

Public Sector Internal Audit Standards (PSIAS)

External Assessment of Neath Port Talbot Internal Audit Service

13 March 2018

FINAL REPORT

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1 Introduction

- 1.1 The Public Sector Internal Audit Standards (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 Auditors Group elected to adopt the self-assessment approach, with another member of the Group 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 An external validation of the self-assessment completed by the Internal Audit Manager of Neath Port Talbot County Borough Council was completed by the Head of Internal Audit of Blaenau Gwent County Borough Council during January and February 2018.
- 3.2 The validation included a review of the CIPFA produced self-assessment checklist and relevant documents provided in advance of visits held in January and February 2018. During the visits, further sample documentation was reviewed and interviews were held with the Council's Section 151 Officer (Director of Finance and Corporate Services), the Chair of the Audit Committee, the Head of Financial Services and the Internal Audit Manager.
- 3.3 At the outset of the validation visit, a discussion was held with the Head of Financial Services regarding his view on the provision of consultancy services by the Internal Audit Section. The Head of Financial Services' view was that his Internal Audit Section does not provide consultancy services and only provides assurance services. Any work provided such as training, advice on new systems or system changes are considered to be intended to provide increased assurance rather than acting in a consultancy role.

- 3.4 Therefore any reference to consultancy services in the CIPFA PSIAS Checklist has been shown as N/A to reflect the Head of Financial Services' view on the provision of consultancy services.
- 3.5 In summary there are 329 best practice lines within the PSIAS. A self-assessment review of conformance against the PSIAS was undertaken by the Internal Audit Manager.
- 3.6 Following the validation by the Blaenau Gwent Head of Internal Audit, the Internal Audit Section of Neath Port Talbot County Borough Council is currently conforming to 275 of the requirements, with partial conformance with 11, non- conformance with 11 and 32 considered to be not applicable. The table below summarises the outcome.

Standard	Conformance				Total
	Y	N	P	N/A	
1. Definition of Audit Risk	3				3
2. Code of Ethics	13				13
3. Attribute Standards					
1000. Purpose, Authority and Responsibility	19	2	1	1	23
1100. Independence and Objectivity	28	2		4	34
1200. Proficiency and Due Professional Care	16		2	1	19
1300. Quality Assurance and Improvement Programme	19	1	7		27
4. Performance Standards					
2000. Managing the Internal Audit Activity	38	3	1	4	46
2100. Nature of Work	28			3	31
2200. Engagement Planning	42			12	54
2300. Performing the Engagement	22				22
2400. Communicating Results	42	3		6	51
2500. Monitoring Progress	3			1	4
2600. Communicating the Acceptance of Risks	2				2
Total	275	11	11	32	329

- 3.7 The main areas of non-compliance or partial compliance are in respect of the following

Standard 1000: Purpose, Authority and Responsibility

- 3.7.1 Internal Audit has an Audit Charter which defines its purpose, authority and responsibility. One of the issues which should be highlighted in the Charter is

the organisational independence of Internal Audit however in Neath Port Talbot, the Head of Internal Audit is also the Head of Financial Services having responsibility for a range of services in addition to the Internal Audit function. Procedures have been put in place to manage the audit of Financial Services with the Internal Audit Manager undertaking responsibility for all operational aspects of the audit service. However these arrangements are not outlined in sufficient detail in the Internal Audit Charter. If it is not possible for the Head of Internal Audit to be truly independent then the arrangements for maintaining independence in relation to the services he manages should be described in detail in the Internal Audit Charter.

- 3.7.2 The Standards also require that the Internal Audit Charter recognises the mandatory nature of the PSIAS. The Internal Audit Charter for Neath Port Talbot does not state that compliance with the Standards is mandatory.
- 3.7.3 The audit service undertakes the role of administrator for the Authority's online banking system. Given the nature of the Audit role and the ability of auditors to amend the system access and view / obstruct the audit trail, this function is not considered to be independent. The Internal Audit Charter does not contain sufficient detail on how this aspect of non-audit work is managed.

Standard 1100: Independence and Objectivity

- 3.7.4 The Standards expect the Head of Internal Audit to report to an organisational level at least at Corporate Management level. However in Neath Port Talbot, the Head of Internal Audit (Head of Financial Services) reports to the Director of Finance and Corporate services who is a member of the Council's Corporate Management Group. This is not felt to be a concern as both the Head of Financial Services and the Internal Audit Manager have unrestricted access to all members of the Corporate Management Group and have sufficient seniority to be able to fulfil the responsibilities of Internal Audit. Therefore no recommendation is made with regard to this issue.
- 3.7.5 The Standards expect the Chief Executive and the Chair of the Audit Committee to have an input into the annual performance appraisal of the Head of Internal Audit (Head of Financial Services). Neath Port Talbot are currently reviewing their corporate performance framework and, as is the case in most authorities in local government, this is not routinely undertaken in the performance framework operated at present.

Standard 1200: Proficiency and Due Professional Care

- 3.7.6 The standards require that individual auditors are periodically assessed against predetermined skills and competencies, and also that they undertake

a program of continuing professional development. Both of these elements were found to be partially present at Neath Port Talbot in that they are undertaken on an informal basis as part of the routine processes undertaken by the Audit Manager and Senior Auditors. However, the lack of a formal corporate performance framework prevents these elements from being fully achieved.

Standard 1300: Quality Assurance and Improvement Programme

3.7.7 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 results of this QAIP are to be reported to Senior Management and the Audit Committee including any instances of non-conformance with the elements of the PSIAS. The external review found that the elements of a QAIP such as individual auditor and audit reviews and a suite of performance statistics are undertaken as part of the audit process but have not been brought together into a formal QAIP. These elements of the QAIP are reported to the audit committee but not as a formal QAIP. In addition, specific reference to the external assessment will be made following completion of this exercise. To fully comply with the PSIAS, it is felt that a corporate performance coaching scheme should be implemented and formal QAIP document should be produced.

3.7.8 There is a requirement for the organisation to conduct a review of the effectiveness of its internal audit service on at least an annual basis. An internal self-assessment exercise is not undertaken at present.

Standard 2000: Managing the Internal Audit Activity

3.7.9 The PSIAS state that the risk-based Audit Plan should incorporate or be linked to a strategic or high-level statement covering how the internal audit service will be delivered, how it will be developed in accordance with the Charter and how it links to organisational objectives and priorities. In Neath Port Talbot there is no formal document that brings the information together into a strategic or high-level statement.

3.7.10 The Standards indicate that an assurance mapping exercise should be undertaken as part of identifying and determining the approach to using other sources of assurance. This Standard is felt to be partially met as the Audit Manager confirmed reliance is placed on other sources of work such as the Wales Audit Office and other regulators reports. However, no formal assurance mapping document has been developed.

Standard 2400: Communicating Results

3.7.11 The standards require that the annual audit report incorporates a statement on conformance with the PSIAS, the results of the QAIP and details of progress against any improvement plans resulting from the QIAP. The annual report was found not to contain these elements at this time.

4. Overall Opinion

4.1 The Quality Assessment Manual produced by the Institute of Internal Auditors suggests the following ratings to indicate the level of conformance with the PSIAS

Generally Conforms – which means that the internal audit activity has a charter, policies and processes that are judged to be in conformance with the standards

Partially Conforms – which means that deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner

Does Not Conform – which means that deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities

4.2 The overall opinion following the external validation of the Neath Port Talbot Internal Audit Section is that it **generally conforms** with the PSIAS. Some opportunities for further improvement have been identified as shown in this report but none of the items of partial or non-conformance are considered to be a significant failure to meet the Standards

4.3 Any non-conformance with the Standards and the impact must be disclosed to senior management and the Audit Committee. The Internal Audit Manager has completed an action plan to respond to the areas of partial compliance and non-compliance for consideration by the Audit Committee.

NEATH PORT TALBOT CBC PSIAS EXTERNAL VALIDATION ACTION PLAN

Ref	Standard	Action to address non or partial compliance	Who is responsible for implementing the action	Timescale
	1000 Purpose, Authority and Responsibility			
Rec 1	Does the Internal Audit Charter establish the organisational independence of Internal Audit?	The Internal Audit Charter should clearly outline the other services that the Head of Financial Services is responsible for and describe the management arrangements put in place to manage audits of those services.	Audit Manager	Will be updated and taken to Audit Committee on 27 th June '18 for approval.
Rec 2	Does the Internal Audit Charter recognise the mandatory nature of the PSIAS?	The Internal Audit Charter should state that compliance with the PSIAS is mandatory	Audit Manager	As above
Rec 3	Does the Internal Audit Charter include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?	The Internal Audit Charter should outline the arrangements in place for Internal Audit administering the on-line bank account and how any impairment of independence will be managed.	Audit Manager	As above
	1100 Organisational Independence			
Rec 4	Does the Chief Executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Financial Services?	Consideration should be given to the Chief Executive having a role in the Head of Financial Services' performance appraisal.	Head of Financial Services will recommend to the Director of Finance and Corporate Services that he and the Head of HR consider the recommendation for inclusion in the ongoing Performance & Development Appraisal	End of March 2018

				Review	
Rec 5	Is feedback sought from the Chair of the Audit Committee for the Head of Financial Services performance appraisal?	Feedback should be sought from the Chair of the Audit Committee as part of the Head of Financial Services' performance appraisal.		As above	As above
	1200 Proficiency and Due Professional Care				
Rec 6	Does the Head of Financial Services periodically assess individual auditors against the predetermined skills and competences?	A formal corporate performance review scheme should be developed and utilised to assess individual auditor's skills and competences.		Head of Financial Services	As and when the Corporate Performance & Development Review is complete
Rec 7	Do internal auditors undertake a program of continuing professional development?	A formal corporate performance review scheme should be developed and utilised to evidence a program of continuous professional development..		Head of Financial Services	As above
	1300 Quality Assurance and Improvement Programme				
Rec 8	Has the Head of Financial Services developed a Quality Assurance and Improvement Programme that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	A formal Quality Assurance and Improvement Programme document should be developed and reported to the Audit Committee		Head of Financial Services	30.06.2018
Rec 9	Does the organisation conduct a review of the effectiveness of its internal audit at least annually?	An internal self-assessment exercise should be undertaken annually.		Head of Financial Services	30.06.2018
	2000 Managing the Internal Audit Activity				
Rec 10	Does the risk-based plan incorporate or is linked to a strategic or high-level statement of: a) How the Internal audit service will be delivered? b) How the internal audit service will be	The Head of Financial Services should develop a strategic or high-level statement as part of the preparation of the risk-based plan.		Head of Financial Services	Partially complete. Fully completed by 30.06.2018

Rec 11	<p>developed in accordance with the internal audit charter?</p> <p>c) How the internal audit service links to organisational objectives and priorities?</p> <p>Has the Head of Financial Services carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?</p>	<p>The Head of Financial Services should complete a formal assurance mapping exercise to identify where reliance can be placed on assurance provided by other sources</p>	Head of Financial Services	31.05.2018
	<p>2400 Communicating Results</p> <p>Does the annual report incorporate the following:</p> <p>g) A statement on conformance with the PSIAS?</p> <p>h) The results of the QAIP?</p> <p>i) Progress against any improvement plans resulting from the QAIP?</p>	<p>The annual report of the Head of Financial Services should be expanded to include a statement on Neath Port Talbot conformance with the PSIAS. The report should advise recipients on the results of Internal Audits QAIP and progress made against any improvement plans resulting from it.</p>	Head of Financial Services	Now that we have undergone the external review we will include in Annual report for 16/17 going to Audit Committee in June 2018