

Cyngor Sir CEREDIGION County Council

REPORT TO: Governance and Audit Committee

DATE: 27 September 2022

LOCATION: Remotely via Video Conference

TITLE: Ceredigion County Council – Internal Audit External Quality Assessment

PURPOSE OF REPORT: To present the Internal Audit External Quality Assessment conducted by the Isle of Anglesey County Council to the committee

Background

The Public Sector Internal Audit Standards (PSIAS) became effective from 1 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 the organisation.

A review team from the Isle of Anglesey County Council, consisting of the Head of Audit and Risk and the Principal Auditor, undertook an evaluation of Ceredigion County Council's self-assessment between May and July 2022. This report sets out the findings of their assessment. (**Appendix 1**)

Recommendation(s): That the Governance and Audit Committee:

1; Notes the contents of the Internal Audit External Quality Assessment

Reason(s) for Recommendation(s): To keep the Governance and Audit Committee informed of the outcome of the Internal Audit External Quality Assessment

Appendices: **Appendix 1:** Ceredigion County Council – Internal Audit External Quality Assessment

Corporate Lead

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Reporting Officer: Marion Pryor (Head of Audit and Risk - Isle of Anglesey County Council)
Alex Jenkins (Corporate Manager – Internal Audit)

Date: 31/8/2022



Ceredigion County Council – Internal Audit External Quality Assessment

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August 2022

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INTRODUCTION

1. The Public Sector Internal Audit Standards (PSIAS) became effective from 1 April 2013¹, 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.
3. Members of the Welsh Chief Auditor Group (WCAG) elected to adopt the self-assessment approach, with another member of the WCAG undertaking the independent validation.
4. For Ceredigion County Council, a review team from the Isle of Anglesey County Council, consisting of the Head of Audit and Risk and the Principal Auditor, undertook an evaluation of the self-assessment between May and July 2022. In accordance with the PSIAS, both reviewers were appropriately qualified and experienced internal auditors.
5. The validation assessment comprised a desktop review of the self-assessment and supporting evidence, as well as discussions with the Corporate Manager - Internal Audit, the Chair of the Governance and Audit Committee and the Corporate Lead Officer - Legal and Governance / Monitoring Officer, to gain insight and views on the operation of the Internal Audit Team and adherence to the Standards.
6. Any non-conformance with the Standards and the impact must be disclosed to senior management and the Governance and Audit Committee.

¹ Last revised in 2017

ASSESSMENT RESULTS

7. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), namely: the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.
8. Across the mandatory elements of the PSIAS, there are 56 best practice areas or standards, which comprise 304 best practice lines. The [table](#) at page 4 below gives a colour-coded summary of the results of the external validation assessment.
9. Definitions of the assessment criteria and ratings used are given at [Appendix 1](#).

The validation assessment conducted in July 2022 concludes that the internal audit service for Ceredigion County Council is currently conforming with 50 of the Public Sector Internal Audit Standards (PSIAS) and partially conforming in six areas. There are no examples of non-conformance identified.

An overall assessment of 'Generally Conforms' with the Public Sector Internal Audit Standards is therefore applicable.

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10. As shown above, the results of the external assessment are mainly positive, with the Council achieving 'general conformance' with the majority of the standards. The main areas where the Council has demonstrated 'partial conformance' with the PSIAS are as follows;
 - The Corporate Manager - Internal Audit does not yet hold a professional Internal Audit qualification.
 - As a result of the pandemic and its ongoing impact, the Corporate Manager - Internal Audit did not undertake the usual risk assessment exercise to determine the annual internal audit plan of work for 2021/22. For 2022/23, whilst the Corporate Manager - Internal Audit performed and took account of the usual risk assessment in developing the annual audit plan, the programme of work has been flexible, focussing on previously identified areas of work along with some key risks from the corporate risk register and specific requests for assurance.
 - Since the onset of the pandemic, the Internal Audit team has not followed up agreed management actions, identified during audit work, to ensure services have implemented them effectively.

² 'Generally Conforms' is the highest overall rating available to the assessor

- The Corporate Manager - Internal Audit is currently developing and improving the Council's assurance map, which identifies sources of assurance from across the Council. Once complete, the revised assurance map will provide useful insight and direction for the annual internal audit planning process.
 - The process for issuing scopes for internal audit assignments to services the subject of an audit review is informal, and may benefit from a more structured approach. In addition, auditors should consider seeking agreement on the scope of the work from management in advance, to help generate buy-in and ownership for the audit and any resultant recommendations and improvement actions identified.
 - A small number of amendments to the Corporate Manager - Internal Audit's Annual Report, the Internal Audit Charter and the Audit Manual are needed to ensure all elements of the PSIAS are fully satisfied.
11. A detailed action plan of eight improvement areas identified during the assessment is included at [Appendix 2](#), which includes suggested timescales for implementation and responsibilities for the actions.
 12. We have provided the Corporate Manager - Internal Audit with a copy of the detailed assessment in a separate document.

ASSESSMENT SUMMARY

Reference	Public Sector Internal Audit Standard	Assessment Results
1	Mission of Internal Audit	
2	Definition of Internal Auditing	
3	Core Principles for the Professional Practice of Internal Auditing:	
4	Code of Ethics	
5	Attribute Standards:	
1000	Purpose, Authority and Responsibility	
1010	Recognising Mandatory Guidance in the Internal Audit Charter	
1100	Independence and Objectivity	
1110	Organisational Independence	
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 (Standards 1210-1230):	

Reference	Public Sector Internal Audit Standard	Assessment Results
1210	- <i>Proficiency</i>	
1220	- <i>Due Professional Care</i>	
1230	- <i>Continuing Professional Development</i>	
1300	Quality Assurance and Improvement Programme (Standards 1310-1320):	
1310	- <i>Requirements of the Quality Assurance and Improvement Programme</i>	
1311	- <i>Internal Assessments</i>	
1312	- <i>External Assessments</i>	
1320	- <i>Reporting on the Quality Assurance and Improvement Programme</i>	
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	
1322	Disclosure of Non-conformance	
6	Performance Standards:	
2000	Managing the Internal Audit Activity (Standards 2010 - 2060):	
2010	- <i>Planning</i>	
2020	- <i>Communication and Approval</i>	
2030	- <i>Resource Management</i>	

Reference	Public Sector Internal Audit Standard	Assessment Results
2040	- <i>Policies and Procedures</i>	
2050	- <i>Coordination and Reliance</i>	
2060	- <i>Reporting to Senior Management and the Board</i>	
2070	External Service Provider and Organisational Responsibility for Internal Audit	
2100	Nature of Work (Standards 2110 - 2130):	
2110	- <i>Governance</i>	
2120	- <i>Risk Management</i>	
2130	- <i>Control</i>	
2200	Engagement Planning (Standards 2201-2240):	
2201	- <i>Planning Considerations</i>	
2210	- <i>Engagement Objectives</i>	
2220	- <i>Engagement Scope</i>	
2230	- <i>Engagement Resource Allocation</i>	
2240	- <i>Engagement Work Programme</i>	
2300	Performing the Engagement (Standards 2300-2340):	

Reference	Public Sector Internal Audit Standard	Assessment Results
2310	- <i>Identifying Information</i>	
2320	- <i>Analysis and Evaluation</i>	
2330	- <i>Documenting Information</i>	
2340	- <i>Engagement Supervision</i>	
2400	Communicating Results (Standards 2410-2440):	
2410	- <i>Criteria for Communicating</i>	
2420	- <i>Quality of Communications</i>	
2421	- <i>Errors and Omissions</i>	
2430	- <i>Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'</i>	
2431	- <i>Engagement Disclosure of Non-conformance</i>	
2440	- <i>Disseminating Results</i>	
2450	Overall Opinions	
2500	Monitoring Progress	
2600	Communicating the Acceptance of Risks	

APPENDIX 1: ASSESSMENT CRITERIA DEFINITIONS

Assessment	Definition
<p>Generally Conforms</p>	<p>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.</p> <p>General conformance does not require complete / perfect conformance, the ideal situation, successful practice, etc. There may be 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.</p>
<p>Partially Conforms</p>	<p>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.</p> <p>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.</p>
<p>Does Not Conform</p>	<p>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.</p> <p>These deficiencies will usually have a significant negative impact on the service's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.</p>

APPENDIX 2: IMPROVEMENT ACTION PLAN

Ref	PSIAS Ref.	Improvement Area	Recommendation	Responsibility	Timescale
1	1000	The Internal Audit Charter does not currently outline the specific responsibilities of the Governance and Audit Committee, or the role of statutory officers (CEO / CFO / Monitoring Officer) with regards to Internal Audit.	Update and seek approval of Internal Audit Charter to include responsibilities of the Governance and Audit Committee and Statutory Officers in respect of Internal Audit.	Corporate Manager - Internal Audit	Next annual IA Charter review
2	1210	The Corporate Manager - Internal Audit (CMIA) does not hold a professional Internal Audit qualification. However, she is currently studying towards the Chartered Institute of Internal Auditors (CIIA) professional qualification. The head of internal audit occupies a critical position in the Council. CIPFA, in its Statement ³ determines that to perform the role, the head of internal audit must be professionally qualified and suitably experienced.	The Council should significantly support the CMIA in achieving, at the earliest opportunity, the Chartered Institute of Internal Auditors professional qualification (CMIIA).	Corporate Manager - Internal Audit	As soon as possible
3	2010	As a result of the COVID 19 pandemic, the Corporate Manager - Internal Audit did not carry out the usual risk assessment exercise to develop the annual audit plan in 2021/22. For 2022/23, whilst the CMIA took into account the usual risk assessment in developing the annual audit plan, the programme of work has been flexible, focussing on previously identified areas of work along with some key risks from the corporate risk register and specific requests for assurance. In addition, the priority of work to be undertaken is not explicitly detailed in the annual plan.	The new CMIA should continue to develop the risk assessment process to inform the annual plan of internal audit activity, and outline the priority of works to be undertaken in the plan. This is an ideal opportunity to ensure the annual audit plan is fully aligned with the Council's risk management framework and focussed on the key risks to its strategic objectives.	Corporate Manager - Internal Audit	Within 12 months

³ The CIPFA Statement on the role of the head of internal audit in Public Service Organisations (2019) aligns to the PSIAS (2017) and explicitly links to the Core Principles for the Professional Practice of Internal Auditing.

Ref	PSIAS Ref.	Improvement Area	Recommendation	Responsibility	Timescale
4	2050	<p>Prior to the COVID 19 pandemic, the Internal Audit team had developed an assurance map identifying sources of assurance across the Council, however the coverage and maturity of the map was limited.</p> <p>The new CMIA and Senior Auditor are currently in the process of improving and strengthening the assurance map to include a broader coverage of assurance and use of the Chartered Institute of Internal Auditor's 'Three Lines Model'.</p>	<p>Continue to develop the process of mapping and categorising sources of assurance for the Council, using the 'Three Lines' model.</p> <p>Once complete, integrate the assurance map into the annual audit planning process in respect of PSIAS standard '2050 Coordination'.</p>	Corporate Manager - Internal Audit	Within 12 months
5	2220	<p>Auditors do not issue a formal document outlining the scope and objectives of each audit prior to it commencing, nor do they seek 'agreement' of the scope with the relevant Head of Service / Manager. Notification of audit work is usually done informally through email etc. in advance of the audit.</p> <p>Formally engaging with the relevant service prior to the audit and agreeing on the scope of the work in advance helps to generate buy-in and ownership for the audit and any resultant recommendations identified.</p>	<p>Introduce a process of documenting, issuing and agreeing formal audit scopes with management in advance of the audit work commencing.</p> <p>The IA team are in the process of implementing a new internal audit software system (Pentana MKI), which has audit scoping functionality and can therefore be utilised for this purpose.</p>	Corporate Manager - Internal Audit	Within 12 months
6	2421	While in practice, if an audit report contains a significant error or omission and requires amendment, the CMIA or relevant auditor will ensure that an updated version is issued to all recipients on the original distribution list. However, this process is not included in the Audit Manual.	Update the Internal Audit Manual accordingly.	Corporate Manager - Internal Audit	Within 3 months

Ref	PSIAS Ref.	Improvement Area	Recommendation	Responsibility	Timescale
7	2450	<p>The CMIA's Annual Report 2021/22, which includes the overall audit opinion for the period does not include any limitations of scope.</p> <p>Limitations of scope exist in all internal audit work. Internal audit, especially a small team, cannot be relied upon to identify all strengths and weaknesses that may exist within the Council's operations. It is important to note that the responsibility for a sound system of internal controls ultimately rests with management and the work of internal audit should be taken as a substitute for management's responsibilities for the application of sound internal control practices.</p>	<p>Include a section within the Annual Report to include any limitations of scope for the work undertaken by Internal Audit for the relevant year.</p>	<p>Corporate Manager - Internal Audit</p>	<p>Next Annual Report (2022/23)</p>
8	2500	<p>Since the onset of the COVID 19 pandemic, the internal audit team have not followed up agreed management actions to ensure that services have implemented them effectively, or that senior management have accepted the risk of not taking action.</p>	<p>Re-instate the follow up process.</p> <p>The Pentana (MKI) system has action tracking functionality, so once implemented, can be utilised for this purpose.</p>	<p>Corporate Manager - Internal Audit</p>	<p>Within 6 months</p>

APPENDIX 3: DISTRIBUTION LIST

Draft Summary Report and Detailed Assessment

- Alex Jenkins, Corporate Manager - Internal Audit
- Elin Prysor, Corporate Lead Officer - Legal & Governance / Monitoring Officer

Final Summary Report and Action Plan

- Governance and Audit Committee