



Internal Audit Report

Public Sector Internal Audit Standards (PSIAS)

External Assessment of

Carmarthenshire Council's Internal Audit Service

Welsh Chief Internal Auditor Group

WCIAG

Date of Assessment Fieldwork	July and August 2022
Date of Report Issue	20 April 2023
Report Status	Final
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Issued to	Helen Pugh, Head of Revenues & Financial 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 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 Internal Audit Lead at Wrexham County Borough Council in July and August 2022.
- 3.2 The assessment comprised a desktop review of the self-assessment and supporting evidence and discussions with the Principal Auditor and Chief Audit Executive (CAE), who consulted with the Section 151 Officer and Chair of the Governance & Audit Committee as part of the process, to gain insight and views on the operation of the Internal Audit Team and conformance with the Standards.
- 3.3 In summary, there are 304 best practice lines within the PSIAS. The results of the validation found that the Internal Audit Service of Carmarthenshire Council is currently conforming to 300 of the requirements, with partial conformance in three areas and non-conformance in one area.

3.4 The table below summarises the outcome of the assessment.

Standard	Conformance			Total
	Yes	Partly	No	
A. Mission of Internal Audit	1			1
B. Definition of Audit Risk	2			2
C. Core Principles	10			10
D. Code of Ethics	13			13
E. Attribute Standards				
Purpose, Authority and Responsibility	18	2		20
Objectivity and Independence	28		1	29
Proficiency and Due Professional Care	21			21
Quality Assurance and Improvement Programme	23	1		24
F. Performance Standards				
Managing the Internal Audit Activity	37			37
Nature of Work	28			28
Engagement Planning	52			52
Performing the Engagement	15			15
Communicating Results	46			46
Monitoring Progress	4			4
Communicating the Acceptance of Risks	2			2
Total	300	3	1	304

3.5 This report contains two appendices as follows:

Appendix A	Action Plan to address non / partial conformance areas
Appendix B	Enhancing proposals for areas where conformance is already achieved

3.6 The one non-compliance relates to Standard 1130, *Impairment to Independence or Objectivity*. The requirement is for someone outside Internal Audit to have oversight of audit engagements in areas managed by the CAE. The Principal Auditor's independence may be perceived to be compromised because her line manager is the person responsible for the operational management of the areas being audited.

3.7 The first two areas of partial compliance relate to Standard 1000 *Purpose, Authority and Responsibility*, specifically about what should be included in the Charter.

a) The first is the requirement for the Charter to include the arrangements for avoiding conflicts of interest. Although a Protocol has been developed to help deal with potential conflicts of interest, the Charter does not make reference to the Protocol.

b) The second is that the Charter recognises the mandatory nature of the Public Sector Internal Audit Standards. Although the Standards are referred to throughout the Charter, their mandatory nature is not made clear.

3.8 The third area of partial compliance relates to Standard 1311 *Quality Assurance and Improvement Programme – Internal Assessments*. The requirement is for performance monitoring to include stakeholder feedback. Currently there is no formal process in place for documenting stakeholder feedback.

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 & Audit Committee.

3.10 In terms of the review that has been undertaken, the impact of the non-conformance is not considered to be significant, and the Internal Audit service of Carmarthenshire Council conforms with the Standards in all significant areas and operates independently and objectively.

3.11 The CAE has agreed an action plan to respond to the areas of partial compliance and non-compliance for consideration by the Governance & Audit Committee.

Action Plan to address non / partial conformance areas

Rec No	Standard	Action to address Non-compliance	Responsible person	Timescale
1	1130 Impairment to Independence or Objectivity - The requirement is for someone outside Internal Audit to have oversight of audit engagements in areas managed by the CAE.	The Principal Auditor's independence may be perceived to be compromised because their line manager is the person responsible for the operational management of a small proportion of areas being audited. A means of providing appropriate external oversight should be devised to demonstrate conformance with this Standard.	Helen Pugh, Head of Revenues & Financial Compliance	The Head of Financial Services, who is outside the Internal Audit activity, will have oversight of audit engagements in areas managed by the CAE. April 2023
		Action to address Partial Compliance		
2	1000 Purpose, Authority and Responsibility - The requirement is for the Charter to include the arrangements for avoiding conflicts of interest.	The Charter should be amended to explain how the Protocol helps to avoid potential conflicts of interest.	Caroline Powell, Principal Auditor	The Charter will be updated immediately. The revised Charter will be presented to the Governance & Audit Committee for approval. Governance & Audit Committee Meeting - July 2023.
3	1000 Purpose, Authority and Responsibility - The requirement is that the Charter recognises the mandatory nature of the Public Sector Internal Audit Standards.	Although the Standards are referred to throughout the Charter, their mandatory nature could be made clearer.	Caroline Powell, Principal Auditor	The Charter will be updated immediately. The revised Charter will be presented to the Governance & Audit Committee for approval

				Governance & Audit Committee Meeting - July 2023.
4	1311 Quality Assurance and Improvement Programme: Internal Assessments - The requirement is for performance monitoring to include stakeholder feedback	Currently there is no formal process in place for documenting stakeholder feedback. This gap should be addressed.	Caroline Powell, Principal Auditor	<p>A stakeholder feedback electronic form has now been devised and implemented. Feedback survey responses are requested from Audit Clients following the completion of an Audit review.</p> <p>Results of feedback will be monitored with a view to making improvements to the service we provide, where any weakness are identified.</p> <p>Results of stakeholder feedback will be reported as part of the Head of Internal Audit's Annual Report.</p> <p>The Audit Manual has been updated to reflect the new process.</p> <p>Complete.</p>

Further Action Plan – Enhancing proposals for areas where conformance is already achieved

Rec No	Standard	Compliant, but enhancing recommendation proposed.	Responsible person	Timescale
5	Mission of Internal Audit (A1)	The wording of the Charter could be strengthened to emphasise the Council’s ownership of the mission.	Caroline Powell, Principal Auditor	The Charter will be updated immediately. The revised Charter will be presented to the Governance & Audit Committee for approval Governance & Audit Committee Meeting - July 2023.
6	Core Principles – Competence (C5)	The Charter or Manual could be enhanced to ensure that it accurately captures the professional qualifications of Internal Audit staff and describes the arrangements for ensuring that those staff who are not professionally qualified continue to demonstrate competence.	Caroline Powell, Principal Auditor	The wording of the Charter will be reviewed to ensure it accurately captures the professional qualifications of Internal Audit staff. The revised Charter will be presented to the Governance & Audit Committee for approval Governance & Audit Committee Meeting - July 2023.
7	1120 Individual Objectivity	The Grants Panel’s terms of reference should be updated to make clear that the Principal Auditor	Caroline Powell, Principal Auditor	This was discussed at the March meeting of the Grants Panel, with the Terms of Reference

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		does not have any decision-making role on the Panel.		<p>being reviewed. The Grants Panel is Chaired by the Head of Financial Services. The Principal Auditor's role on the Grants Panel is of a proactive nature, providing advice and professional input on the administration of grants and to challenge the managerial and compliance controls in place, ensuring robust controls are in place. It was agreed at the March meeting of the Panel that the Principal Auditor continues to be a member on the Panel to ensure this advisory input can continue.</p> <p>Complete.</p>
8	1220 Due Professional Care	As the term " <i>due professional care</i> " is an important aspect of Internal Audit, a specific reference to this terminology in either the Charter or the Manual would strengthen the link to the Standards.	Caroline Powell, Principal Auditor	<p>The Charter will be updated immediately. The revised Charter will be presented to the Governance & Audit Committee for approval</p> <p>Governance & Audit Committee Meeting - July 2023.</p>

Rec No	Standard	Compliant, but enhancing recommendation proposed.	Responsible person	Timescale
9 10	1311 Quality Assurance and Improvement Programme – Internal Assessments	<p>a) Consider consulting Governance & Audit Committee Members as part of the process for developing performance targets; and</p> <p>b) Report performance against all targets to the Governance and Audit Committee</p>	Helen Pugh, Head of Revenues & Financial Compliance / Caroline Powell, Principal Auditor	<p>The development of Performance Targets is undertaken as part of the Authority's Business Planning process. New Performance Indicators (PI's) will be reported to the Governance & Audit Committee as part of the Head of Internal Audit's Annual Report.</p> <p>The Governance & Audit Committee is kept informed, on a quarterly basis, of progress against Internal Audit's Annual plan.</p> <p>PIs are also reported, on a quarterly basis, to the Performance & Resources Scrutiny Committee.</p> <p>Annual Report - July 2023</p>
11	1320 Reporting on the QAIP	The results of the Quality Assurance and Improvement Programme should be reported clearly to the Governance & Audit Committee.	Helen Pugh, Head of Revenues & Financial Compliance /	The QAIP will be reported on more clearly in the Annual Report

Rec No	Standard	Compliant, but enhancing recommendation proposed.	Responsible person	Timescale
			Caroline Powell, Principal Auditor	Annual Report - July 2023
12	2010 Planning	<p>a) Members of the Governance & Audit Committee should be made aware of the respective priorities of the work included in the risk-based plan; and</p> <p>b) It may be worth considering the inclusion of a specific contingency allocation to demonstrate to Members more clearly that there is flexibility built into the Internal Audit Plan from the outset.</p>	Helen Pugh, Head of Revenues & Financial Compliance / Caroline Powell, Principal Auditor	<p>The audit plan is risk-based, and the assignments are prioritised on an ongoing basis. Discussions on the Audit Plan, and the assignments being undertaken, are held with the Governance & Audit Committee on, at least, a quarterly basis.</p> <p>Whilst not formally documented on the audit plan, a contingency is included in the calculation of number of days available. Consideration will be given to formally documenting this contingency on the plan.</p> <p>Complete</p>
13	2030 Resource Management	The wording in the Charter and the Annual Report should be amended to show more clearly that the Annual Plan is risk-based, rather than being based on the available resources.	Helen Pugh, Head of Revenues & Financial Compliance / Caroline Powell, Principal Auditor	The Charter will be updated immediately. The revised Charter will be presented to the Governance & Audit Committee for approval

Rec No	Standard	Compliant, but enhancing recommendation proposed.	Responsible person	Timescale
				<p>Governance & Audit Committee Meeting - July 2023.</p> <p>The wording of the Annual Report will also be reviewed to ensure this is captured.</p> <p>Annual Report - July 2023</p>
14	2120 Risk Management	<p>The Risk Management Steering Group should consider changing its name to the “<i>Insurance Risk Management Group</i>” to avoid the perception that chairing the Group creates a conflict of interest for the CAE, whose annual opinion is delivered on “<i>the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.</i>”</p>	Helen Pugh, Head of Revenues & Financial Compliance	<p>Appreciate there could be a perceived conflict of interest for the CAE being the Chair of this group. The responsibility for the Chairing of this group will be included as an agenda item for the Group to decide and agree a way forward.</p> <p>April 2023</p> <p>Changing the name of the group, as per the suggestion, is not appropriate, as the remit of the Risk Management Steering Group is wider than insurance risks.</p>