

Public Sector Internal Audit Standards (PSIAS)
External Assessment of Carmarthenshire County Council
Internal Audit Service
March 2018

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Issued to	Helen Pugh Head of Revenues and Compliance

1. Introduction

- 1.1 The Public Sector Internal Audit Standard (PSIAS) became effective from 1st 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 Standards included either a full external assessment or an internal self-assessment which is validated by an external reviewer.
- 1.3 Carmarthenshire County Council elected to adopt the self-assessment approach with an external validation undertaken by a suitable qualified and experienced external assessor with the required level of knowledge of the application of the PSIAS, as agreed with the Welsh Chief Auditors' Group.

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 Carmarthenshire County Council used the Chartered Institute of Internal Auditors (IIA) self assessment compliance checklist. In summary there are 45 best practice lines within this checklist to ensure compliance with the PSIAS. A self-assessment review of conformance against the PSIAS was undertaken during 2017/18 by Helen Pugh, Head of Revenues and Compliance, who at the time was in effect the Head of Audit.
- 3.2 Following the validation, the Internal Audit Service of Carmarthenshire County Council is currently generally conforming to 34 (76%) of the requirements of the Standards, with partial conformance with 10 (22%) requirements and 1 (2%) standard was not applicable.
- 3.3 The following table summarises the outcome of the external assessment:

Standard	Conformance				Total
	GC	PC	NC	N/A	
1. Definition of Audit Risk	Y				
2. Code of Ethics	Y				
3. Attribute Standards					
1000. Purpose, Authority and Responsibility		2			2
1100. Objectivity and Independence	3	2			5
1200. Proficiency and Due Professional Care	3				3
1300. Quality Assurance and Improvement Programme	1	5			6
4. Performance Standards					
2000. Managing the Internal Audit Activity	7			1	8
2100. Nature of Work	2	1			3
2200. Engagement Planning	5				5
2300. Performing the Engagement	4				4
2400. Communicating Results	7				7
2500. Monitoring Progress	1				1
2600. Communicating the Acceptance of Risks	1				1
Total	34	10		1	45

3.4 The main areas of partial compliance are in respect of the following areas.

Standard 1000: Purpose, Authority and Responsibility

3.5 Internal Audit has an Audit Charter which defines its purpose, authority and responsibility and meets most of the requirements of the Standards. The Audit Charter should be updated to incorporate the Mission and Definition of Internal Audit, recognise the mandatory nature of the Standards and acknowledge the 'board' as the Audit Committee.

3.6 The Charter was last updated during 2016/17 and was approved by the Audit Committee in September 2016. The Standards require that the Charter is reviewed and updated periodically by the Head of Audit; for example this could be specified within the Charter as being updated every 3 years.

Standard 1100: Independence and Objectivity

- 3.7 The Standards highlight a number of ways of identifying the organisational independence of Internal Audit including the Audit Committee being responsible for approving the risk-based Audit Plan. As the current Head of Audit has other responsibilities within her remit the Internal Audit team should clearly demonstrate independence and objectivity when auditing areas within her responsibility.

Standard 1200: Proficiency and due Professional Care

- 3.8 In order to demonstrate that the work of Internal Audit is undertaken professionally and consistently, the Standards state that auditors must possess the knowledge, skill and other competencies to perform their individual responsibilities. One way of evidencing this would be for auditors to confirm that they have undertaken their work in accordance with the Standards; job controls sheets could be updated to include a statement to be signed off by the auditor to verify that they have recognised this.

Standard 1300: Quality Assurance and Improvement Programme

- 3.9 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 processes which form the contents of the QAIP are largely in place with the completion of the self-assessment checklist being an important element of the QAIP as are the various performance targets and measures that are currently in place to monitor Internal Audit's activities. However, as yet, these haven't been formally set out in a QAIP document.
- 3.10 The Standards require an external assessment, at least once every five years and the self-assessment checklist asks various questions regarding the performance and reporting of that assessment. Consideration should be given to using the CIPFA checklist for consistency with the Welsh Chief Auditors' Group.
- 3.11 The need for an external assessment within this timeframe has been recognised and has been discussed with the Chair of the Audit Committee. However, no report has been taken to the Audit Committee setting out the options for the external assessment and highlighting the qualifications and independence of the external assessor or assessment team as required by the Standards. The Head of Revenues and Compliance intends to take a comprehensive report to the Audit Committee once this external assessment report has been received and finalised.

Standard 2100: Nature of Work

- 3.12 Where possible, the Standards say that Internal Audit should seek to rely on other sources of assurances to assist the effective delivery of the annual assurance opinion. The Head of Audit has said that other sources of assurance are considered as part of the annual audit planning process but is not formally recorded or reported to the Audit Committee in the Internal Audit Plan report. The Standards identifies an Assurance Mapping exercise as best practice in terms of identifying other sources of assurance although it is felt that the requirements of the Standards can be met without the need for a full Assurance Mapping exercise.
- 3.13 The Standards suggest that the Internal Audit Plan should include a review of the Council's ethics related objectives, programmes and activities as well as how the information technology governance supports the Council's strategies and objectives. However, the Standards also says that the Head of Audit should consider the proportionality of work in these areas against other areas of assurance work.
- 3.14 Internal Audit plays a significant role in the investigation of frauds with time being included in the Audit Plan for special investigations however there has been no evaluation of the fraud risk across the Council or how the fraud risk is managed as required by the Standards.
- 3.15 Some other areas of partial conformance with the Standards were identified during the external review but they are not felt to be significant due to the particular circumstances of internal audit in local government and therefore are not included in this report.

4. Impact of non-compliance and steps to be taken to ensure compliance.

- 4.1 Any non-conformance with the Standards and the impact must be disclosed to senior management and the Audit Committee.
- 4.2 In terms of the review that has been undertaken, it is considered that Carmarthenshire County Council's Internal Audit service generally conforms with the PSIAS and the impact of the partial-conformance is not considered to be significant. Overall, it is felt that Internal Audit complies with the Standards in all significant areas and operates independently and objectively.
- 4.3 The attached Action Plan shows the recommendations arising from the external assessment to address the issues identified in this report and to ensure increased compliance with the Standards.

Carmarthenshire County Council – Public Sector Internal Audit Standards

External Assessment – March 2018

Action Plan

Standard	Action to address non / partial compliance	Responsible for implementation	Timescale
1000	<p>Charter needs updating in line with PSIAS</p> <p>IA Charter needs to incorporate the Mission and Definition of IA and the Core Principles as per PSIAS.</p> <p>Needs to recognise the mandatory nature of PSIAS.</p> <p>Needs to recognise the Audit Committee as “the board”</p> <p>IA Charter needs to be reviewed periodically</p>	<p>The Internal Audit Charter will be reviewed and updated, as appropriate. The revised Charter will be presented to Audit Committee.</p> <p>Head of Revenues and Financial Compliance / Principal Auditor</p>	September 2018
1100	<p>Clearly demonstrate auditor independence and objectivity when auditing areas Head of Revenues and Compliance has responsibility for</p>	<p>An Internal Audit Escalation Protocol has been drawn up to clearly demonstrate appropriate reporting lines to ensure auditor independence and objectivity is maintained.</p> <p>Head of Revenues and Financial Compliance / Principal Auditor</p>	Completed
1210	<p>Consider updating all job control sheets to include requirement to comply with PSIAS</p>	<p>Consideration will be given to updating job control sheets to include the requirement to comply with PSIAS.</p>	September 2018

		Head of Revenues and Financial Compliance / Principal Auditor	
1300	A quality assurance and improvement program that covers all aspects of the internal audit activity needs to be developed and maintained	Quality Assurance in respect of peer review and external assessment are reported to Audit Committee in the Annual Report. Consideration will be given to developing a formal Quality Assurance and Improvement Program (QAIP). Head of Revenues and Financial Compliance / Principal Auditor	June 2019
1311	Consider using CIPFA checklist for self-assessment	Consideration will be given to utilising the CIPFA checklist for self-assessment in future to be in line with other authorities. The IIA self-assessment was used and considered to be comprehensive. Head of Revenues and Financial Compliance / Principal Auditor	June 2023
2120	Evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.	An assessment of the potential fraud risk to the organisation will be considered. An anti-fraud and anti-corruption culture will continue to be promoted within the organisation. Anti-fraud and Corruption Strategy to be updated. Head of Revenues and Financial Compliance / Principal Auditor	December 2018