

# Report

## Audit Committee

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### Part 1

Date: 20 September 2018

Item No: 11

**Subject** Internal Audit – Public Sector Internal Audit Standards (PSIAS)

**Purpose** To inform Members of the Council's Audit Committee of the outcome of the external assessment undertaken to ensure compliance with the PSIAS.

**Author** Chief Internal Auditor

**Ward** General

**Summary** The attached report is the external assessor's report on how compliant the Newport City Council Internal Audit team is with the PSIAS; a requirement of the Standards themselves. The overall conclusion was that the IA team generally conforms with the PSIAS and the impact of non-conformance is not considered to be significant. The assessment was undertaken by the former Chief Internal Auditor of Swansea City Council. An Action Plan has been developed to monitor the progress of further improvements.

**Proposal**

- 1) The report be noted by the Council's Audit Committee
- 2) The Committee be updated every 6 months on progress in fulfilling the action plan until all aspects implemented.

**Action by** The Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change

**Signed**

## Background

1. The Public Sector Internal Audit Standards (PSIAS) became effective from 1<sup>st</sup> April 2013 (updated March 2017) 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.
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. In order to facilitate this process of external validation a peer review group was established by the Welsh Chief Auditors' Group.
3. Newport City Council elected to adopt the self-assessment approach with an external validation undertaken by a suitably qualified and experienced external assessor with the required level of knowledge of the application of the PSIAS.
4. Newport's peer review was undertaken during Q4 of 2017/18 by the former Chief Internal Auditor of Swansea City Council. He was provided with all of the self-assessment information and associated documents/evidence.
5. The results of the peer review assessment and external validation process can be found in Appendix 1 in the form of the final assessment report that has been prepared by the external assessor.
6. In summary, the peer review concluded that Newport City Council Internal Audit team generally conforms with the PSIAS and the impact of non-conformance is not considered to be significant.
7. Whilst no significant deviations from the Standards were noted, some areas of improvement were highlighted as part of the review and these are shown in the action plan at the end of the report. This will be monitored and reported to Audit Committee to assess the progress of improvements.
8. In terms of the review that has been undertaken, it is considered that Newport City Council's Internal Audit service generally conforms with the PSIAS and the impact of the non-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

## Financial Summary

9. There are no financial issues related to this report.

## Risks

10. Risks are minimal.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
PSIAS non compliance	L	L	The whole of the IA team have been made aware of the requirements to comply with the PSIAS. The recommendations noted in the	Chief Internal Auditor

			Action Plan will be worked through to ensure greater compliance moving forward	

\* Taking account of proposed mitigation measures

### Links to Council Policies and Priorities

11. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens.
  - To make our city a better place to live for all our citizens
  - To be good at what we do
  - To work hard to provide what our citizens tell us they need

### Options Available

12. This is a factual progress report and therefore there are no specific options, as such. The quarterly reports provide a mechanism for monitoring the performance and progress of the Internal Audit team and the adequacy of the Council's internal control environment to ensure the public pound is spent wisely and appropriately and that fraud, theft and corruption is minimised.
13. The Audit Committee is asked to note the external assessment of the team's compliance with the PSIAS and ask questions, make observations and recommendations, as necessary.

### Preferred Option and Why

14. N/A

### Comments of Chief Financial Officer

15. I can confirm that I have been consulted and have no additional comments.

### Comments of Monitoring Officer

16. There are no legal implications.

## **Staffing Implications: Comments of Head of People and Business Change**

17. There are no human resource implications for this report. Clearly the work of the audit team is critical in giving assurance that the work of the Council is being undertaken within the set policies and procedures. It is also critical in ensuring that the organisation meets its statutory responsibilities under the Well-being of Future Generations Act (2015).

## **Comments of Cabinet Member**

18. N/A

## **Local issues**

19. N/A

## **Consultation**

20. N/A

## **Background Papers**

21. N/A

Dated:

## Appendix A

**Public Sector Internal Audit Standards (PSIAS)**  
**External Assessment of Newport City Council Internal Audit Service**  
**March 2018**  
**Final Report**

Date of Assessment Fieldwork	March 2018
Date of Report Issue	22/03/2018
Report Status	Final
Report Author	Paul Beynon
Issued to	Andrew Wathan

## 1. Introduction

- 1.1 The Public Sector Internal Audit Standard (PSIAS) became effective from 1<sup>st</sup> 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 Newport City 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.

## 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 In summary there are 334 best practice lines within the PSIAS. A self-assessment review of conformance against the PSIAS was undertaken during March 2018 by Paul Beynon, former Chief Auditor of the City and County of Swansea.
- 3.2 Following the validation, the Internal Audit Service of Newport City Council is currently conforming to 239 of the requirements of the Standards, with partial conformance with 17 requirements and non-conformance with 21 requirements.
- 3.3 In addition, there are 57 requirements where the requirements of the PSIAS are found to be not applicable to the circumstances of Newport City Council e.g. it is the Chief Internal Auditor's view that the service does not undertake any consulting work at the present time with all work being assurance based and aimed towards the delivery of the annual opinion on internal control for the Council.
- 3.4 The following table summarises the outcome of the external assessment

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	20	1	1	1	23
1100. Objectivity and	19	6		4	29

Independence					
1200. Proficiency and Due Professional Care	17		1	3	21
1300. Quality Assurance and Improvement Programme	14	4	4	5	27
<b>4. Performance Standards</b>					
Managing the Internal Audit Activity	36	2	2	6	46
Nature of Work	13	7	8	3	31
Engagement Planning	39			19	58
Performing the Engagement	22				22
Communicating Results	40	1	1	13	55
Monitoring Progress	3			1	4
Communicating the Acceptance of Risks				2	2
<b>Total</b>	<b>239</b>	<b>21</b>	<b>17</b>	<b>57</b>	<b>334</b>

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

Standard 1000: Purpose, Authority and Responsibility

3.6 Internal Audit has an Audit Charter which defines its purpose, authority and responsibility and meets all the requirements of the Standards apart from recognising the mandatory nature of the Standards.

3.7 The Charter was last updated during 2015/16 and was approved by the Audit Committee in December 2015. The Standards require that the Charter is reviewed and updated periodically by the Chief Internal Auditor.

Standard 1100: Independence and Objectivity

3.8 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. The Audit Plan is reported to the Audit Committee but the minutes of the meeting show that the Committee noted the Plan rather than approving it.

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. The need for an external assessment within this timeframe has been recognised and has been discussed with the Chair of the Audit Committee and the Head of Finance. 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 Chief Internal Auditor intends to take a comprehensive report to the Committee once this external assessment report has been received and finalised.

#### Standard 2000: Managing the Internal Audit Activity

3.11 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 Chief Internal Auditor 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.

#### Standard 2100: Nature of Work

3.12 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 say that the Chief Internal Auditor should consider the proportionality of work in these areas against other areas of assurance work. It is the Chief Internal Auditor's view that work in the suggested areas would not be proportional and this view is accepted.

3.13 An evaluation of the effectiveness of the Council's risk management processes is also identified in the Standards. No review of risk management has been undertaken to date but an audit of risk management has been included in the Audit Plan for 2018/19.

3.14 The Standards also expect an evaluation of the risks relating to the Council's governance, operations and information systems which Internal Audit partially complies with due to the presence of the Chief Internal Auditor and Audit Manager on the Council's Governance Group and the role of the Chief Internal Auditor in preparing the Annual Governance Statement.

3.15 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.

3.16 Some other areas of non or 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 Newport City Council's Internal Audit service generally conforms with the PSIAS and the impact of the non-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.

**Newport City Council – Public Sector Internal Audit Standards  
External Assessment  
Action Plan – March 2018**

<b>Standard</b>	<b>Action to address non / partial compliance</b>	<b>Responsible for implementation</b>	<b>Timescale</b>	<b>Progress</b>
1000	The Internal Audit Charter should recognise the mandatory nature of the PSIAS.	Internal Audit Charter will be updated and presented to Audit Committee  Chief Internal Auditor	September 2018	
1000	The Internal Audit Charter should be kept up to date and reviewed by the Chief Internal Auditor on a regular basis. The Charter should be reviewed at least every 2 years or whenever there is a significant change to the PSIAS.	Internal Audit Charter will be reviewed, updated and presented to Audit Committee  Chief Internal Auditor	September 2018	
1100	The Audit Committee should approve the Internal Audit Plan	The Audit Committee	May 2018	Audit Committee noted and endorsed 2018/19 Audit Plan on 24 <sup>th</sup> May 2018
1300	The Chief Internal Auditor should bring the existing process together to form a Quality Assurance and Improvement Programme (QAIP). All relevant processes included in the Standards relating to the QAIP should be complied with annually e.g. including the results of the QAIP in the Internal Audit Annual Report.	Best practice formal QAIPs will be reviewed and an assessment will be made on how best they can be applied at Newport.  Chief Internal Auditor	June 2019	
1300	The external assessment of compliance with the PSIAS has to be completed at least once every 5	The options available for the next external	September 2022	

Standard	Action to address non / partial compliance	Responsible for implementation	Timescale	Progress
	years. When the next external assessment is being planned, a report should be taken to the Audit Committee outlining the options available in the Standards for the external assessment and the qualifications and independence of the external assessor or assessment team.	assessment will be taken to Audit Committee prior to the assessment.  Chief Internal Auditor		
2000	The Chief Internal Auditor should review and document any other sources of assurances that can be relied upon as part of the audit planning process.	Assurance mapping best practice will be reviewed to determine how applicable it will be to support the Internal Audit assurance work.  Chief Internal Auditor	March 2019	
2100	The audit of risk management included in the Audit Plan 2018/19 should be completed.	Agreed  Chief Internal Auditor	March 2019	
2100	The Chief Internal Auditor should consider whether an audit of the risks relating to the Council's governance, operations and information systems is necessary or whether the existing arrangements provide sufficient compensating controls.	This will be undertaken as part of the annual audit planning process.  Chief Internal Auditor	March 2019	
2100	A formal evaluation of the fraud risk across the Council should be undertaken including how the fraud risk is managed. The results of the evaluation should be used as part of the annual audit planning process.	A review will be undertaken to best determine the fraud risk across the Council  Chief Internal Auditor	March 2019	

<b>Standard</b>	<b>Action to address non / partial compliance</b>	<b>Responsible for implementation</b>	<b>Timescale</b>	<b>Progress</b>

