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CHAPTER ONE

Introduction

- 1.1** A professional, independent and objective internal audit service is one of the key elements of good governance in local government.
- 1.2** An effective internal audit service should:
 - understand the whole organisation, its needs and objectives
 - understand its position with respect to the organisation's other sources of assurance and plan its work accordingly
 - be seen as a catalyst for improvement at the heart of the organisation
 - add value and assist the organisation in achieving its objectives, and
 - be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.
- 1.3** The foundation of an effective internal audit service is compliance with standards and proper practices.
- 1.4** This publication is addressed to heads of internal audit, internal auditors, audit committee members, internal audit contract managers, external auditors and other stakeholders such as chief financial officers and chief executives.

THE UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 1.5** The Relevant Internal Audit Standard Setters¹ have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows:
 - Definition of Internal Auditing
 - Code of Ethics
 - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).
- 1.6** Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

1. The Relevant Internal Audit Standard Setters are HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding foundation trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

- 1.7** The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.
- 1.8** The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace internal auditors' own professional bodies' codes of ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards in Public Life's *Seven Principles of Public Life*.

STATUTORY REQUIREMENTS

- 1.9** The Accounts and Audit (England) Regulations 2011 state that '*A relevant body 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*' (6 (1)).
- 1.10** Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should '*make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*'. CIPFA has defined '*proper administration*' in that it should include '*compliance with the statutory requirements for accounting and internal audit*'.²
- 1.11** The CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* states that the chief financial officer (CFO) must:
- ensure an effective internal audit function is resourced and maintained
 - ensure that the authority has put in place effective arrangements for internal audit of the control environment
 - support the authority's internal audit arrangements, and
 - ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.
- 1.12** The relationship between the chief audit executive and the CFO is therefore of particular importance in local government.

SCOPE AND APPLICABILITY OF THIS APPLICATION NOTE

- 1.13** The PSIAS and this Local Government Application Note (the Application Note) together supersede the 2006 CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* (the 2006 Code). The Application Note has been developed as the sector-specific requirements for local government organisations within the UK Public Sector Internal Audit Framework set out in the following diagram.

2. *Statement on the Role of the Chief Financial Officer in Local Government* (CIPFA, 2010).