



## **AUDIT COMMITTEE – 14TH DECEMBER 2016**

**SUBJECT: PUBLIC SECTOR INTERNAL AUDIT STANDARDS - UPDATE ON INTERNAL AND EXTERNAL ASSESSMENT OF INTERNAL AUDIT SERVICES**

**REPORT BY: INTERNAL AUDIT MANAGER**

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### **1. PURPOSE OF REPORT**

- 1.1 To present the Audit Committee with details of the outcome of the internal self-assessment undertaken by Internal Audit Services against the Public Sector Internal Audit Standards (PSIAS).
- 1.2 To provide an update on the arrangements for the external validation exercise that will be undertaken in March 2017.

### **2. SUMMARY**

- 2.1 The Chartered Institute of Internal Auditors (IIA) Public Sector Internal Audit Standards (PSIAS) require that both internal and external assessments are undertaken periodically with the external assessment being undertaken at least every five years.
- 2.2 This report provides the Audit Committee with details of the key issues arising from the recently completed self-assessment and an update on arrangements for a peer review approach to external assessment.

### **3. LINKS TO STRATEGY**

- 3.1 The work of Internal Audit Services provides assurance on the robustness of internal controls and the corporate governance arrangements operating within the Authority and identifies areas for improvement. Strong corporate governance arrangements are an essential element of ensuring that the Council's key priorities are effectively delivered and this in turn contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -
  - A prosperous Wales.
  - A resilient Wales.
  - A healthier Wales.
  - A more equal Wales.
  - A Wales of cohesive communities.
  - A Wales of vibrant culture and thriving Welsh Language.
  - A globally responsible Wales.

## **4. THE REPORT**

- 4.1 The Public Sector Internal Audit Standards (PSIAS) came into force on the 1<sup>st</sup> April 2013 and require that both internal and external assessments are undertaken periodically to evaluate compliance with the Definition of Internal Auditing, the Code of Ethics and the Standards. The external assessment must be undertaken at least once every five years.
- 4.2 In order to keep costs to a minimum, an approach to external assessment has been adopted by Welsh Chief Internal Auditors whereby all participating Local Authorities have agreed to undertake a peer review of one other Authority. As part of this process Caerphilly CBC's Internal Audit Section will be reviewed by Monmouthshire County Council's Internal Audit Manager in March 2017. Caerphilly CBC's Internal Audit Manager will undertake a review of Rhondda Cynon Taff CBC. This approach has been accepted by the Wales Audit Office (WAO) and by our current external auditor, Grant Thornton.
- 4.3 The review itself is intended to be an independent external validation of a comprehensive internal self-assessment undertaken against the requirements of the Standards. In preparation for the scheduled external assessment a formal detailed internal assessment has been completed using the Chartered Institute of Public Finance & Accountancy (CIPFA) recommended checklist. The completed checklist along with an evidence file will be used to form the main element of the external review.
- 4.4 The process of undertaking the internal review has highlighted a number of actions for consideration as summarised in Appendix 1. However, the overall outcome is that the main areas in the Standards are well covered and no fundamental issues remain outstanding. Arriving at this position is partly due to the changes made as a result of the previous Corporate Governance Inspections and the self-evaluation/business planning process adopted throughout the Authority.
- 4.5 The completed self-assessment documentation has been reviewed by the Interim Head of Corporate Finance and actions agreed as requiring attention will be addressed in the period leading up to the external assessment.
- 4.6 The Audit Committee will receive a further report once the external peer review process has been completed.

## **5. WELL-BEING OF FUTURE GENERATIONS**

- 5.1 An effective Internal Audit Service supports strong corporate governance arrangements which are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

## **6. EQUALITIES IMPLICATIONS**

- 6.1 This report is for information purposes, so the Council's Equalities Impact Assessment (EqIA) process does not need to be applied.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 There are no direct financial implications arising from this report.

## **8. PERSONNEL IMPLICATIONS**

- 8.1 There are no direct personnel implications arising from this report.

## **9. CONSULTATIONS**

9.1 There are no consultation responses that have not been included in this report.

## **10. RECOMMENDATIONS**

10.1 The Audit Committee is asked: -

10.1.1 To note the actions arising from the internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) as detailed in Appendix 1.

10.1.2 To note the arrangements for the external peer review of compliance with the Standards.

10.1.3 To note that a further report will be prepared for the Audit Committee once the external peer review process has been completed.

## **11. REASONS FOR THE RECOMMENDATIONS**

11.1 To ensure that the Audit Committee is briefed on progress with both the internal and external assessments of compliance with the requirements of the Public Sector Internal Audit Standards (PSIAS).

## **12. STATUTORY POWER**

12.1 The Local Government Act 1972.

Author: Richard Harris, Internal Audit Manager

E-mail: [harrirm@caerphilly.gov.uk](mailto:harrirm@caerphilly.gov.uk) Tel: 01443 864044

Consultees: Nicole Scammell, Acting Director of Corporate Services & Section 151 Officer  
Stephen Harris, Interim Head of Corporate Finance

Appendices:

Appendix 1 PSIAS Self-Assessment - Summary of Outcome

## APPENDIX 1 - PSIAS SELF-ASSESSMENT - SUMMARY OF OUTCOME

ATTRIBUTE STANDARDS			
Requirement	Assessment		Actions for Consideration
<p><b>1000 Purpose, authority and responsibility</b> The purpose, authority and responsibility of the Internal Audit activity must be formally defined in an internal audit charter, consistent with the definition of internal auditing, the code of ethics and the standards. The charter must be reviewed periodically and approved by the Audit Committee.</p>	<p>Internal audit arrangements are derived from the Council's constitution and specifically the Financial Regulations. These arrangements are reinforced within the Internal Audit Charter approved and adopted by the Audit Committee in September 2014.</p>		<ul style="list-style-type: none"> <li>• Add an explanation to the Charter that references the PSIAS use of the term board and senior management and then interpret this as meaning the Audit Committee and the S151 Officer.</li> <li>• Add additional wording into the Audit Charter to explain the notification requirement in respect of suspected fraud or irregularities. May also need to be included in Financial Regulations to reach a wider audience.</li> <li>• Add wording into the Audit Charter relating to arrangements to avoid conflicts of interest arising in respect of non-audit duties.</li> <li>• Strengthen the Audit Charter by specifying a requirement to review the charter at an agreed interval.</li> </ul>
<p><b>1100 Independence and objectivity</b> The internal audit activity must be independent and internal auditors must be objective in performing their work.</p>	<p>Appropriate structures and reporting arrangements are in place. The Internal Audit Manager has direct access to the Section 151 Officer, the Chief Executive and the Chair of the Audit Committee. Internal Audit independence is maintained and no operational responsibilities are undertaken. Internal Audit staff comply with the Council's Code of Conduct and declare any conflicts of interest that could impinge on the work of the service. Any threats to auditor's objectivity are raised as identified and appropriate avoidance measures taken.</p>		<ul style="list-style-type: none"> <li>• Add references to the organisational independence of the Internal Audit Service in the Annual Audit Plan and outturn report.</li> <li>• Involve the Audit Committee in any proposed structural reviews of the Internal Audit Service.</li> </ul>

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			<ul style="list-style-type: none"> <li>• Invite feedback from the CEO in the performance appraisal of the Internal Audit Manager.</li> <li>• Obtain feedback from the Chair of the Audit Committee as part of the performance appraisal of the Internal Audit Manager.</li> <li>• Staff to complete a declaration confirming that they understand the independent role of Internal Audit and disclose any potential conflicts of interest.</li> </ul>
<p><b>1200 Proficiency and due professional care</b> Engagements must be performed with proficiency and due professional care.</p>	<p>Staff are aware of the Public Sector Internal Audit Standards (PSIAS) and the Code of Ethics. Staff are appropriately allocated assignments based on knowledge, experience and personal attributes. Ongoing training and support is provided to continually develop the skills and competencies of audit staff and the current Internal Audit Team is knowledgeable and experienced. The Internal Audit Manager is professionally qualified and suitably experienced.</p>		<ul style="list-style-type: none"> <li>• The Internal Audit Manager needs to ensure that all job descriptions are up-to-date and in the agreed corporate format.</li> <li>• Performance Development Reviews (PDRs) must be undertaken for all staff on an annual basis.</li> </ul>
<p><b>1300 Quality assurance and improvement programme</b> The Head of Audit must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.</p>	<p>Internal Audit Services undertakes a self-evaluation which feeds into the service improvement planning process. Performance measurement and benchmarking is undertaken to inform the improvement process. Individual audit assignments are monitored throughout the process with reports reviewed for quality and consistency purposes prior to being issued to clients. A post-audit evaluation process is in place to inform the annual self-evaluation.</p>		<ul style="list-style-type: none"> <li>• The constituent parts of the quality and improvement programme should be formalised and written into the audit manual.</li> </ul>

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<b>PERFORMANCE STANDARDS</b>			
<b>Requirement</b>	<b>Assessment</b>		<b>Actions for Consideration</b>
<p><b>2000 Managing the internal audit activity</b> The Head of Audit must effectively manage the internal audit activity to ensure it adds value to the organisation</p>	<p>The service has a good understanding of the needs and objectives of the whole organisation and understands its position in the assurance framework. It aspires to be innovative and challenging as well as being a catalyst for change. A risk based operational plan is developed in consultation with Members, Directors, Heads of Service and staff. The plan is reported to and approved by the Audit Committee prior to the start of the financial year. Processes and procedures to guide internal audit activity in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) are set out in an Audit Manual which is available to all staff.</p>		<ul style="list-style-type: none"> <li>• The annual audit plan report needs to clearly show links to organisational objectives and priorities.</li> <li>• Future audit planning work needs to include a review of the Council's assurance framework to determine what assurances can be gained from other sources.</li> </ul>
<p><b>2100 Nature of work</b> Internal audit must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach</p>	<p>The internal audit service is a key player in promoting risk management, governance and internal control throughout the authority and the Head of Audit is a key contributor and facilitator of the Authority's corporate governance review process. The risk based plan is developed and assignments performed in a way that allows for evaluation and improvement of governance, risk management and control processes, using a systematic and disciplined approach. Implementation of recommendations made is monitored.</p>		<ul style="list-style-type: none"> <li>• As part of the response to the WAO report on its review of arrangements within Caerphilly CBC to address external audit, inspection and regulation recommendations and proposals for improvement, a Panel will be established to review Directorate Risk Registers to inform the annual audit planning process.</li> </ul>
<p><b>2200 Engagement planning</b> Internal auditors must develop and document a plan for each assignment, including the engagement's objectives, scope, timing and resource allocations</p>	<p>The Audit Manual provides guidance on the planning of audit assignments to ensure audit briefs covering objectives; scope, format etc. are consistently included.</p>		
<p><b>2300 Performing the engagement</b> Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives</p>	<p>The Audit Manual provides guidance on the requirements for performing each audit assignment which assists with consistency and quality. Each audit assignment is monitored via supervision and reports are quality reviewed before issue.</p>		

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<p><b>2400 Communicating results</b> Internal auditors must communicate the results of engagements</p>	<p>Audit reports are initially issued at draft stage for factual accuracy purposes and to obtain agreement of the recommendations and an action plan. This is facilitated through the use of clearance meetings which guide the client through the findings and recommendations and help to resolve any misunderstandings or misconceptions. A final report is always issued to management. An annual report and opinion is produced for the Audit Committee which provides a summarised update of the audit coverage and the overall findings from the periods work.</p>		<ul style="list-style-type: none"> <li>Internal audit reports and the annual outturn report to the Audit Committee could be amended to include a statement on conformance with the PSIAS.</li> </ul>
<p><b>2500 Monitoring progress</b> The Head of Audit must establish and maintain a system to monitor the disposition of results communicated to management</p>	<p>An internal follow-up process is maintained to monitor that key recommendations agreed by management are actioned. For educational establishments a follow-up review is undertaken where reports have an overall opinion of 'in need of improvement'.</p>		
<p><b>2600 Communication of the acceptance of risks</b> When the Head of Audit concludes that management has accepted a level of risk that may be unacceptable to the organisation, the Head of Audit must discuss the matter with senior management. If the Head of Audit determines that the matter has not been resolved the Head of Audit must communicate the matter to the Audit Committee</p>	<p>If Internal Audit considers that a level of inappropriate risk is being accepted by management it would be discussed with the Section 151 Officer and where appropriate escalated to the Audit Committee. In respect of schools when there is deemed to be a lack of progress in addressing agreed recommendations the Head of Audit is able to attend a governing body meeting to discuss the risks identified and need for improvement.</p>		