
**IMPLEMENTATION OF UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND
AMENDED AUDIT SERVICES' TERMS OF REFERENCE AND STRATEGY**

SUMMARY REPORT

Purpose of the Report

1. To update the Committee on the introduction of a common set of UK Public Sector Internal Audit Standards (PSIAS) and seek approval to resultant refreshed Audit Services' Terms of Reference and Strategy.

Summary

2. New common PSIAS that apply across the whole of the public sector have been introduced with effect from 1st April, 2013. The PSIAS together with a Local Government Application Note now constitute proper practices in relation to the Council's requirement to maintain an adequate and effective system of internal audit in accordance with the Accounts and Audit Regulations 2011.
3. The PSIAS are broadly consistent with the previous CIPFA Code of Practice for Internal Audit in Local Government 2006 and the main developments are outlined in the report.
4. In order to reflect implementation of the revised Standards there is a need to amend Audit Services' existing Terms of Reference and Strategy.

Recommendation

5. It is recommended that the introduction of PSIAS be noted and that Audit Services' amended Terms of Reference and Strategy appended to this report be approved.

Reasons

6. The recommendation is supported to provide the Audit Committee with information to carry out its function and to enable Audit Services to comply with PSIAS.

Paul Wildsmith
Director of Resources

Background Papers

- (i) PSIAS
- (ii) PSIAS Local Government Application Note.
- (iii) Checklist completed for assessing conformance with the PSIAS and the Local Government Application Note.

Brian James: Extension 2140

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Background

7. A professional, independent and objective internal audit service is one of the key elements of good governance in local government.
8. An effective internal audit service should :
 - (a) Understand the whole organisation, its needs and objectives;
 - (b) Understand its position with respect to the organisation's other sources of assurance and plan its work accordingly;
 - (c) Be seen as a catalyst for improvement at the heart of the organisation;
 - (d) Add value and assist the organisation in achieving its objectives; and
 - (e) Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.
9. The foundation of an effective internal audit service is compliance with standards and proper practices.

Standards and Proper Practices

10. The Accounts and Audit Regulations 2011 specifically require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices'.
11. Previously proper practices were those included within the CIPFA Code of Practice for Internal Audit in Local Government 2006.
12. However, CIPFA working with the Chartered Institute of Internal Auditors and others have devised new common PSIAS to apply across the whole of the public sector with effect from 1st April, 2013. The PSIAS together with a Local Government Application Note produced by CIPFA now constitute proper practices in relation to the Accounts and Audit Regulations.

Main Developments

13. The new PSIAS are broadly consistent with the CIPFA Code of Practice in terms of attribute and performance standards although more generic terms are used that have been interpreted for the Darlington situation e.g. the Board is the Audit Committee, the Chief Audit Executive is the Head of Corporate Assurance and the Internal Audit Charter is Audit Services' Terms of Reference.
14. The main changes concern:
 - (a) An updated definition of internal audit that specifically recognises consultancy work;
 - (b) The requirement for an independent external review on the effectiveness of the internal audit service to be carried out every five years; and
 - (c) The performance appraisal of the Head of Corporate Assurance to feature feedback from the Chair of the Audit Committee and the Chief Executive

Audit Services' Terms of Reference and Strategy Document

15. A checklist for assessing conformance with the PSIAS and the Local Government Application Note has been completed with no significant matters for concern identified. However, there is a need to amend Audit Services' Terms of Reference and Strategy to reflect implementation of the revised Standards and incorporate the revised definition of internal audit. The updated documents are attached at **Appendices A and B.**
16. The Terms of Reference establish Audit Services' purpose, scope and authority within the Council and document organisational relationships, audit independence, competence and standards and the audit process.
17. The Strategy complements the Terms of Reference and is a high level statement of how the internal audit service links to the Council's objectives and priorities and how it will be delivered and developed in accordance with the Terms of Reference.

Outcome of Consultation

18. No formal consultation was undertaken in production of this report.