



Assessment of Internal Audit

Carmarthenshire County Council

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Status of report

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The team who delivered the work comprised Jason Blewitt and Geraint Norman.

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Summary report

The Council has suitable Internal Audit arrangements and an effective service is provided

1. The Code of Audit Practice issued by the Auditor General and International Standard on Auditing 610 require us to consider whether the internal financial control arrangements of Carmarthenshire County Council (the Council) are adequate. Internal Audit (IA) is a key element of the system of internal control.
2. We have assessed IA against their professional standards as set out in Public Sector IA Standards (PSIAS). Where these standards are met, wherever possible, we intend to rely on IA's work when documenting or testing the Council's financial systems as part of our accounts audit.
3. Overall we have concluded that the Council has suitable IA arrangements and an effective service is provided. Where relevant, we have been able to rely on IA's work for our testing to avoid duplication. Our detailed findings are set out in [Exhibit 1](#).

Exhibit 1: Assessment against the Public Sector IA Standards (PSIAS)

Standard	Standard met? Yes/No	Comment
1000 Purpose, authority and responsibility The purpose, authority and responsibility of the Internal Audit (IA) activity must be formally defined in an internal audit charter (the charter), consistent with the <i>Definition of Internal Auditing</i> , the <i>Code of Ethics</i> and the <i>Standards</i> . The Head of IA must periodically review the charter and present it to senior management and the board for approval.	Yes	The purpose, authority and responsibility of IA are defined within both the IA Strategy and the IA Charter. These were last updated and approved by the Audit Committee on 14 December 2012 and so are up to date. These documents are supported by a detailed IA Manual providing guidance to staff. As reported for the last two years, this was last updated in March 2010 and so needs to be updated (see R1). The scope of IA's work covers a suitable range of areas including responsibility for evaluation of systems of internal control for both financial and non-financial systems.

Standard	Standard met? Yes/No	Comment
<p>1100</p> <p>Independence and Objectivity</p> <p>The IA activity must be independent, and internal auditors must be objective in performing their work.</p>	<p>Yes</p>	<p>The Head of IA has a right of access to senior management, the Council and Audit Committee.</p> <p>IA staff are made aware of the need to declare potential conflicts of interest through the IA Manual.</p> <p>A declaration of interest is required to be completed by staff involved on each assignment.</p> <p>Where any conflicts of interest arise, appropriate controls are put in place.</p> <p>No independence issues were identified.</p> <p>IA staff are made aware of the need to comply with ethical standards through the IA Manual.</p> <p>An ethical standards declaration is required to be completed by staff involved on each assignment.</p> <p>No issues of non-compliance with ethical standards were identified.</p>
<p>1200</p> <p>Proficiency and Due Professional Care</p> <p>Engagements must be performed with proficiency and due professional care.</p>	<p>Yes</p>	<p>IA has procedures which ensure professional standards are followed and adheres to the CIPFA Code of Practice and Auditing Practices Board guidelines.</p> <p>The IA Manual is drawn up in accordance with the CIPFA Standards and is available to all staff. This includes the requirement for declaration of potential conflicts of interest.</p> <p>In addition, auditors are required to sign a declaration of conflicts of interest on completion of each audit assignment as noted above.</p> <p>Codes of conduct are in place for all Council staff and form part of corporate induction.</p> <p>Training plans are in place for all staff and regular performance reviews take place.</p>

Standard	Standard met? Yes/No	Comment
<p>1300</p> <p>Quality Assurance & Improvement Programme</p> <p>The Head of IA must develop and maintain a quality assurance and improvement programme that covers all aspects of the IA activity.</p>	<p>Yes</p>	<p>All audit assignments are subject to review by a supervising officer prior to the closure of the job. In addition, a further peer review is performed on all 'fundamental systems' files and for a sample of 20 other files to ensure expected standards of quality are met.</p> <p>The results of the IA quality assurance programme is communicated to senior management and the Audit Committee in the Head of IA's Annual Report.</p> <p>Performance indicators for the IA section have been set and are monitored and reported on a regular basis.</p> <p>There is currently no external assessment of IA by a qualified independent reviewer other than that performed by the Wales Audit Office. The standards require this once every five years. The Audit and Risk Manager has informed us that there are ongoing discussions through the Wales Audit Group for this to be undertaken jointly across all authorities or all South Wales authorities(see R2).</p>
<p>2000</p> <p>Managing the IA Activity</p> <p>The Head of IA must effectively manage the IA activity to ensure it adds value to the organisation.</p>	<p>Yes</p>	<p>IA produces a strategic plan – for a three-year period. Flowing from this, an annual IA Plan is produced each year. Both are produced on a risk basis and link to the IA Strategy and IA Manual and set out the resources required.</p> <p>The strategic plan for 2014-15 and the 2014-15 Annual Plan were taken to the March 2014 Audit Committee for approval.</p>

Standard	Standard met? Yes/No	Comment
<p>2100 Nature of the Work</p> <p>The IA activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and a disciplined approach.</p>	<p>Yes</p>	<p>The IA Manager and Head of Audit, Risk, Procurement & IT are representatives on the Council's Corporate Governance Group which reviews the governance arrangements in place for the authority which ultimately feeds into the Annual Governance Statement (AGS).</p> <p>We reported in our 2013-14 Final Accounts Report that IA planned to review the contents of the AGS for 2013-14 later in 2014. The 2013-14 AGS was signed off with the financial statements at the end of September 2014 and so we were unclear what the IA work later in the year would add particularly if any issues were identified. We recommended that the draft AGS was audited before rather than after it had been approved by the Audit Committee. Following conversations with IA, the AGS was reviewed in July and going forward, IA have stated that as the draft is not finalised until June each year they will review the draft over the summer period prior to the final version being approved in September.</p> <p>IA periodically reviews the Council's Risk Management arrangements. It was last reviewed in 2013-14.</p> <p>IA assess the risks and controls in place to mitigate against the risks as part of each audit assignment and make recommendations for improvement where necessary. No issues were noted from the sample of files reviewed.</p>

Standard	Standard met? Yes/No	Comment
<p>2200 Engagement Planning</p> <p>Internal Auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.</p>	<p>Yes</p>	<p>IA Plan</p> <p>An IA Strategy is in place which seeks to cover all higher-risk areas over a three-year period and flowing from this, an annual IA Plan is prepared.</p> <p>As part of the production of the Audit Strategy/Plan, a risk assessment is undertaken in consultation with departmental managers and heads of service and following our recommendation last year, following consultation with the Wales Audit Office.</p> <p>Engagement Planning</p> <p>A risk-based approach is taken to plan for each assignment.</p> <p>Terms of Reference are drawn up for each audit assignment detailing the objective and scope, the time allocated and staff, and the process to be followed for the audit and reporting. This is agreed with management before the start of each assignment.</p> <p>Resourcing</p> <p>Staffing of IA has been set at an establishment of 10.4 Full Time Equivalents (FTEs) in previous years but in 2011-12 this fell to 9.4 FTEs and has continued at this level since.</p> <p>Progress against the IA Plan including any resourcing issues is reported to, and monitored by, the Audit Committee.</p>

Standard	Standard met? Yes/No	Comment
<p>2300 Performing the Engagement</p> <p>Internal Auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.</p>	<p>Yes</p>	<p>There were no significant issues arising from our sample review of individual audit assignments.</p> <p>Overall we concluded that the audit work was of a sufficient standard to meet its objectives and to support the conclusions drawn, and the standard of working papers to be satisfactory.</p> <p>With regards to the control, retention and release of engagement records, the IA Manager noted that the Council's File Plan on the shared server has an audit area and access to this is restricted to IA and all confidential information is held on there where needed. The only people that IA release information to are the Wales Audit Office or those audited, and this is sent via secure means. The IA Manual includes information re the retention and release of confidential information but this needs updating for the Council's File Plan as this is relatively new (see R1).</p> <p>Our review of a sample of IA audit work noted that some IA work particularly on the fundamental systems does not cover the full financial year as IA work covers a period of 12 months up to the date of the audit. As the Head of IA's Annual Report provides an opinion over the systems and controls for the full financial year, there is a risk particularly where IA work on a system has been completed early in a financial year that their work has not been sufficient to support that opinion. As a result, IA have agreed to undertake a follow up in April each year to check that there have been no changes to the system and controls tested for the previous financial year (see R3).</p>

Standard	Standard met? Yes/No	Comment
<p>2400 Communicating Results Internal Auditors must communicate the results of engagements.</p>	<p>Yes</p>	<p>IA findings, conclusions and recommendations arising from audit assignments are communicated promptly and are generally accepted by management with actions agreed. There were no significant issues arising from our sample review of individual audit assignments.</p> <p>All 3* recommendations are reported to the Audit Committee for consideration.</p> <p>An annual Head of IA Report is presented to the Audit Committee every June. This includes an opinion on the overall adequacy and effectiveness of the control environment for the year, a summary of the IA work and a statement on conformity with IA Standards.</p> <p>Whilst the Head of IA Annual Report includes the number of three-star and two-star recommendations it does not state what these recommendations were. It would be useful for the report to set out what the three-star recommendations were and their effect/risk so that members have sufficient information to consider this when approving the AGS. Similarly for the two-star recommendations, it would be useful to highlight some key recommendations or key themes so that this can also be considered – this could be important for the Audit Committee to consider as a significant number of two-star recommendations in one area/theme may give rise to further concerns. We appreciate that three-star recommendations are reported to Audit Committee during the year but this would be in isolation for a given review as and when they are reported and it would be useful if the Head of IA Report collated these so that the Audit Committee can consider them in totality as part of the AGS approval process (see R4).</p>

Standard		Standard met? Yes/No	Comment
2500	Monitoring Activities The Head of IA must establish and maintain a system to monitor the disposition of results communicated to management.	Yes	Internal Audit has arrangements in place to follow up all prior-year recommendations.
2600	Communicating the Acceptance of Risks If IA believe that senior management have accepted a level of residual risk that is unacceptable have they communicated this to the Audit Committee?	N/A	We are not aware of any instances of this in recent years. This was confirmed by the IA Manager who also noted that if this was the case then this would be reported to the Audit Committee.

Recommendations

- R1 The Internal Audit Manual should be updated to ensure that it remains relevant and up to date. This update should include the new procedures for the storage of confidential information on the Council's File Plan.
- R2 Arrangements for an independent external assessment of IA every five years should be kept in view and set up as soon as possible.
- R3 To fully support the Head of IA Annual Report, IA should perform a follow up at year end to check that there have been no changes to the system and controls tested in the year particularly for fundamental systems or for other key systems that were tested early in the financial year.
- R4 To further strengthen the information provided to the Audit Committee, in particular for their approval of the AGS, the Head of IA Annual Report should include the three-star recommendations reported in the year and a summary of the common themes arising from the two-star recommendations.

Appendix 1

Action Plan

Recommendations highlighted in bold were also reported in previous years.

Recommendation	Intended outcome/benefit	Agreed	Council comments	Completion date
R1 The Internal Audit Manual should be updated to ensure that it remains relevant and up to date. This update should include the new procedures for the storage of confidential information on the Council's File Plan.	To ensure that guidance to staff is relevant and up to date.	Yes	The Audit Manual will be reviewed and updated where required.	March 2016
R2 Arrangements for an independent external assessment of IA every five years should be kept in view and set up as soon as possible.	To ensure an independent external assessment is undertaken as required by the IA Standards.	Yes	Ongoing discussions with Welsh Chief Auditors Group.	
R3 To fully support the Head of IA Annual Report, IA should perform a follow up at year end to check that there have been no changes to the system and controls tested in the year particularly for fundamental systems or for other key systems that were tested early in the financial year.	To ensure that the Head of IA Annual Report/Opinion is accurate.	Yes	A follow up of the key / fundamental systems controls has been carried out and concluded.	Completed

Recommendation	Intended outcome/benefit	Agreed	Council comments	Completion date
R4 To further strengthen the information provided to the Audit Committee, in particular for their approval of the AGS, the Head of IA Annual Report should include the three-star recommendations reported in the year and a summary of the common themes arising from the two-star recommendations.	To strengthen the information provided to members to make a fully informed decision.	Yes	A summary of the 3* issues will be included in this year's report. We will review the 2* issues and establish if there are any themes arising.	July 2015



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Tel: 029 2032 0500

Ffôn: 029 2032 0500

Fax: 029 2032 0600

Ffacs: 029 2032 0600

Textphone: 029 2032 0660

Ffôn Testun: 029 2032 0660

E-mail: info@wao.gov.uk

E-bost: info@wao.gov.uk

Website: www.wao.gov.uk

Gwefan: www.wao.gov.uk