

**SUBJECT: INTERNAL AUDIT SECTION  
Public Sector Internal Audit Standards  
(PSIAS) External Review 2018**

**DIRECTORATE: Resources  
MEETING: Audit Committee  
DATE: 13<sup>th</sup> September 2018  
DIVISION/WARDS AFFECTED: All**

## **1. PURPOSE**

To inform members of the Council's Audit Committee of the outcome of the external assessment undertaken to ensure compliance with the PSIAS.

## **2. RECOMMENDATION(S)**

- (i) That the Committee note the report
- (ii) The Audit Committee be updated on progress in fulfilling the action plan.

## **3. KEY ISSUES**

- 3.1 The Public Sector Internal Audit Standards (PSIAS) came into force in April 2013 (updated March 2017) and introduced a requirement for an external assessment of all internal audit services, which must be conducted at least once every 5 years by a qualified, independent reviewer from outside of the organisation.
- 3.2 The two possible approaches to external assessments outlined in the Standards included either a full external assessment or an internal self assessment which is validated by an external reviewer. In order to facilitate this process of external validation a peer review group was established by the Welsh Chief Auditors' Group.
- 3.3 Monmouthshire CC elected to adopt the self assessment approach with an external validation undertaken by a suitably qualified and experienced external assessor with the required level of knowledge of the application of the PSIAS.

- 3.4 Monmouthshire's peer review was undertaken in Q4 of 2017/18 by the Head of Financial Services, Neath Port Talbot CBC; he was also the Head of Internal Audit of that organisation. He was provided with all of the self assessment information and associated documents / evidence.
- 3.5 The results of the peer review assessment and external validation process can be found in Appendix 1 in the form of the final assessment report.
- 3.6 In summary, the peer review concluded that Monmouthshire Internal Audit team generally conforms with the PSIAS and the impact of non-conformance is not considered to be significant.
- 3.7 Whilst no significant deviations from the Standards were noted, some areas of improvement were highlighted as part of the review and these are shown in the action plan at the end of the report. This will be monitored to assess the progress of improvements.

#### **4. REASONS**

- 4.1 As internal audit sections of all UK organisations now need to comply with the PSIAS, in order to demonstrate compliance an external validation of the self assessment was undertaken by an independent and appropriately qualified reviewer. This itself, is a requirement of the PSIAS.

#### **5. RESOURCE IMPLICATIONS**

None.

#### **6. CONSULTEES**

Chief Officer Resources  
Chair of Audit Committee

#### **Results of Consultation:**

N/A

#### **7. BACKGROUND PAPERS**

Operational

#### **8. AUTHORS AND CONTACT DETAILS**

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**Public Sector Internal Audit Standards (PSIAS)**  
**External Assessment of Monmouthshire County Council**  
**16<sup>th</sup> May 2018**  
**FINAL REPORT**

Date of Assessment Fieldwork	February & March 2018
Draft Report Issued	18 <sup>th</sup> March 2018
Final Report Issued	16 <sup>th</sup> May 2018
Report Status	Final
Report Author	David Rees, Head of Financial Services Neath Port Talbot CBC
Issued to	Philip White, Chair of Audit Committee, Peter Davies, Acting Section 151 Officer, Andrew Wathan, Chief Internal Auditor

## **1 Introduction**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) became effective from 1<sup>st</sup> April 2013 and introduced a requirement for an external assessment of all internal audit services, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.
- 1.2 The two possible approaches to external assessments outlined in the standard included either a full external assessment or an internal self-assessment which is validated by an external reviewer.
- 1.3 Members of the Welsh Chief Internal Auditors Group elected to adopt the self-assessment approach, with another member of the Group undertaking the validation.

## **2 Purpose**

- 2.1 The purpose of the external assessment is to help improve delivery of the audit service to an organisation. The assessment is designed to be a supportive process that identifies opportunities for development which ultimately help to enhance the value of the audit function to the authority.

## **3 Results**

- 3.1 An external validation of the self-assessment completed by the Chief Internal Auditor of Monmouthshire County Council was completed by the Head of Internal Audit of Neath Port Talbot County Borough Council during February and March 2018.
- 3.2 The validation included a review of the CIPFA produced self-assessment checklist and relevant documents provided in advance of a visit held in April 2018. During the visit further sample documentation was reviewed and discussions were held with the Chief Internal Auditor and Audit Manager.
- 3.3 The views of the Acting Section 151 Officer and Chair of Audit Committee were sought via email.
- 3.5 In summary there are 334 best practice lines within the PSIAS. A self-assessment review of conformance against the PSIAS was undertaken by the Chief Internal Auditor.
- 3.6 Following the validation by the Neath Port Talbot County Borough Council Head of Internal Audit the Internal Audit Section of Monmouthshire County Council is currently conforming, as at 31<sup>st</sup> March 2018, to 265 of the requirements, with partial conformance with 5, non- conformance with 27 and 37 considered to be not applicable. The table below summarises the outcome.

Standard	Conformance				
	Y	N	P	N/A	Total
1. Definition of Audit Risk	3				3
2. Code of Ethics	12	1			13
3. Attribute Standards					
1000. Purpose, Authority and Responsibility	20	2		1	23
1100. Independence and Objectivity	20	8	1		29
1200. Proficiency and Due Professional Care	17		1	3	21
1300. Quality Assurance and Improvement Programme	16	3	2	6	27
4. Performance Standards					
2000. Managing the Internal Audit Activity	37	5	1	3	46
2100. Nature of Work	24	4		3	31
2200. Engagement Planning	46			12	58
2300. Performing the Engagement	22				22
2400. Communicating Results	43	4		8	55
2500. Monitoring Progress	3			1	4
2600. Communicating the Acceptance of Risks	2				2
<b>Total</b>	<b>265</b>	<b>27</b>	<b>5</b>	<b>37</b>	<b>334</b>

3.7 The main areas of non-compliance or partial compliance are in respect of the following

### **Code of Ethics**

3.7.1 The staff within the Internal Audit Section do not make annual declarations in respect of any outside interests, any gifts or hospital offered/accepted/declined nor do staff sign a declaration confirming that they are aware of the IIA Code of Ethics and conform to its principles.

### **Standard 1000: Purpose, Authority and Responsibility**

3.7.1 The Standards require that the Internal Audit Charter recognises the mandatory nature of the PSIAS. The Internal Audit Charter for Monmouthshire County Council does not state that compliance with the Standards is mandatory.

3.7.2 At 4.6 and 5.2 the Charter states that Internal Audit staff make annual declarations. At the time of the review there were no declarations in place.

- 3.7.3 The Internal Audit Charter does not give sufficient detail in respect of how the non-audit work undertaken by the service is managed to maintain the service's independence.

#### **Standard 1100: Independence and Objectivity**

- 3.7.4 The Chief Internal Auditor is not employed directly by Monmouthshire County Council instead his services are procured directly from his employer Newport City Council. The Chair of Audit Committee is satisfied with this arrangement and does not feel it is to the detriment of Monmouthshire County Council this is a view shared by the Acting Section 151 Officer. There is currently no job description in place for the Chief Internal Auditor however the agreement between the two authorities clearly outlines what is expected of him.
- 3.7.5 The Standards expect the Chair of the Audit Committee to have an input into the internal audit budget and resources and to approve decisions relating to the appointment and removal of the Chief Internal Auditor. As is the case with most local authorities this is not a function of the Audit Committee. Similarly the standards expect that the Chief Executive and the Chair of Audit Committee have an input into the performance appraisal of the Chief Internal Auditor, this does not happen at Monmouthshire nor is it routinely done in most local authorities.

#### **Standard 1300: Quality Assurance and Improvement Programme**

- 3.7.6 The Standards require that a Quality Assurance and Improvement Programme (QAIP) is developed which covers all aspects of the internal audit activity and enables conformance with all aspects of the Standards to be evaluated. The results of this QAIP are to be reported to Senior Management and the Audit Committee including any instances of non-conformance with elements of the PSIAS. The external review found that there was no single document available which satisfied the standard's requirement for a formal QAIP to be in place.
- 3.7.7 The current self-assessment undertaken annually only partially meets the standard. A revised annual assessment should be developed to fully meet the standard.

#### **Standard 2000: Managing the Internal Audit Activity**

- 3.7.8 Whilst the draft audit plan references higher level plans such as the Corporate & Improvement Plans there are no formal links to these documents and therefore to the Council's strategic objectives and priorities.
- 3.7.9. The Standards state that the internal audit plan should be based on a documented risk assessment. There was no documentary evidence to support the risk ratings applied to the audits contained within the Audit Plan.
- 3.7.10 The Standards indicate that an assurance mapping exercise should be undertaken as part of identifying and determining the approach to using other sources of assurance. This Standard is partially met as the Chief Internal Auditor confirmed reliance is placed on other sources of work such as the Wales Audit Office. However, no formal assurance mapping document has been developed.

#### **Standard 2400: Communicating Results**

- 3.7.11 It was noted during the review that there were on occasions a delay in the review process which led to reports not being issued in a timely manner.
- 3.7.12 The standards require that the annual audit report incorporates a statement on conformance with the PSIAS, the results of the QAIP and details of progress against any improvement plans resulting from the QIAP. The annual report was found not to contain all these elements at this time, therefore it is deemed that this standard is only partially met.

## **4. Overall Opinion**

- 4.1 The Quality Assessment Manual produced by the Institute of Internal Auditors suggests the following ratings to indicate the level of conformance with the PSIAS

**Generally Conforms** – which means that the internal audit activity has a charter, policies and processes that are judged to be in conformance with the standards

**Partially Conforms** – which means that deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner

**Does Not Conform** – which means that deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities



- 4.2 The overall opinion following the external validation of the Monmouthshire Internal Audit Section is that it **Generally Conforms** with the PSIAS. Some opportunities for further improvement have been identified as shown in this report but none of the items of partial or non-conformance are considered to be a significant failure to meet the Standards
- 4.3 Any non-conformance with the Standards and the impact must be disclosed to senior management and the Audit Committee. The Chief Internal Auditor has agreed that an action plan will be drafted to respond to the areas of partial compliance and non-compliance for consideration by the Audit Committee.

**MONMOUTHSIRE COUNTY COUNCIL PSIAS EXTERNAL VALIDATION ACTION PLAN  
2017/18**

Ref	Standard	Action to address non or partial compliance	Who is responsible for implementing the action	Timescale
	<b>Code of Ethics</b>			
Rec 1	Do staff make disclosures expected by the law and the profession?	Declarations/disclosures should be made on an annual basis to ensure compliance with the Code of Ethics and Standard 1100 Independence & Objectivity. Until such times as the disclosures are in place 4.6 & 5.2 of the Charter should be deleted.	Chief Internal Auditor  Appropriate declarations will be sought from IA staff to ensure compliance which will then link with the IA Charter	September 2018
	<b>1000 Purpose, Authority and Responsibility</b>			
Rec 2	Does the Internal Audit Charter recognise the mandatory nature of the PSIAS?	The Internal Audit Charter should state that compliance with the PSIAS is mandatory	Chief Internal Auditor  The IA Charter will be updated accordingly	September 2018
Rec 3	Does the Internal Audit Charter include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?	The Internal Audit Charter should clearly outline the arrangements in place which maintain/address the independence of the section when undertaking non-audit functions.	Chief Internal Auditor  The IA Charter will be updated accordingly	September 2018
	<b>1100 Organisational Independence</b>			
Rec 4	Does the Chief Executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Chief Internal Auditor?	Consideration should be given to the Chief Executive having a role in performance appraisal of the Chief Internal Auditor	Chief Internal Auditor / Head of Finance	December 2018
Rec 5	Is feedback sought from the Chair of the Audit Committee for the Chief Internal Auditor's performance appraisal?	Feedback should be sought from the Chair of the Audit Committee as part of the Chief Internal Auditor's performance appraisal.	Chief Internal Auditor / Head of Finance	December 2018
	<b>1300 Quality Assurance and Improvement Programme</b>			
Rec 6	Has the Chief Internal Auditor developed a Quality Assurance and Improvement Programme that covers all aspects of	A formal Quality Assurance and Improvement Programme document should be developed and reported to the Audit Committee	Chief Internal Auditor  Consideration will be given to collating existing	December 2018

	the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?		mechanisms for improving the way in which IA delivers its service into one document	
7	Does the organisation conduct a review of the effectiveness of its internal audit at least annually?	The current annual self-assessment should be developed to fully meet the standard.	Chief Internal Auditor  This will be done	March 2019
	<b>2000 Managing the Internal Audit Activity</b>			
Rec 8	Does the risk-based plan incorporate or is linked to a strategic or high-level statement of: a) How the Internal audit service will be delivered? b) How the internal audit service will be developed in accordance with the internal audit charter? c) How the internal audit service links to organisational objectives and priorities?	The Chief Internal Auditor should develop a strategic or high-level statement as part of the preparation of the risk-based plan.	Chief Internal Auditor  This is incorporated within the annual audit plan taken to Audit Committee but consideration will be given to providing a separate flow diagram	March 2019
Rec 9	Has the Chief Internal Auditor carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	The Chief Internal Auditor should complete a formal assurance mapping exercise to identify where reliance can be placed on assurance provided by other sources	Chief Internal Auditor  Consideration will be given to the appropriateness and relevance of assurance mapping in future audit plans	March 2019
Rec 10	Is the internal audit activity's plan of engagements based on a documented risk assessment?	A clear methodology for determining the risk ratings applied to audits contained within the plan should be formulated and retained to support the rating applied.	Chief Internal Auditor  This will always be subjective based on Audit Management's knowledge and experience but will be consistent as in previous years. Consideration will be given to clearly documenting this process	March 2019
	<b>2400</b>			

	<b>Communicating Results</b>			
Rec 11	Quality of communications, are communications g) timely?	Reviews of completed audits should be prioritised to ensure that draft and final reports are issued as timely as possible to ensure their effectiveness.	Chief Internal Auditor  This will be done moving forward	April 2018
Rec 12	Does the annual report incorporate the following: g) A statement on conformance with the PSIAS? h) The results of the QAIP? i) Progress against any improvement plans resulting from the QAIP?	The annual report of the Chief Internal Auditor should be expanded to include a statement on Monmouthshire's conformance with the PSIAS. The report should advise recipients on the results of Internal Audit's QAIP and progress made against any improvement plans resulting from it.	Chief Internal Auditor  Following the external validation of the internal self assessment and the development of the QAIP this will be done from 2018/19 onwards	June 2019