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INTERNAL AUDIT SERVICE



Cyngor Sir
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County Council

**External Quality Assessment of
Flintshire County Council's
Internal Audit Service
Self-Assessment with Independent Validation**

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Issued to: Flintshire County Council:
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External Quality Assessment of Flintshire County Council's Internal Audit Service

Self-Assessment with Independent Validation

Introduction

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.

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.

Members of the WCIAG elected to adopt the self-assessment approach, with another member of the WCIAG undertaking the validation.

Purpose

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.

I would like to take this opportunity to thank Lisa Brownbill and Dave Stephens for their ready assistance and co-operation during the course of the review.

Results

In summary, there are 334 best practice requirements within the PSIAS. A self-assessment review of conformance against the PSIAS was undertaken during 2016/17 by Flintshire County Council's Interim Internal Audit Manager. The self-assessment and corresponding improvement plan was presented to the Audit Committee in March 2017.

Following the external validation of the self-assessment, it is considered that the Internal Audit Service is currently conforming to 329 of the requirements, with partial conformance with 4 and non-conformance with 1. The table overleaf summarises the outcome.

Results Table

Standard		Conformance			Total
		GC*	PC*	NC*	
1. Definition of Audit Risk		3	0	0	3
2. Code of Ethics		13	0	0	13
3. Attribute Standards					
1000	Purpose, Authority and Responsibility	22	1	0	23
1100	Objectivity and Independence	27	2	0	29
1200	Proficiency and Due Professional Care	21	0	0	21
1300	Quality Assurance & Improvement Programme	27	0	0	27
4. Performance Standards					
2000	Managing the Internal Audit Activity	45	0	1	46
2100	Nature of Work	30	1	0	31
2200	Engagement Planning	58	0	0	58
2300	Performing the Engagement	22	0	0	22
2400	Communicating Results	55	0	0	55
2500	Monitoring Progress	4	0	0	4
2600	Communicating the Acceptance of Risks	2	0	0	2
Total		329	4	1	334
		98.5%	1.2%	0.3%	100%

* GC – Generally Conforms, PC – Partially Conforms, N – Non-conformance

The identified areas of non-compliance and partial compliance are noted below, along with the other suggested areas for further improvement that were discussed during the review which did not have an impact on compliance.

1 Standard 1000: Purpose, Authority and Responsibility

- 1.1 The Internal Audit Service has an Internal Audit Charter which defines its role, scope, independence, authority and responsibility. The current Charter was reviewed to reflect the changes to the PSIAS in 2016 and was approved by the Audit Committee in September 2016.

The Charter states: "Within Flintshire the Audit Committee fulfils most of the roles of the Board" and specifies its responsibilities. A similar statement has not been inserted regarding 'Senior Management', as required by the PSIAS.

(Partial Conformance)

2 Standard 1100: Independence and Objectivity

- 2.1 Independence and objectivity can be enhanced within procedures by the regular rotation of work between officers.

This practice is usually applied within the Internal Audit Service (although key control audits are occasionally undertaken by the same auditor two years

running for consistency purposes); however, this practice has not been documented in the Service's Charter.

(Suggestion for further improvement)

- 2.2 Consultation work is undertaken by the Internal Audit Service in areas which may later be subject to audit, e.g. the introduction of a new system. Auditors are usually rotated in these circumstances; however, the Service does not stipulate that "advice / recommendations are provided without prejudice to the right of Internal Audit to review and make further recommendations at a later date" in their consultation report.

(Suggestion for further improvement)

- 2.3 The Interim Internal Audit Manager reports administratively to the Chief Officer Governance (who is also the Council's Monitoring Officer), and a member of the Chief Officers Team and reports directly to the Chief Executive.

The PSIAS specifically require the Chief Executive to undertake, countersign, contribute feedback to or review the Audit Manager's performance appraisal (PSIAS 1110 – S/A point 6) and it is required that feedback is also sought upon the appraisal from the Chair of the Audit Committee (PSIAS 1110 – S/A point 7).

The Charter states that: "To further ensure the independence of the Internal Audit Manager, the Chief Executive and Chair of the Audit Committee provide feedback into his/her annual appraisal". However, a new system has since been introduced whereby the Chief Officer Governance is responsible for performing the Internal Audit Manager's performance appraisal and the Chair of Audit Committee does not provide feedback on the appraisal.

In accordance with the PSIAS, this has been reported as a partial conformance. The issue has been discussed with the Interim Internal Audit Manager and it is acknowledged that due to the governance structure of the Authority the current procedure has been deemed sufficient given the Chief Officer Governance and the Chief Executive attend each Audit Committee meeting. Direct contact is also in place between the Interim Internal Audit Manager with the Chief Officer, Governance, the Chief Executive and the Chair and Vice Chair of the Audit Committee. Any performance issues would be addressed immediately rather than wait for a formal appraisal. In relation to the appointment of the Interim Internal Audit Manager, the Chair of the Audit Committee, Chief Executive, and Chief Officer, Governance were involved.

(Partial Conformance x 2)

3 Standard 1300: Quality Assurance and Improvement Programme

- 3.1 A Quality Assurance and Improvement Programme (QAIP) has been developed by Internal Audit which covers all aspects of the Service's activity and it enables conformance with all requirements of the Standards to be evaluated.

The annual internal Self-Assessments form part of the QAIP whose results and identified improvements are currently reported to the Audit Committee together, although the PSIAS state that the results of the QAIP and progress against any improvement plans, must be reported in the "annual report".

(Suggestion for further improvement)

4 Standard 2000: Managing the Internal Audit Activity

- 4.1 To avoid the duplication of work, the Service places assurance upon external assessments where appropriate, e.g. ICT assessments.

The PSIAS require the Service's risk based audit plan to take into account the Authority's assurance framework and include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources. The Internal Audit Manager is required to formalise and fully document the Service's assurance mapping process as part of identifying and determining the approach to using other sources of assurance.

(Non-Conformance)

5 Standard 2100: Nature of Work

- 5.1 The PSIAS require the internal audit activity to evaluate the design, implementation and effectiveness of the Authority's ethics-related objectives, programs and activities.

It is acknowledged that audit work has been based on the Authority's objectives and priorities and has covered some of the areas in the Code of Corporate Governance such as organisational performance management and communication of risk and control information, and that it is intended to incorporate the Future Generations Wellbeing Act into future audits. However, a specific audit of ethics has not been undertaken by the Service.

(Partial Conformance)

- 5.2 The PSIAS also require the Internal Audit Service to assess whether the organisation's information technology governance supports the organisation's strategies and objectives.

The Interim Internal Audit Manager is a member of the Corporate Governance Working Group which supports the work to provide assurance on all aspects of corporate governance arrangements within the Council, to include ICT.

ICT projects are included in the audit plan, to include network security, electronic document management, ICT security policies, etc, which, together with other ICT assurances, support the organisation's strategies and objectives. However, this is not currently noted in the Annual Report.

(Suggestion for further improvement)

6 Standard 2300: Performing the Engagement

- 6.1 The Service has its own documentation retention policy which has been compiled in line with the Council's corporate retention policy. It is currently a stand-alone document.

The Audit Charter states: "Evidence retained on audit files will be subject to FCC's retention guidelines."

(Suggestion for further improvement)

7 Standard 2400: Communicating Results

- 7.1 Evidence in the self-assessment supported the statement that communications are accurate, objective, clear, concise, constructive and complete. When testing for 'timeliness' it was noted that three of the performance indicators relevant to this requirement had not been achieved according to the March 2017 Progress Report.

It is acknowledged that the main indicator was affected due to the auditee taking more time than expected to respond to the Service. This has not been of great concern to the Service as it is often the case that giving the auditee more time often ensures a more meaningful and thought-out response.

(Suggestion for further improvement)

Impact of non-compliance and steps to be taken to ensure compliance

The area of non-conformance with the Standards and the impact has already been disclosed to senior management and the Audit Committee in the Service's self-assessment.

The Service has also included this issue and intended corrective action in its respective improvement plan. The impact of the non-conformance is therefore not considered to be significant, and the Internal Audit service of Flintshire County Council complies with the Standards in all significant areas and operates independently and objectively.



Amanda Roberts, Chief Internal Auditor,
Cyngor Sir Ceredigion County Council
Peer Assessor
22 May 2017

Action Plan

No	Conformance with the Standard	Suggested Improvement Action	Responsibility for Action	Actions Proposed by Management	Timescale
1.1	<p>1000: Purpose, Authority and Responsibility The internal audit charter does not define the term 'senior management', for the purposes of the internal audit activity.</p> <p>(Partial Conformance)</p>	<p>The Service could insert a definition in the Independence & Authority (para 6, point 5) of the IA Charter, or revise the Charter by inserting a catch-all statement such as "For the purposes of Internal Audit activity the Audit Committee is equivalent to the 'Board' and the Chief Officers' Team constitutes 'Senior Management'".</p>	<p>Lisa Brownbill</p>	<p>The Charter will be amended to define the term of the Senior Management.</p>	<p>March 2017</p>
2.1	<p>1100: Independence and Objectivity The regular rotation of work between officers has not been documented in the Service's Charter.</p> <p>(Suggestion for further improvement)</p>	<p>The Service could insert an additional statement under the 'Independence and Authority' section of the Charter confirming regular rotation of work is usually adhered to in order to further enhance independence and objectivity.</p>	<p>Lisa Brownbill</p>	<p>Whilst the Audit Charter will be updated to address this point, it should be acknowledged that ensuring independence and objectivity is a priority within the team however in some instances a conscious decision has been made to use the same auditor for key system reviews to develop expertise and specialism within the team as this adds value to the audit and reduces resources.</p>	<p>Ongoing</p>

No	Conformance with the Standard	Suggested Improvement Action	Responsibility for Action	Actions Proposed by Management	Timescale
2.2	<p>1100: Independence and Objectivity</p> <p>The Service does not currently stipulate that “advice / recommendations are provided without prejudice to the right of Internal Audit to review and make further recommendations at a later date” after providing a consultation service in an area that may be later audited.</p> <p>(Suggestion for further improvement)</p>	<p>The Service could consider using the suggested statement in reports to clarify to clients that request a consultation service that the assurance provided is not absolute and it does not exempt them from a future audit in the same area of work.</p>	<p>Lisa Brownbill</p>	<p>This statement will be included in any future consultancy report.</p>	<p>Ongoing</p>
2.3	<p>1100: Independence and Objectivity</p> <p>The PSIAS specifically require the Chief Executive to undertake, countersign, contribute feedback to or review the Audit Manager’s performance appraisal (PSIAS 1110 – S/A point 6) and it is required that feedback is also sought upon</p>	<p>The issue has been discussed with the Interim Internal Audit Manager and it is acknowledged that due to the governance structure of the Authority the current procedure has been deemed sufficient. However, this may be re-addressed to achieve full conformance with the</p>	<p>Lisa Brownbill</p>	<p>The current procedure has been deemed sufficient given the Chief Officer Governance and the Chief Executive attend each Audit Committee meeting. Direct contact is also in place between the Interim Internal Audit Manager with the Chief Officer, Governance, the Chief Executive and the Chair and Vice Chair of the Audit Committee. Any</p>	<p>Ongoing</p>

No	Conformance with the Standard	Suggested Improvement Action	Responsibility for Action	Actions Proposed by Management	Timescale
	<p>the appraisal from the Chair of the Audit Committee (PSIAS 1110 – S/A point 7).</p> <p>(Partial Conformance x 2)</p>	<p>PSIAS in future.</p>		<p>performance issues would be addressed immediately rather than wait for a formal appraisal. However, this point will be picked up for future appraisals.</p> <p>In relation to the appointment of the Interim Internal Audit Manager, the Chair of the Audit Committee, Chief Executive, and Chief Officer, Governance were involved.</p>	
3.1	<p>1300: Quality Assurance and Improvement Programme</p> <p>The annual internal self-assessment and resulting improvement plan are currently reported to the Audit Committee together, although the PSIAS state that the results of the QAIP and progress against any improvement plans must be reported in the “annual report”.</p> <p>(Suggestion for further improvement)</p>	<p>Although it is acknowledged that it may cause duplication of work, the Section should consider including the self-assessment improvement plan in its Annual Report along with the other performance targets and measures that are currently in place to monitor Internal Audit’s activities to give a full picture of its QAIP.</p>	Lisa Brownbill	<p>Whilst I feel this is duplication since the improvement plan has already been reported to the AC, reference will be made in the Annual plan.</p>	July 2017

No	Conformance with the Standard	Suggested Improvement Action	Responsibility for Action	Actions Proposed by Management	Timescale
4.1	<p>2000: Managing the Internal Audit Activity The Service does not formally document its method of determining how it places assurance upon external assessments.</p> <p>(Non-Conformance)</p>	The Internal Audit Manager needs to carry out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance.	Lisa Brownbill	This was identified by the previous Audit Manager and included within the QAIP Improvement plan. A revised date has been set for March 2018	March 2018
5.1	<p>2100: Nature of Work It is acknowledged that audit reviews have been based on related work areas, but a specific audit of ethics has not been undertaken by the Service.</p> <p>(Partial Conformance)</p>	The Service needs to undertake a review to evaluate the design, implementation and effectiveness of the Council's ethics related objectives, programs & activities.	Lisa Brownbill	This was identified within the Internal Assessment and included within the QAIP Improvement plan.	March 2018
5.2	<p>2100: Nature of Work ICT projects are included in the audit plan, which, together with other ICT assurances, support the organisation's strategies and objectives. However, this is not currently noted in the Annual Report.</p>	To support the annual opinion further, the Section could consider noting the assurance gained from the ICT audit work undertaken during the year in the 'Governance' section of the Annual Report.	Lisa Brownbill	Reference to external assurance will be made in the Annual Report	March 2018

No	Conformance with the Standard	Suggested Improvement Action	Responsibility for Action	Actions Proposed by Management	Timescale
	(Suggestion for further improvement)				
6.1	<p>2300: Performing the Engagement</p> <p>The Service has its own documentation retention policy which is currently a stand-alone document.</p> <p>(Suggestion for further improvement)</p>	<p>The Section could consider inserting the audit retention policy in full in the Audit Manual which is the document that ensures that all internal audit staff are adequately informed on the Service's methodology, policies and procedures.</p>	<p>Lisa Brownbill</p>	<p>The document retention policy will be referenced to and included as an appendix within the Audit Manual.</p>	<p>July 2018</p>
7.1	<p>2400: Communicating Results</p> <p>The Service cited a benefit of allowing one of the 'timing' performance indicators to run over the set target.</p> <p>(Suggestion for further improvement)</p>	<p>The Service should consider reviewing the performance indicator to ensure it is meaningful.</p>	<p>Lisa Brownbill</p>	<p>This has already been highlighted at the last Audit Committee as an action and included within the Audit Committee Action sheet to bring back to Committee in June 2017.</p>	<p>June 2017</p>