New Public Sector Internal Audit Standards

Committee: Audit and Standards

Date of meeting: 22 March 2013  Date of report: 15 February 2013

Report by Assistant Chief Executive (Business Support)

1. Object of report

The purpose of this report is to advise the committee on the new Public Sector Internal Audit Standards (PSIAS), which come into force on 1 April 2013; to seek approval to revisions to the Internal Audit Charter and to recommend the approval of the new standards on behalf of the Partnership.

2. Background

The new PSIAS have been developed to provide a consistent standard across the UK public sector and applies to central government, local government and NHS organisations. Following a consultation period in 2012, these new standards have been compiled and reviewed by the Internal Audit Standards Advisory Board (IASAB) which comprised of representatives from the Chartered Institute of Internal Auditors (IIA), the Chartered Institute of Public Finance and Accountancy (CIPFA), HM Treasury, Scottish Government and other relevant standard setters.

The new PSIAS replace the current CIPFA Code of Practice for Internal Audit in Local Government in the UK, last published in 2006.

3. Outline of proposals

3.1 Public Sector Internal Audit Standards (PSIAS)

The objectives of the new PSIAS are to:

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
• establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The new Public Sector Internal Audit Standards (PSIAS) have been issued to all Audit and Standards Committee members.

3.2 Definition of Internal Auditing

The new PSIAS define Internal Auditing as:

‘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’.

3.3 Code of Ethics

In common with other professional bodies, internal auditors in the UK public sector must conform to the Institute of Internal Auditors’ (IIA) ‘Code of Ethics’ principles, as follows:

• integrity;
• objectivity;
• confidentiality; and
• competency.

In addition, internal auditors must have regard to the Seven Principles of Public Life, and the requirements of membership of other professional bodies. The committee are advised that all Audit and Assurance team members hold membership of a relevant professional body.

3.4 Audit and Standards Reporting

The new PSIAS require enhanced reporting to be presented to the Audit and Standards Committee, on the following issues:

• report conformance on the PSIAS in an annual report;
• periodically review the Internal Audit Charter and present it to senior management and the committee for approval; and
• confirm to committee, at least annually, the organisational independence of Internal Audit activity.

3.5 Standards

With reference to the forgoing, the purpose, authority and responsibility of Internal Audit activity have been reviewed and presented for committee approval, in a revised Internal Audit Charter (see Appendix 1).
4. Conclusions

The new Public Sector Internal Audit Standards come into force on the 1st April 2013 to replace the current CIPFA Code of Practice for Internal Audit in Local Government in the UK, last published in 2006.

5. Committee action

The committee is asked to approve the revised Internal Audit Charter and to adopt the new Public Sector Internal Audit Standards on behalf of the Partnership.

6. Consequences

Policy consequences  
In accordance with the new Public Sector Internal Audit Standards from 1 April 2013.

Legal consequences  None
Financial consequences  None
Personnel consequences  None
Social Inclusion consequences  None
Risk consequences  None

Name  Name
Title  Assistant Chief Executive (Business Support)  Title  Chief Executive

For further information, please contact Iain McNicol, Audit and Assurance Manager on 0141 333 3195
Strathclyde Partnership for Transport

Audit and Assurance

Internal Audit Charter

This charter describes the purpose, authority and responsibility of SPT’s Audit and Assurance function.

Definition

The Public Sector Internal Audit Standards (PSIAS) define Internal Audit 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’.

Independence

A professional, independent and objective Internal Audit service is one of the key elements of good governance.

The Audit and Assurance function must be independent in its planning and operation.

The Audit & Assurance Manager has direct access to the ACE (Business Support); (including the reporting of audit outcomes); the Chief Executive and all levels of management. In the event that the Audit & Assurance Manager believes these specific reporting lines are compromised, he has direct access to the Chair of the Audit and Standards Committee.

Standards

Internal Audit staff shall govern themselves by adherence to the Institute of Internal Auditors’ (IIA) ‘Code of Ethics’, the Seven Principles of Public Life and internal auditors own professional bodies’ Code of Ethics.

Quality Assurance and continuous improvement will be monitored by way of post engagement appraisal feedback provided by senior management on the performance of internal audit activity at an individual engagement basis, through periodic self-assessment and external assessment (at least once every 5 years).
Authority

The Audit and Assurance team is granted the authority to:

- have unrestricted access to all Partnership premises;
- have unrestricted access to all assets, correspondence, documents, records and systems (computerised and otherwise);
- have access to all personnel relevant to the performance of engagements;
- receive any information and explanation, considered necessary, concerning any matter under investigation;
- require any Partnership employee to account for cash, stores, and any other authority asset under their control; and
- access records belonging to third parties i.e. contractors and partner organisations, when required (this must be written into all agreements and contracts entered into with third parties).

Internal Auditors will, at all times, act with integrity and take a professional, reliable, independent and innovative approach to their work. Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

When an audit opinion is requested it will be unbiased and based upon the facts available.

Objectives

The Audit and Assurance team provides the following services to the Partnership:

- **Assurance** services are an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes to ensure operations are being conducted in accordance with external regulations, legislation, internal policies and procedures (e.g. financial, performance, compliance, system security engagements, etc.). The provision of assurance services is the primary role for Internal Audit. Assurance engagements form the majority of annual Internal Audit plan.

- **Consulting** services are advisory and related to service activities, the nature and scope of which are agreed with senior departmental management. They are intended to add value and improve governance, risk management and control processes without the internal auditor assuming management responsibility, e.g. advice and guidance. The annual Internal Audit plan includes provision for consulting services.

- **Fraud Prevention and Detection.** Fraud is ‘an illegal act categorised by deceit, concealment or violation of trust’. Frauds are perpetrated by individuals and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.
The Counter Fraud Strategy (including Anti-Fraud and Corruption Policy, Whistle Blowing Policy and Financial Regulations relating to financial irregularity) outlines the Partnership’s commitment to prevent, detect, investigate and report fraud. The annual Internal Audit plan includes provision for fraud-related work to support this strategy.

Managing the risk of fraud and corruption is the responsibility of management; Audit and Assurance will assist management in their effective discharge of this responsibility. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Audit and Assurance does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption.

Any evidence or reasonable suspicion of an irregularity relating to funds, stores, property or records of the Partnership should be reported immediately by the ACE Business Support to the Audit and Assurance Manager. Such irregularity shall be dealt with in accordance with the SPT’s Governance Manual/Defalcation Procedures. It is the responsibility of each Assistant Chief Executive / Director / Head of Service to promote awareness of and adherence to the SPT’s Procedures and Practices.

Audit Scope

The scope of Audit and Assurance encompasses the examination and evaluation of the adequacy and effectiveness of the organisation’s governance, risk management process, system of internal control, and the quality of performance in carrying out assigned responsibilities to achieve the Partnership's strategic objectives; including:

- review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- review the systems established to ensure compliance with policy, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and whether the organisation is in compliance;
- review the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- review and appraise the economy and efficiency of resource allocation;
- review operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned;
- review specific operations at the request of the SPT management or the Audit and Standards Committee, as appropriate;
- monitor and evaluate the effectiveness of the organisation’s risk management arrangements;
- investigate allegations of fraud, bribery and corruption.
**Audit Planning**

Annually, the Audit and Assurance Manager shall submit an Internal Audit Plan for the forthcoming year to the ACE (Business Support) and the Audit and Standards Committee for approval.

The annual Internal Audit Plan will be developed using a risk-based methodology and will be aligned to risk registers and strategic objectives. Consultation with stakeholders including the Strategy Team will also be undertaken in the formulation of the annual Internal Audit Plan.

Any significant deviation from the formally approved plan shall be communicated to the ACE (Business Support) and the Audit and Standards Committee.

**Reporting**

A written report will be prepared and issued by the Audit and Assurance Manager following conclusion of each audit engagement, to the Strategy Team. A summary report will then be presented to the Audit and Standards Committee.

Each report will detail the audit work undertaken, the specific findings and recommendations. Management’s response will outline the agreed action to be taken to address any areas for improvement, identify a lead officer for each recommendation and provide the anticipated timescale to complete each agreed action.

Audit and Assurance will perform a follow-up review on the audit findings and recommendations, (normally six months after the report date) to test implementation performance. The results of follow-up reviews will be presented to the ACE (Business Support) and the Audit and Standards Committee.

An annual Internal Audit opinion and report will be included in the Annual Governance Statement contained in the Partnership’s Financial Statements.

The annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of SPT’s framework of governance, risk management and control.

The annual Internal Audit report must incorporate:

- the Internal Audit opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards (PSIAS) and the results of the quality assurance and improvement programme.
Resources

The resources required to deliver the annual Internal Audit Plan for the forthcoming year shall be presented to the ACE (Business Support) and the Audit and Standards Committee for approval.

Periodic Assessment

The Audit and Assurance Manager will annually assess whether the areas defined in this charter continue to be adequate to enable the Internal Audit activity to accomplish its objectives (i.e. the Internal Audit Plan). The results of this assessment shall be communicated to the ACE (Business Support), the Chief Executive and the Audit and Standards Committee.

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<td>Assistant Chief Executive</td>
<td>(Business Support)</td>
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<td>Chair of the Audit and</td>
<td>Standards Committee</td>
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