

**BRISTOL CITY COUNCIL  
AUDIT COMMITTEE  
17<sup>th</sup> January 2014**

**Report of: Chief Internal Auditor**

**Report Title: Internal Audit Compliance with Public Sector Internal Audit Standards (PSIAS)**

**Ward: Citywide**

**Officer presenting report: Alison Mullis, Chief Internal Auditor(J/S)**

**Contact Telephone Number: 0117 92 22448**

**RECOMMENDATION**

The Audit Committee review and note compliance with the PSIAS and comment on the areas where compliance has not yet been achieved.

The Audit Committee endorse the actions required to ensure compliance including considering their role in the appointment/removal and performance management of the Chief Internal Auditor.

**SUMMARY**

**The significant issues in the report are:**

- Mandatory Public Sector Internal Audit Standards (PSIAS) were introduced and effective from 1 April 2013.
- A summary of the key outcomes from the self- assessment which has been completed to ensure compliance with the new standards.(Paragraph 2)
- Actions identified to correct any areas of non compliance with the standards. (Appendix A )

**Policy**

Public Sector Internal Audit Standards are mandatory from 1 April 2013 and Internal Audit is required to comply with them. This includes the requirement to have an Internal Audit Charter.

**Consultation:**

**Internal:** s151 Officer, Strategic Leadership Team

**External:** None necessary

## **1. Introduction**

- 1.1 With effect from 1<sup>st</sup> April 2013, new Public Sector Internal Audit Standards (PSIAS) have been introduced as mandatory guidance that constitutes the principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for the evaluation of the effectiveness of Internal Audit's performance. These standards have replaced CIPFA's Code of Practice for Internal Audit in Local Government as the mandatory guidance for internal audit in the public sector.
- 1.2 The requirement for an Audit Charter is set out in the PSIAS and as such the Committee have reviewed and agreed the revised Internal Audit Charter, Strategy and Terms of Reference which was considered at the its November 2013 meeting.
- 1.3 A self-assessment has now been completed to ensure compliance with the new standards. The self-assessment identified that Internal Audit's current practices are generally already in compliance with the PSIAS. However, a few specific areas have been identified where arrangements need review to fully comply. These are identified in paragraph 2 below.

## **2. Compliance with PSIAS**

- 2.1 Only a few specific areas were identified where currently Internal Audit arrangements do not fully conform with the PSIAS requirements. These are detailed in Appendix A but significantly in relation to the Audit Committee, the standards require that:
  - 2.1.1 the Committee should approve the decisions relating to the appointment and removal of the Chief Internal Auditor. Currently these decisions are taken by the Service Director: Finance.
  - 2.1.2 the Audit Committee should inform the performance management of the Chief Internal Auditor. The Committee do currently review performance of the Internal Audit Service (formalised in the Committee's Annual report to full Council) and this view is considered by the Service Director: Finance in performance managing the Chief Internal Auditor. However, the need for more structured input, perhaps by way of performance review meetings with the Chief Internal Auditor and a questionnaire, completed by the Chair of the Audit Committee as part of the 360 feedback in the PMDS review of the Chief Internal Auditor should be considered.
- 2.2 The standards also require that the Chief Internal Auditor should report to an organisation level equal to or higher than the corporate management team and must be sufficiently senior and independent to be able to provide credible constructive challenge to senior management and influence the control environment. They also require that the Chief Internal Auditor is performance managed by the Chief Executive Officer. Currently, the Chief Internal Auditor reporting lines are to the Director of Finance, with freedom of access to officers and Members at any level. The corporate re-structure brings with it opportunities to reconsider these arrangements.
- 2.3 Training has been provided to all Internal Audit staff regarding the requirements of the standards.

- 2.4 Arrangements are currently being made for the required external assessment of compliance with the standards via a peer review programme with neighbouring Council Audit Teams which is being planned for early in 2014/15.

### **Other Options Considered**

None necessary as compliance with Public Sector Internal Audit Standards is mandatory.

### **Risk Assessment**

Failure to comply with the Public Sector Internal Audit Standards would attract adverse comment from the Council's external auditors and weaken the effectiveness of Internal Audit.

### **Equalities Impact Assessment**

None necessary for this report

### **Environmental Impact Assessment**

None necessary for this report

### **Legal and Resource Implications**

**Legal** - none sought.

**Resources** - none arising from this report

### **Appendices**

Appendix A – Action Plan to Address Potential Non Compliance with the PSIAS

### **LOCAL GOVERNMENT ACCESS TO INFORMATION**

Background Papers - Public Sector Internal Audit Standards and Local Government Application Note.

**Action Plan to Address Potential Non Compliance with the PSIAS**

<b>PSIAS requirement</b>	<b>Current Arrangement</b>	<b>Proposed Action</b>
<b>Organisational Issues</b>		
The Audit Committee should approve the decisions relating to the appointment and removal of the Chief Internal Auditor.	The Chief Internal Auditor is appointed / removed by the Service Director: Finance. In future this will be with agreement of the City Director.	Senior management to seek endorsement by the Audit Committee of their recommendations regarding the appointment and removal of the Chief Internal Auditor  Amend Committee terms of reference to include this.
The Chief Internal Auditor should be performance managed by the Chief Executive Officer with the Audit Committee feeding into the performance management process.	The Chief Internal Auditor is performance managed by the Service Director: Finance. However Audit Committee review and conclude on effectiveness of Internal Audit overall.	Performance review of Chief Internal Auditor to include feedback from Audit Committee Chair. More regular meetings between the chair of the Audit Committee and the Chief Internal Auditor to facilitate this.
The Chief Internal Auditor should report to an organisation level equal or higher to the corporate management team and must be sufficiently senior and independent to be able to provide credible constructive challenge to senior management and influence the control environment.	The Chief Internal Auditor is line managed by the Service Director: Finance and has an open invitation to attend Strategic Leadership Team. Additionally, the Chief Internal Auditor is permitted to report to senior management or Members at any level if required and is permitted to meet in private with the Audit Committee Chair, the Cabinet Member Finance and/or the Monitoring Officer.	The Corporate restructure provides the opportunity to ensure the reporting line of the Chief Internal Auditor is reviewed to maximise effectiveness going forward.
<b>Internal Audit Management Issues. (Actions required by Chief Internal Auditor)</b>		
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 should be developed.	An annual review of effectiveness, including a review of activity and performance of internal audit, is completed by the Audit Committee. The Internal Audit business plan identifies improvements required to be made. However a formal QAIP which draws all this together is not in place.	Formalise current practice and develop further to provide a comprehensive QAIP going forward. Aim to provide to Audit Committee by September 2014 or before.
A staff rotation policy should be in place to avoid familiarity and potential for lack of objectivity.	No formal staff rotation policy. However staff have been moved between teams as part of the recent set up of a fraud team.	The need for staff rotation and such a policy to be kept under review. With the current levels of organisational change, the opportunity for over familiarity with systems and staff is limited and staff rotation is not an issue.
The Chief Internal Auditor should	To date this has only been	To ensure statement on independence

confirm to the Audit Committee, at least annually, that the internal audit activity is organisationally independent.	reported in the annual report by exception eg where it is felt that independence is threatened.	included in annual report.
The risk based plan should include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources.	Mapping of the Council's statutory responsibilities has been undertaken by Internal Audit during 2013 to identify what other sources of assurance are available.	During 2013/14 this will be further developed to enable integration with the 2014/15 risk based planning process.
The Audit Committee should seek reassurance from management and the Chief Internal Auditor as to whether there are any inappropriate scope or resource limitations.	To date limitations of scope only been reported in the annual report by exception eg where it is felt that scope was inappropriately limited.	Internal Audit to include in future reports a statement on whether there have been any inappropriate scope or resource limitations.
All internal auditors must comply with the Bribery Act 2010.	E-learning training is available and all staff requested to complete.	Monitor completion of training by Audit staff.