

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	28 June 2017
Subject:	Public Sector Internal Audit Standards – External Assessment Report and Action Plan
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Nature and Reason for Reporting: In accordance with the Public Sector Standards, to consider the report issued following the external assessment of the Internal Audit service by the former Head of Internal Audit, Denbighshire County Council and the Head of Audit and Risk's Action Plan developed to respond to the improvement areas identified.	

1. Introduction

- 1.1. The Public Sector Internal Audit Standards requires the chief audit executive to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The quality assurance and improvement programme must include both internal and external assessments.
- 1.2. A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 1.3. The assessment must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation, by either a full external assessment or a self-assessment validated by an external reviewer. This requirement was effective from 1 April 2013.

2. Recommendation

- 2.1. That the Audit and Governance Committee notes the results of the external assessment of the Internal Audit service and the Head of Audit and Risk's Action Plan developed to address the improvement areas identified.

3. Background Information

- 3.1. The Welsh Chief Auditors Group (WCAG) has collaborated to undertake a peer review approach to the external assessment, with a self-assessment validated by an external reviewer.
- 3.2. The key benefit to this approach is cost. Evidence gathered by the WCAG show costs for a full external assessment at around £15K and a validated assessment at approximately £11k. In addition, the approach is in keeping with the promotion of collaborative working arrangements.
- 3.3. The Section 151 Officer supported this approach.
- 3.4. The WCAG nominated Denbighshire County Council to undertake the external assessment of Isle of Anglesey County Council's Internal Audit service, which was undertaken during March 2017.
- 3.5. Isle of Anglesey County Council is nominated to undertake the external assessment at Pembrokeshire County Council, which has been agreed for December 2017.

4. Results of the External Assessment

- 4.1. The Denbighshire County Council Head of Internal Audit's report is attached at **Appendix A**. It details conformance with the *Standards* and provides assurance that Anglesey County Council '**Generally Conforms**' with the *Standards*, summarised below:

Standard	Conformance
Definition of Audit Risk	Generally Conforms
Code of Ethics	Generally Conforms
Attribute Standards	
1000 Purpose, Authority and Responsibility	Partially Conforms
1100 Objectivity and Independence	Generally Conforms
1200 Proficiency and Due Professional Care	Generally Conforms
1300 Quality Assurance and Improvement Programme	Generally Conforms
Performance Standards	
2000 Managing the Internal Audit Activity	Partially Conforms
2100 Nature of Work	Generally Conforms
2200 Engagement Planning	Generally Conforms
2300 Performing the Engagement	Generally Conforms
2400 Communicating Results	Partially Conforms
2500 Monitoring Progress	Generally Conforms
2600 Communicating the Acceptance of Risks	Generally Conforms

- 4.2. The external assessor raised seven areas of improvement for consideration, which are detailed in the Action Plan at the end of the report.
- 4.3. Most notable is the absence of an audit assurance framework to ensure that Internal Audit's work focuses on key areas. This would help to ensure that all corporate areas, services, programmes, projects, risks etc. are identified and 'audit risk-assessed' to inform planning of internal audit work. The Internal Audit service will undertake a complete review of the service's approach and practices in this financial year, with an assurance framework in place for 2018/19.
- 4.4. In addition, although fully complying with PSIAS at the time of the external assessment, the chief audit executive's additional responsibilities for risk management and insurance, with effect from 1 April 2017, jeopardised continued compliance in relation to independence and objectivity of the audit function. However, the *Standards* were also revised, with effect from 1 April 2017. Standard 1112 – Chief Audit Executive Roles Beyond Internal Auditing was revised and for the first time, the *Standards* recognise that chief audit executives may have roles and responsibilities other than internal audit. The Head of Audit and Risk will brief the Audit and Governance Committee and update the internal audit charter to reflect the new arrangements.
- 4.5. The Head of Audit and Risk has assessed the impact of the areas of '*Partial Conformance*' and developed actions, with timescales, to address these and the other areas for improvement raised. These are detailed in the Action Plan. The Section 151 Officer supports these actions.

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Name of the organisation:	Anglesey County Council		
Name of the internal audit function:	Internal Audit Service		
Date of the internal audit evaluation:	March 2017	Date of the previous internal audit evaluation:	N/A
Title of the designated Chief Audit Executive:	Head of Internal Audit Head of Internal Audit and Risk	Name of the designated Chief Audit Executive:	Mike Halstead (to 31 March 2017) Marion Pryor (from 1 April 2017)
Name of the committee that is responsible for audit matters and to whom the Chief Audit Executive reports: (When the standards say "board", who does that mean in the organisation)	Audit & Governance Committee	Reporting line of the Chief Audit Executive: (When the standards say senior management, who does that mean)	Head of Function (Resources) & Section 151 Officer
Review team: Ivan Butler, Head of Internal Audit, Denbighshire County Council			

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Generally Conforms means the evaluator has concluded that the relevant structures, policies and procedures of the internal audit service, as well as the processes by which they are applied, comply with the requirements of the 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. There may be significant opportunities for improvement, but these must not represent situations where the service has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

Partially Conforms means the evaluator has concluded that the internal audit service 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. Some deficiencies may be beyond the control of the service and may result in recommendations to senior management or the board of the organisation.

Does Not Conform means the evaluator has concluded that the internal audit service 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 service's effectiveness and its

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potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.

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		Assessment
	<u>Definition of Internal Auditing</u>	
Reference	Code of Ethics	
1	Integrity	
2	Objectivity	
3	Confidentiality	
4	Competence	
Reference	Attribute Standards	
1000	Purpose, Authority and Responsibility	
1010	Recognising Mandatory Guidance in the Internal Audit Charter	
1100	Independence and Objectivity	
1110	Organisational Independence	

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		Assessment
1111	Direct Interaction with the Board	
1112	Chief Audit Executive Roles Beyond Internal Auditing	
1120	Individual Objectivity	
1130	Impairment to Independence or Objectivity	
1200	Proficiency and Due Professional Care (The sum of <i>Standards</i> 1210–1230)	
1210	Proficiency	
1220	Due Professional Care	
1230	Continuing Professional Development	
1300	Quality Assurance and Improvement Programme (The sum of <i>Standards</i> 1310–1320)	
1310	Requirements of the Quality Assurance and Improvement Programme	
1311	Internal Assessments	
1312	External Assessments	

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		Assessment
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	
Reference	Performance Standards	
2000	Managing the Internal Audit Activity (Sum total of <i>Standards</i> 2010 – 2060)	
2010	Planning	
2020	Communication and Approval	
2030	Resource Management	
2040	Policies and Procedures	
2050	Coordination and Reliance	
2060	Reporting to Senior Management and the Board	
2070	External Service Provider and Organisational Responsibility for Internal Audit	

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		Assessment
2100	Nature of Work (Sum of <i>Standards</i> 2110 – 2130)	
2110	Governance	
2120	Risk Management	
2130	Control	
2200	Engagement Planning (Sum of <i>Standards</i> 2201–2240)	
2201	Planning Considerations	
2210	Engagement Objectives	
2220	Engagement Scope	
2230	Engagement Resource Allocation	
2240	Engagement Work Programme	
2300	Performing the Engagement (The sum of <i>Standards</i> 2300–2340)	
2310	Identifying Information	

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		Assessment
2320	Analysis and Evaluation	
2330	Documenting Information	
2340	Engagement Supervision	
2400	Communicating Results (Sum of <i>Standards</i> 2410–2440)	
2410	Criteria for Communicating	
2420	Quality of Communications	
2421	Errors and Omissions	
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	

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		Assessment
2500	Monitoring Progress	
2600	Resolution of Senior Management's Acceptance of Risks	
Improvement Action Plan		

Improvement Action Plan

Ref No.	PSIAS Ref.	Improvement Area	Proposed Action	Responsibility	Timescale
1.	Definition 2010	Although complying with PSIAS, consideration should be given to whether three-year planning is effective and worthwhile. Is IA really able to focus on what will matter to the organisation in three years' time? The rate of change in local government suggests a maximum of one-year planning and perhaps even less.	The Head of Audit and Risk will implement a one-year plan, which will be revised quarterly. It will be adopted under the new approach to audit planning utilising a new assurance mapping process.	Head of Audit and Risk	In place for 2018/19
2.	1000 1010	While generally conforming to PSIAS requirements, the service has already identified improvements to be incorporated into the revised IA Charter, which needs to clearly state the mandatory nature of the PSIAS and elaborate on the nature of consultancy engagements to differentiate these from IA work.	The Head of Internal Audit and Risk will review and update the Internal Audit Charter and submit to the September 2017 meeting of the Audit and Governance Committee.	Head of Audit and Risk	September 2017

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Ref No.	PSIAS Ref.	Improvement Area	Proposed Action	Responsibility	Timescale
3.	1100 2010 2050	Although complying with PSIAS, an audit assurance framework would be useful to ensure that IA's work focuses on key areas. This will help to ensure that all corporate areas, services, programmes, projects, risks etc. are identified and 'audit risk-assessed' to inform IA's planning. This will also ensure that there are no assurance gaps and that there is not over-assurance in any areas.	As above, the Head of Internal Audit and Risk will implement an audit assurance framework to ensure that internal audit's work focuses on key areas.	Head of Audit and Risk	In place for 2018/19

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Ref No.	PSIAS Ref.	Improvement Area	Proposed Action	Responsibility	Timescale
4.	1112	Although currently fully complying with PSIAS, continued compliance in relation to independence and objectivity of the audit function will require the new CAE to declare to the Audit & Governance Committee a conflict of interest and non-compliance with PSIAS 1130.A2.	<p>The PSIAS were revised, with effect from 1 April 2017. Most noteworthy among the revisions is the new Standard 1112 – Chief Audit Executive Roles Beyond Internal Auditing. For the first time, the standards recognise that heads of internal audit may have roles and responsibilities other than internal audit. While the new standard and the public sector interpretation acknowledge this, the standard's focus is on safeguards to limit any impairment to independence that might arise. The public sector interpretation states that safeguards must be approved and periodically reviewed by the board (usually the audit committee).</p> <p>The Head of Audit and Risk will brief the Audit and Governance Committee on the safeguards and update the internal audit charter to reflect the new arrangements.</p>	Head of Audit and Risk	September 2017

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Ref No.	PSIAS Ref.	Improvement Area	Proposed Action	Responsibility	Timescale
5.	2040	Although compliant with PSIAS, the audit manual is a lengthy document and may need to be revised once the new CAE is in post. Consideration should be given at this point to developing an interactive guidance document for easier reference and updating when changes are needed.	A total review of the internal audit approach and practices will be undertaken during 2017/18. The Head of Audit and Risk will review the content and format of the Audit Manual following successful implementation of the new approach, but will be a lower priority.	Head of Audit and Risk	September 2018
6.	2201	The Assignment Planning Sheet, although comprehensive, does not include the resources allocation (days) for the project. This is shown in the Audit Plan but, when scoping the project, it is possible that this may change, so needs to be recorded on the Audit Planning Sheet.	As part of the review of the internal audit approach and practices, the Head of Audit and Risk will review all standard documentation and ensure it is PSIAS compliant. In the meantime, the resource allocation is now included in the current Assignment Planning Sheet.	Head of Audit and Risk	April 2017

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Ref No.	PSIAS Ref.	Improvement Area	Proposed Action	Responsibility	Timescale
7.	2421	The IA Manual should include guidance in the event that a final IA report contains a significant error or omission and needs to be amended.	Although there is a quality assurance process in place to minimise the risk of an error or omission, if a final communication contains a significant error or omission, the Head of Audit and Risk will communicate corrected information to all parties who received the original communication. This will be detailed in the updated Audit Manual when it is reviewed, but also highlighted to staff during the next team meeting.	Head of Audit and Risk	June 2017 September 2018