

SUBJECT: INTERNAL AUDIT SECTION
External Quality Assessment 2024

DIRECTORATE: Resources

MEETING: Governance & Audit Committee

DATE: April 2024

DIVISION/WARDS AFFECTED: All

1. PURPOSE

To inform members of the Council's Governance & Audit Committee of the outcome of the External Quality Assessment (EQA) of the Internal Audit team undertaken to ensure compliance with the Public Sector Internal Audit Standards (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 then 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 This approach was used for the last EQA completed of the Internal Audit team which was issued on 16th May 2018. The validation was

completed by the Head of Financial Services, Neath Port Talbot CBC; who was also the Head of Internal Audit of that organisation. Their report was presented to the Audit Committee in September 2018.

- 3.5 As detailed above, EQA's are required at least once every 5 year period and therefore should have been completed by May 2023. Given the resignation of the previous Chief Internal Auditor (April 2023) and the new Acting Chief Internal Auditor coming into post later that same month, it was agreed that the EQA would be delayed until Quarter 4 of the 2023/24 financial year to allow for an honest evaluation and validation process to take place.

4. REASONS

- 4.1 Monmouthshire's peer review was undertaken in Q4 of the 2023/24 financial year by the Acting Internal Audit Manager (Head of Internal Audit), Caerphilly County Borough Council. They were provided with all of the self-assessment information and associated documents / evidence.
- 4.2 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.
- 4.3 In summary, the peer review concluded that Monmouthshire Internal Audit team '**Generally Conforms with the PSIAS**' and the impact of non-conformance was not considered to be significant. The definitions required to be used within the EQA can be located within Appendix 1 (Appendix C – Glossary).
- 4.4 There are 305 components which make up the PSIAS. A review of conformance against the PSIAS was undertaken during February 2024. The Internal Audit Service of Monmouthshire County Council was determined to be currently conforming to the majority of the requirements, with one area of non/partial conformance and 3 actions required to strengthen existing conformance.
- 4.5 The point of non/partial conformance was that this EQA was delayed past it's May 2023 due date (reasoning included above within 3.5). This was deemed minor by the assessor and not material to overall assessment of conformance with the standard. The required action is to ensure that this report is presented to the Governance & Audit Committee.

Standard	Action to Address Non / Partial Compliance	Responsible Officer	Timescale
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1312 External Assessment	External Assessment to be completed and reported to the Governance & Audit Committee	Acting Chief Internal Auditor	April 2024
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4.6 There were 3 areas for consideration which would further enhance or strengthen conformance with the PSIAS. These were:-

Standard	Action to Strengthen Compliance	Responsible Officer	Timescale
Core Principles for the Professional Practice of Internal Auditing	Update IA Charter based on the revised Global IIA Standards ahead of implementation WEF January 2025. Include a direct reference to the Seven Principles of Public Life in the Charter & Audit Manual	Acting Chief Internal Auditor	Review of IA Charter during 2024/25
Core Principles for the Professional Practice of Internal Auditing	Include a direct reference to the Local Code of Corporate Governance in the Charter & Audit Manual	Acting Chief Internal Auditor	Review of IA Charter during 2024/25
1230 - Continuing Professional Development	Implement a standardised CPD record across the team.	Acting Chief Internal Auditor	January 2024 (Already Implemented)

4.7 Monmouthshire County Council Internal Audit had already identified these as part of their self-assessment and agreed the actions needed to strengthen arrangements where conformance was already being achieved.

5. RESOURCE IMPLICATIONS

None.

6. CONSULTEES

Deputy Chief Executive & Chief Officer Resources (S151 Officer)

Results of Consultation:

N/A

7. BACKGROUND PAPERS

Public Sector Internal Audit Standards

8. AUTHORS AND CONTACT DETAILS

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Caerphilly County Borough Council

Public Sector Internal Audit Standards (PSIAS)

External Assessment of Monmouthshire County Council

Welsh Chief Internal Auditor Group

WCIAG

Date of Assessment Fieldwork	February 2024
Date of Report Issue	7/03/2024
Report Status	Final
Report Author	D Gronow ACA, Acting Internal Audit Manager, Caerphilly County Borough Council
Issued to	Jan Furtek Acting Chief Internal Auditor, Monmouthshire County Council

1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) became effective from 1st April 2013 (updated 2017) 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 Auditor Group (WCIAG) elected to adopt the self-assessment approach, with another member of the WCIAG 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 The assessment involved a validation of a self-assessment of conformance against the PSIAS undertaken by the Acting Internal Audit Manager Caerphilly County Borough Council during February 2024 who is a qualified accountant and an associate member of the Institute of Internal Auditors.
- 3.2 The assessment comprised a desktop review of the self-assessment and a suite of supporting documentary evidence. In addition, a discussion was held with the Acting Chief Internal Auditor to gain insight and views on the operation of the Internal Audit Team and adherence to the Standards.
- 3.3 There are 305 best practice lines within the PSIAS. A review of conformance against the PSIAS was undertaken during the period February 2024. The Internal Audit Service of Monmouthshire County Council is determined to be currently conforming to the majority of the requirements, with one partial conformance and 3 actions required to strengthen existing conformance.
- 3.4 The table below summarises the outcome of the assessment.

Standard	Conformance			Actions to strengthen
	Yes	Partly	Total	
1. Mission of Internal Audit	1		1	
2. Definition of Audit Risk	2		2	
3. Core Principles	10		10	2
4. Code of Ethics	13		13	
5. Attribute Standards				
Purpose, Authority and Responsibility (1000)	20		20	
Objectivity and Independence (1100)	29		29	
Proficiency and Due Professional	21		21	1

Standard	Conformance			Actions to strengthen
	Yes	Partly	Total	
Care (1200)				
Quality Assurance and Improvement Programme (1300)	23	1	24	
6. Performance Standards				
Managing the Internal Audit Activity (2000)	37		37	
Nature of Work (2100)	28		28	
Engagement Planning (2200)	52		52	
Performing the Engagement (2300)	15		15	
Communicating Results (2400)	47		47	
Monitoring Progress (2500)	4		4	
Communicating the Acceptance of Risks (2600)	2		2	
Total	305	0	305	3

3.5 This report contains three appendices as follows:

Appendix A	Action Plan to address non / partial conformance areas
Appendix B	Enhancing proposals for areas where conformance is already achieved
Appendix C	Completed checklist for assessing conformance with the PSIAS and Local Government Application Note (LGAN)

- 3.6 There was 1 area of partial conformance and no issues of non-conformance. The point of non-conformance that the Governance and Audit Committee are yet to receive this report. This is deemed minor and not material to overall assessment of conformance with the standard. The required action is to ensure that this report is presented to the Governance & Audit Committee.
- 3.7 There were 3 areas for consideration which would further enhance or strengthen conformance with the PSIAS. These are:-
- Update IA Charter based on the revised Global IIA Standards ahead of implementation WEF January 2025, and to include a reference to the the Seven Principles of Public Life in the Charter & Audit Manual.
 - Include a direct reference to the Local Code of Corporate Governance in the Charter & Audit Manual
 - Implement a standardised CPD record across the team.
- 3.8 Monmouthshire County Council Internal Audit had already identified these as part of their self-assessment and agreed the actions needed to strengthen arrangements where conformance was already being achieved. A more detailed explanation can be seen in Appendices A and B.
- Impact of non-compliance and steps to be taken to ensure compliance
- 3.9. Any non-conformance with the Standards and the impact must be disclosed to senior management and the Governance and Audit Committee. The presentation of this report will achieve this.
- 3.10 In terms of the review that has been undertaken, the impact of the non-conformance is not relevant or material and in the opinion of the reviewer the Internal Audit Service of Monmouthshire County Council generally conforms with the Standards in all significant areas and operates independently and objectively.
- 3.11 An Action Plan has been devised by the Acting Chief Internal Auditor to address the areas of non compliance and this is included at Appendix A. These actions have already identified a responsible officer (Acting Chief Internal Auditor) and a time scale.
- 3.12 An Action Plan has been devised by the Acting Chief Internal Auditor to address the areas of that are in conformance but require strengthening and this is included at Appendix B. These actions have already identified a responsible officer (Acting Chief Internal Auditor) and a time scale.
- 3.13 Appendix C shows the detailed checklist used in this process.

Action Plan to address non / partial conformance areas

Standard	Action to address non / partial compliance	Who is responsible for implementing the action	Timescale
1312 External Assessment	External Assessment to be completed and reported to the Governance & Audit Committee	Acting Chief Internal Auditor	2023/24 financial year.

Identified Actions for strengthening arrangements where conformance is already achieved

Appendix B

Standard	Action to address non / partial compliance	Who is responsible for implementing the action	Timescale
Core Principles for the Professional Practice of Internal Auditing	<p>Update IA Charter based on the revised Global IIA Standards ahead of implementation WEF January 2025.</p> <p>Include a direct reference to the Seven Principles of Public Life in the Charter & Audit Manual</p>	Acting Chief Internal Auditor	Review of IA Charter during 2024/25
Core Principles for the Professional Practice of Internal Auditing	Include a direct reference to the Local Code of Corporate Governance in the Charter & Audit Manual	Acting Chief Internal Auditor	Review of IA Charter during 2024/25
1230 - Continuing Professional Development	Implement a standardised CPD record across the team.	Acting Chief Internal Auditor	January 2024

**CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS
AND THE LOCAL GOVERNMENT APPLICATION NOTE (LGAN)**

Glossary	
GC	Generally Conforms with PSIAS - The relevant structures, policies and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section / category. General conformance does not require complete / perfect conformance, the ideal situation, successful practice, etc.
PC	Partially Conforms with PSIAS - The activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and / or achieving their objectives.
DNC	Does Not Conform with PSIAS - The activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many / all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

Appendix 1

N/A	Not Applicable - The sections marked N/A do not apply to this assessment. Any n/a answers should be treated as generally conforming with the PSIAS.
CAE	Chief Audit Executive (CAE) - A generic title used to describe the person responsible for managing the internal audit activity. In MCC it is the Chief Internal Auditor.

SUMMARY OF RESULTS AND OVERALL CONCLUSION

	SUMMARY OF RESULTS	GC	PC	DNC	N/A
A1	Mission of Internal Audit	✓			
B2-3	Definition of Internal Auditing	✓			
C4-13	Core Principles for the Professional Practice of Internal Auditing	✓			
D14-25	Code of Ethics	✓			
	Attribute / Performance Standards				
1000	Purpose, Authority and Responsibility (The sum of <i>Standards</i> 1000-1010)	✓			
1100	Independence and Objectivity	✓			
1110	Organisational Independence	✓			
1111	Direct Interaction with the Board	✓			
1112	Chief Audit Executive Roles Beyond Internal Auditing	✓			
1120	Individual Objectivity	✓			
1130	Impairments to Independence or Objectivity	✓			
1200	Proficiency and Due Professional Care				
1210	Proficiency	✓			
1220	Due Professional Care	✓			
1230	Continuing Professional Development	✓			
1300	Quality Assurance and Improvement Programme	✓			
1310	Requirements of the Quality Assurance and Improvement Programme	✓			
1311	Internal Assessments	✓			
1312	External Assessments			✓	
1320	Reporting on the Quality Assurance and Improvement Programme	✓			
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	✓			
1322	Disclosure of Non-conformance	✓			
2000	Managing the Internal Audit Activity				

Appendix 1

	SUMMARY OF RESULTS	GC	PC	DNC	N/A
2010	Planning	✓			
2020	Communication and Approval	✓			
2030	Resource Management	✓			
2040	Policies and Procedures	✓			
2050	Coordination	✓			
2060	Reporting to Senior Management and the Board	✓			
2070	External service Provider and Organisational Responsibility for Internal Audit	✓			
2100	Nature of Work				
2110	Governance	✓			
2120	Risk Management	✓			
2130	Control	✓			
2200	Engagement Planning	✓			
2210	Engagement Objectives	✓			
2220	Engagement Scope	✓			
2230	Engagement Resource Allocation	✓			
2240	Engagement Work Programme	✓			
2300	Performing the Engagement				
2310	Identifying Information	✓			
2320	Analysis and Evaluation	✓			
2330	Documenting Information	✓			
2340	Engagement Supervision	✓			
2400	Communicating Results				
2410	Criteria for Communicating	✓			
2420	Quality of Communications	✓			
2421	Errors and Omissions	✓			

Appendix 1

	SUMMARY OF RESULTS	GC	PC	DNC	N/A
2430	Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'.	✓			
2431	Engagement Disclosure of Non-conformance	✓			
2440	Disseminating Results	✓			
2450	Overall Opinions	✓			
2500	Monitoring Progress	✓			
2600	Resolution of Senior Managements Acceptance of Risks	✓			
	OVERALL CONCLUSION – CONFORMANCE WITH PSIAS	✓			