality of service should be rigorously checked under a quality assurance and improvement programme which requires ongoing internal assessments of all aspects of internal audit activity, as well as external assessment every five years. The programme is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. There is a requirement for the CAE to include a section on the quality assurance and improvement programme in the internal audit annual report.
- **External assessment** – will be required every five years. The assessment will need to be performed by qualified and independent assessors or assessment teams that are external to the organisation.
- **Resource limitations** – it will be the role of the Audit Committee to seek assurance from the CAE and from management that there are no inappropriate limitations on the scope or resources of internal audit. The Head of Assurance will provide this assurance in the annual report and it is suggested that the Committee also seeks assurance from management in considering the annual report.
- **Effective communication** – The standards require 'effective communication' between the CAE and both the audit committee and the committee chair in discussions about: the authority's risk and assurance requirements; assurance opinions; issues of concern raised by audit work undertaken; and implementation of agreed recommendations and the enhanced assurance arising.

3. COMPLIANCE WITH PSIAS

- 3.1 The Head of Assurance has reviewed in detail the compliance of the Shared Internal Audit Service with the PSIAS standards. The document detailing this exercise is lengthy and has not been provided with agenda papers but is available on request.
- 3.2 Areas of non-conformance with PSIAS and arrangements for addressing these are Appendix B of this report. In the view of the Head of Assurance these areas of non-compliance are not significant, and the reasons for this judgement are also set out in the Appendix. It is planned to ask External Audit to validate this self-assessment.



Internal Audit Charter

Introduction and Purpose

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Council. It assists the Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Council's risk management, control, and governance processes.

Statutory Basis of Internal Audit

Within local government there is a statutory requirement for an internal audit function. The 2003 Accounts and Audit Regulations (as amended by the 2006, 2009 and 2011 Regulations) require that a local authority 'must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

In addition, the Council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. The S151 officer relies, amongst other sources, upon the work of internal audit in reviewing the operation of systems of internal control and financial management.

Role

The internal audit activity is established by the Audit Committee. The internal audit activity's responsibilities are defined by the Audit Committee, via this Charter, as part of their oversight role.

SIAS may undertake consultancy activity (additional activity requested by management) where it has the necessary skills and resources to do this, and this will be determined by the Head of Assurance on a case by case basis.

Professionalism

SIAS governs itself by adherence to The Chartered Institute of Internal Auditors' (CIIA) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing ('the Standards'). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to the Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Mandatory public sector specific standards were introduced on 1 April 2013, through a joint venture between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the CIIA. These new Public Sector Internal Audit Standards (PSIAS) are based on the mandatory elements of the CIIA existing standards, with additional public sector requirements.

Authority

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee and senior management.

Organisation

SIAS has direct access to senior management, the Audit Committee, the Chief Executive and the Chair of the Audit Committee. The Section 151 Officer and the Audit Committee will jointly agree the level of internal audit resource to be deployed at the Council. The Head of Assurance Services will communicate and interact directly with the senior management and the Audit Committee, including in executive sessions and between meetings as appropriate. Outside of formal senior management meetings and meetings of the Audit Committee, the Head of Assurance Services will have unrestricted access to the Chief Executive and to the Chair of the Audit Committee.

For line management purposes, the Head of Assurance Services will report to the post of Deputy Chief Executive and Chief Financial Officer at Hertfordshire County Council (HCC). The Deputy Chief Executive of HCC will approve all decisions regarding the performance evaluation, appointment, or removal of the Head of Assurance Services, in consultation with the SIAS Board.

For the purposes of the internal audit activity, the following groups are defined:

Audit Committee

Audit Committee is responsible for overseeing the effectiveness of the internal audit function, and holding the Head of Assurance Services to account for delivery, through the receipt of regular updates and reports. The Audit Committee is responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery.

Senior Management

Responsible for helping shape the programme of assurance work through an analysis and review of key risks to the achieving the Council's objectives and priorities. Senior management provide leadership and direction for the Council.

SIAS Board

The governance group charged with monitoring and reviewing the overall operation of SIAS, including:

- Resourcing and financial performance
- Performance indicators measuring operational effectiveness
- The overall strategic direction of the shared service.

Independence and Objectivity

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

The Head of Assurance Services will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

Conflicts of Interest

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

In addition to the ethical requirements of the various professional bodies, each auditor is required to proactively declare any potential 'conflict of interest' prior to the commencement of each audit assignment.

All auditors are required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest. Auditors who undertake any consultancy work will be prohibited from auditing those areas. Audits are rotated within the team to avoid over-familiarity and complacency. SIAS has procured an arrangement with an external firm to provide additional internal audit days on request; this arrangement will be used for the internal audit of any functions also directly managed by the Head of Assurance.

Responsibility and Scope

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit extend to the entire control environment of the organisation and include:

- Consistency of operations or programs with established objectives and goals, and effective performance
- Effectiveness and efficiency of operations and employment of resources
- Compliance with significant policies, plans, procedures, laws, and regulations
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
- Safeguarding of assets

Internal audit is responsible for evaluating all processes ('audit universe') of the organisation including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and ensuring a proper degree of coordination with internal audit is maintained.

Due to its detailed knowledge and understanding of risks and controls, internal audit is well placed to provide advice and support on emerging risks and issues. As a result, internal audit may perform consulting and advisory services as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee and senior management, as appropriate.

Based on its activity, internal audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to senior management, including fraud risks, governance issues, and other matters needed or requested by these bodies. This ensures internal audit plays a key role in providing assurance to the Audit Committee and senior management on the effectiveness of the entire control environment.

Role in Anti-Fraud

The work programme of SIAS is designed, in part, to help deter fraud and corruption. With this in view, SIAS bases its planning on regular risk assessment, and works with Chief Financial Officers, other senior managers, and the Audit Committee in determining its programme of work.

SIAS also shares information with relevant partners, including with government via the National Fraud Initiative, to increase the likelihood of detecting fraudulent activity, and of reducing the risk of fraud to all.

SIAS offers a fraud investigation services and can support organisations in ensuring their fraud prevention arrangements are robust. The Head of Assurance should be notified of all suspected or detected fraud, corruption or impropriety so that the impact upon control arrangements can be evaluated.

Internal Audit Plan

At least annually, the Head of Assurance Services will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next financial year. The Head of Assurance Services will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management. Prior to submission to the Audit Committee for approval, the plan will be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

Reporting and Monitoring

The Head of Assurance will arrange for a written report to be prepared and issued following the conclusion of each internal audit engagement; this will be distributed as appropriate.

The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations and will report to the Audit Committee on the results of this activity.

The Head of Assurance will consider any request from external stakeholders for reports on the results of internal audit activity, in consultation with senior management.

The Head of Assurance will arrange for quarterly update reports to the Audit Committee to advise on the results of each internal audit engagement, and provide an annual report to the Audit Committee giving an opinion on the internal control environment.

Periodic Assessment

In accordance with section 6 of the Accounts and Audit (England) Regulations 2011, the SIAS Board will make arrangements for the conduct of a review of the effectiveness of internal audit.

The review is designed to ensure that the opinion given in the Annual Report of the Head of Assurance Services may be relied upon as a key source of evidence in the Annual Governance Statement.

The work will be conducted on the basis of one review of SIAS providing assurance for all SIAS partner members.

Review of the Audit Charter

This charter will be subject to annual review by the Head of Assurance Services and any changes presented to Audit Committee for approval at the first audit committee meeting in each financial year.

Helen Maneuf - Head of Assurance Services
May 2013

(Date of next review: May 2014)

APPENDIX B – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
2a	<p>Code of Ethics</p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by performing services in accordance with the Public Sector Internal Audit Standards.</p>	<p>The SIAS Audit Manual sets out the working protocols for performing audit services. The Audit Manual reflects the CIPFA Code of Practice in force until 31 March 2013.</p> <p>This does not represent a significant issue given that the CIPFA Code of Practice has a large degree of similarity with PSIAS.</p>	<p>Update the Audit Manual to reference the Public Sector Internal Audit Standards.</p> <p>Head of Assurance June 2013</p>

APPENDIX B – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
2b	<p>Code of Ethics</p> <p>Do internal auditors have regard to the on Standards of Public Life's <i>Seven Principles of Public Life</i>?</p>	<p>Internal auditors have regard to the Seven Principles of Public Life although this is not explicitly documented in the SIAS ethical framework.</p> <p>This does not represent a significant issue given that the auditors are already required to observe ethical protocols and make an annual declaration of interest.</p>	<p>Update the SIAS ethical framework document to reference the Seven Principles of Public Life.</p> <p>Head of Assurance June 2013</p>

APPENDIX B – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.1a	<p>Purpose, Authority and Responsibility</p> <p>Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE) (Head of Assurance)</p>	<p>The Deputy Chief Executive of Hertfordshire County Council, in consultation with the Board of the Shared Internal Audit Services approves decisions relating to the appointment and removal of the CAE.</p> <p>This is as provided for in the governance of the Shared Internal Audit Service.</p> <p>This does not represent a significant issue given that there is provision for consultation with partner members in relation to such decisions.</p>	<p>No action proposed.</p>

APPENDIX B – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.1b	<p>Purpose, Authority and Responsibility</p> <p>Does the board (defined as the Audit Committee) seek reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations.</p>	<p>This is a new requirement. Provision for this is made through proposals for management to confirm to the Audit Committee the absence of inappropriate scope or resource limitations, at the point of receiving the Annual Report of the Head of Assurance.</p>	<p>Include recommendation in the Annual Report of the Head of Assurance</p> <p>Head of Assurance June 2013</p>

<p>3.1c</p>	<p>Purpose, Authority and Responsibility Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?</p>	<p>The performance appraisal is carried out by the Deputy Chief Executive of Hertfordshire County Council (HCC)</p> <p>This is not considered a significant issue given that the Deputy Chief Executive is a senior manager within HCC and represents HCC on the SIAS Board thus providing a direct link to partner authorities.</p>	<p>Chief Executive of Hertfordshire County Council to counter-sign the performance appraisal.</p> <p>Chief Executive, HCC March 2014</p> <p>Deputy Chief Executive of HCC will offer opportunity for SIAS Board Chairs to feed in views to inform the performance appraisal January 2014</p>
--------------------	---	--	---

APPENDIX B – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

<p>3.1d</p>	<p>Purpose, Authority and Responsibility</p> <p>Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?</p>	<p>No such feedback is sought at present.</p> <p>This is not considered a significant issue given that there are informal opportunities for Audit Committee Chairs to feedback on SIAS either directly or via Chief Financial Officers.</p>	<p>Head of Assurance to discuss arrangements with the SIAS Board.</p> <p>Head of Assurance</p> <p>June 2013</p> <p>Deputy Chief Executive will offer opportunity for Audit Committee chairs to feed in views to inform the performance appraisal</p> <p>January 2014</p>
--------------------	--	---	---

APPENDIX B – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.3	<p>Proficiency and Due Professional Care</p> <p>Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?</p>	<p>There is sufficient knowledge of the appropriate computer assisted audit techniques. Therefore this is not considered to be a significant issue.</p> <p>However there are opportunities to increase the use of such techniques in the performance of audit activity.</p>	<p>Strategy for computer assisted audit techniques to be developed.</p> <p>Head of Assurance</p> <p>June 2014</p>

APPENDIX B – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

<p>3.4a</p>	<p>Quality Assurance and Improvement Programme Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?</p>	<p>SIAS has a quality and performance framework which contains many elements of the QAIP, and therefore this is not a significant issue.</p> <p>However the SIAS quality and performance framework needs to be reviewed to ensure it meets the full requirements of the QAIP</p>	<p>Review the quality and performance framework to ensure it fully meets the requirements of the QAIP Head of Assurance July 2013</p>
--------------------	--	--	--

APPENDIX B – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
3.4b	<p>Quality Assurance and Improvement Programme Does the CAE maintain the QAIP?</p>	<p>The SIAS quality and performance framework is maintained regularly therefore this is not a significant issue; the review will ensure that ongoing maintenance arrangements are clarified.</p>	<p>Clarify ongoing maintenance arrangements of SIAS QAIP July 2013</p>
3.4c	<p>Quality Assurance and Improvement Programme Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?</p>	<p>The CAE has considered and evidenced this in this document</p>	<p>No further action required.</p>

APPENDIX B – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
4a	<p>Performance Standards</p> <p>Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?</p>	<p>There is no documented note of the approach to other sources of assurance, or mapping exercise, and any work that may be required to place reliance upon these sources</p>	<p>Document the approach to other sources of assurance and the work required to place reliance upon these sources</p> <p>Head of Assurance</p> <p>March 2014</p>
4b	<p>Performance Standards</p> <p>Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?</p>	<p>This is not significant because albeit not documented in the audit plan covering report, discussions about other assurance sources are regularly held as part of the overall audit planning process.</p>	
4.4	<p>Engagement Planning</p> <p>Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?</p>	<p>An exercise to review the consistency of retention periods is underway. However, because SIAS already has a document retention guide this is not considered to be significant.</p>	<p>Complete exercise to review consistency between retention periods.</p> <p>Head of Assurance</p> <p>June 2014</p>

APPENDIX B – AREAS OF NON CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2013 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary	Actions
4.5	<p>Communicating results</p> <p>Does the Annual Report incorporate the results of the QAIP and any associated improvement actions</p>	<p>The Annual Report for 2012/13 reports on the first assessment against the PSIAS and notes that the SIAS quality and improvement framework will be reviewed to incorporate all the requirements of the QAIP. A report on this will be included within the 2013/14 Annual Report.</p>	<p>Include results of QAIP and progress on improvement actions in 2013/14 Annual Report</p>