

Public sector internal audit standards: evolution not revolution

Spring 2013

Overview

The Relevant Internal Audit Standard Setters including CIPFA, HM Treasury and Department of Health have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013.

The new standards will encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework, inserting requirements and interpretations of the UK public sector where appropriate and replacing the existing standards in local government, including the CIPFA Code of Practice for Internal Audit in Local Government.

The standards apply to all internal audit service providers, whether in-house, shared service or outsourced.

Purpose

The new standards have been developed to provide coherent and consistent standards for internal audit across the UK public sector.

Objectives

The objectives of the standards 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
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

What are the main issues and changes?

Existing requirements

- **The chief audit executive** – The chief audit executive, previously referred to as the head of audit, must hold a professional qualification (CMIA, CCAB or equivalent) and be suitably experienced.
- **Annual report** – The requirement for the production of an internal audit annual report remains.
- **Risk-based audit plan** – There is still a requirement to produce a risk based audit plan. However, the requirement to produce an audit strategy has been removed and 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 will link to the authority's objectives and priorities.

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.
- **Quality assurance** – The quality of service should be rigorously checked under a quality assurance and improvement programme which requires on-going 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 chief audit executive to include a section on the quality assurance and improvement programme within the internal audit annual report.
- **Internal assessment** – There will be an increase in the level of assessments which will involve monitoring the department's activity and will be in line with the current quality review procedures. Additionally, there will be periodic assessments carried out by other officers of the organisation, who will have sufficient knowledge of internal audit practices.
- **External assessment** – The assessment will need to be performed by qualified and independent assessors or assessment teams that are external to the organisation. They can be undertaken as a full external evaluation or a self-assessment with independent external validation, but it cannot be carried out on a rolling basis.
- **Effective communication** – Standards specify a requirement for "effective communication" between the chief audit executive and the audit committee and there is specific reference to effective communication with the committee chair. In this context "effective communication" refers to the engagement of the committee's membership – and of the chair in particular – in discussions with the chief audit executive about: the authority's risks and assurance requirements; the level of assurance provided; issues of concern raised by audit work undertaken; and the implementation of agreed recommendations and the enhanced assurance arising.

Next steps

CIPFA's local government application note for the new standards, due out in March, will include a full PSIAS checklist.