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Rhondda Cynon Taf
County Borough Council

Internal Audit Report

**CARDIFF COUNTY COUNCIL – EXTERNAL PEER
ASSESSMENT**

MANAGEMENT IN CONFIDENCE

Date of Review:	November & December 2017
Auditor:	Marc Crumbie
Report Distribution:	Ian Allwood Sue Powell
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1. Introduction

1.1 The Public Sector Internal Audit Standards (the 'Standards') 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 Standards were updated and re-issued in 2017.

1.2 There are two possible approaches to external assessments:

- A full external assessment or;
- An internal self-assessment which is validated by an external reviewer.

1.3 Cardiff County Council has opted to take part in a peer review process whereby they have undertaken a self-assessment in accordance with the Standards and submitted it, together with supporting evidence to the Head of Internal Audit at Rhondda Cynon Taf CBC for validation.

2. Purpose

2.1 The purpose of this report is to communicate the outcome of the external validation.

3. Background

3.1 A self-assessment review of conformance against the Standards was undertaken by the Internal Audit Service during the early part of quarter 1 2017/18. The results of this self assessment identified a relatively small number of areas that were considered as needing to be addressed. None of these areas were considered to be of a high priority and/or significant.

3.2 This validation exercise has reviewed the self assessment for completeness and robustness. An examination of key documentation was carried out and, evidence to support the statements made within the self-assessment has been provided.

4. Outcome of the External Assessment

4.1 The self assessment was undertaken based upon the updated Standards issued in March 2017.

4.2 The narrative produced as part of the self assessment was considered to be comprehensive with numerous references to documentary evidence in support of the statements made.

4.3 All documentary evidence requested was provided and the detail within correlated to the statements made within the self assessment.

4.4 The self assessment highlighted 8 (**subject to my comments in the appendix**) areas where improvements could be made. The action plan in respect of this self assessment is provided at Appendix A. The Head of Audit at Cardiff County Council does not consider any of the areas for improvement to be significant deviations from the Standards and I agree with this interpretation.

4.5 This external validation has identified a small number of additional points that need to be considered further, none are considered significant deviations from the Standards but have been raised with the aim of documenting arrangements in place, for clarity. The recommendations are contained within Section 5 below.

5. RECOMMENDATIONS

Independence & Objectivity – Audit Manager

5.1 Standard 1112 ‘Chief Audit Executive Roles Beyond Internal Auditing’ states:

‘Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.’

Public sector interpretation:

When asked to undertake any additional roles/responsibilities outside of internal auditing, the chief audit executive must highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics as well as any relevant requirements set out by other professional bodies to which the CAE may belong.’

5.2 The Audit Committee is required to approve and periodically review any safeguards put in place to limit impairments to independence and objectivity (see also Standard 1000 Purpose, Authority and Responsibility). Currently, the Audit Charter does not explicitly list areas of other responsibility along with the safeguards that have been put in place (albeit, they are in place in practice).

RECOMMENDATION:

In order for the Audit Committee to review the safeguards in place, it is recommended that for those functions which the Audit Manager has operational responsibility, they be explicitly listed within the Audit Charter and the safeguards in place to manage independence and objectivity be clearly set out.

This will help to ensure that Audit Committee have all of the information they may require in order to review the arrangements in accordance with the Standards and be satisfied.

Declaring potential conflicts of interest to protect independence and objectivity:

5.3 A conflict of interest would prejudice an individual’s ability to perform his or her duties and responsibilities objectively. In order to manage this process the Audit Manager at Cardiff County Council requests a declaration from all staff annually to ensure there are no potential conflicts and to demonstrate transparency. Whilst this procedure is in place and evidence exists to support the arrangements, the Audit Charter does not explicitly document these arrangements.

RECOMMENDATION:

It is recommended that the Audit Charter be updated to reflect the practices in place in respect of collating conflicts of interests from audit staff, at least annually.

- 5.4 Should a potential conflict of interest be reported by a member of the Internal Audit Service, then the Audit Charter should provide detail in respect of how this will be managed. The Audit Charter does not currently document the arrangements in place (albeit, they are in place in practice).

RECOMMENDATION:

The Audit Charter should be updated to reflect the working practices that are in place in respect of managing conflicts of interests identified by staff – i.e. they are taken into account when allocating individual workloads to auditors.

Draft audit plan report

- 5.5 An overview in respect of compiling the Internal Audit Plan is provided within the Audit Charter. The Standards require the Internal Audit Service to demonstrate a risk based audit plan that also covers as much of the overall control environment as far as is practicable.

RECOMMENDATION:

In order to demonstrate why audits are included within the Council's Audit Plan, consideration could be given to documenting a rationale/category against each audit.

6. Conclusions

- 6.1 In terms of this external validation, it is concluded that the Internal Audit Service of Cardiff County Council is currently conforming to the majority of the requirements of the Standards. **There are no significant deviations from the Standards.**
- 6.2 In respect of those issues identified in the self assessment and those highlighted above the Audit Manager has agreed to present the findings and an action plan to Audit Committee for consideration.

Appendix 1 – Cardiff County Council’s Self Assessment – Action Plan

AUDIT TITLE: Public Sector Internal Audit Standards (PSIAS) Self Assessment

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
Standard - Purpose, Authority & Responsibility (1000)						
1	<p>i) The Chief Audit Executive (CAE) periodically reviews the Internal Audit Charter and presents it to senior management and the board for approval.</p> <p>ii) The board approves the Risk-Based Audit Plan.</p>	<p>The Charter is approved by the Audit Committee in the presence of the Section 151 Officer. At present, it is not approved by other Senior Management.</p> <p>Your audit charter is approved each year by audit committee – I’d consider that sufficient.</p>	<p>i) The Audit Committee must ‘approve’ the Audit Charter each year, and this should be correctly included in the Audit Committee minutes.</p> <p>Your audit charter <u>has</u> been presented to and approved by audit committee?</p> <p>ii) The Audit Charter must be presented to Senior Management, with consideration given to it being countersigned by the CEO. I don’t think this is necessary?</p>	<p>The Audit Charter will be presented in draft to the Audit Committee at the meeting in January 2018, with a final version presented in march 2018.</p> <p>The Audit Charter will be presented to Senior Management Team in January 2018. Why (audit committee is plenty)?</p>	Head of Finance	30.01.18

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
			It's presented to audit committee each year and they are responsible for overseeing the council's I/A Service.			
Standard - Purpose, Authority & Responsibility - Organisational Independence (1110)						
2	The board approves decisions relating to the appointment and removal of the CAE.	The Section 151 Officer considers that the appointment / remuneration for the CAE should be in line with other appointments across the Council.	The Audit Committee must consider approving decisions relating to the appointment and removal of the CAE. This isn't something that needs to be raised, taking into account the management response. All Heads of Audit in the public sector as far as I am aware are appointed through a normal process rather than it being done by audit committee.	The Section 151 Officer considers that the appointment / remuneration for the CAE should be in line with other appointments across the Council.		
Standard - Purpose, Authority & Responsibility – Impairment to independence or objectivity (1130)						

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
3	Any real or apparent impairment of independence or objectivity has been disclosed to appropriate parties.	<p>There have been no real or apparent impairments of independence or objectivity in audit engagements allocated.</p> <p>No auditors are allocated audits of areas where they have worked in the previous year.</p> <p>Where the CAE has operational responsibilities for activities, audit activity in this area will be reviewed and authorised by a senior group auditor and assured by the Section 151 Officer.</p>	<p>Something not to be included within the action plan?</p> <p>There's nothing to action (and there's nothing wrong)?</p>			
<p>Standard - Proficiency and Due Professional Care – Due Professional Care (1220)</p>						

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
4	Internal Auditors exercise due professional care by considering the probability of significant errors, fraud, or non-compliance.	<p>The standards require analytical procedures in the planning stage of each engagement, but some Auditors require training to consistently meet this requirement without assistance.</p> <p>Some Auditors have skill gaps in respect of Excel and CAATs, meaning that, without assistance, they cannot always review the whole population data sufficiently in order to identify the probability of significant errors, fraud or non-compliance.</p>	<p>Audit Management must build on the competency assessment which has been initiated.</p> <p>Auditors in need of analytical audit planning skills must be provided with further training, and in the meantime provided with direct assistance in analysing the population data for the probability of significant errors, fraud, or non-compliance.</p>	<p>There is a programme of skills training for all auditors which has been generated from the completion of the skills matrix and other changes during the year. Topics to be covered in the skills training include risk-based auditing, the PSIAS, SharePoint and Excel.</p> <p>Auditors are always supported during audits on the analysis of data, sampling methodology, etc.</p>	Group Auditor	On-going
Standard - Quality Assurance and Improvement Programme - Reporting on the Quality Assurance and Improvement Programme (1320)						
5	The CAE reports the results of the Quality	The QAIP is included in the Audit Charter with results	It must be ensured that the results of the QAIP are	Key performance indicators are reported to the Audit	Head of Finance	March 2018

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
	Assurance and Improvement Programme (QAIP) to senior management and the board.	reported in the Annual Internal Audit Report which is issued to Audit Committee. The QAIP is not reported to the senior management team.	reported to the senior management team in addition to the Audit Committee.	Committee, but it is accepted that more information could be provided within the annual report. A more detailed QAIP report will be presented to Audit Committee and senior managers.		
Standard - Governance (2110)						
6	The Internal Audit activity must evaluate the effectiveness of the organisation's ethics related objectives, programmes and activities.	A governance review is ongoing in 2017/18 to focus on ethics and culture.	An audit of the effectiveness of the organisation's ethics related objectives, programmes and activities must be completed and communicated to senior managers.	An ethics and values audit has been programmed and is on-going.	Group Auditor	2017/18
Standard – Risk Management (2100)						
7	Internal Audit must assess the effectiveness	A review of risk management processes is currently on-going.	An audit of the effectiveness of the organisation's risk management processes must be completed and	The audit of risk management is currently on-going and will	Group Auditor	2017/18

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
	of the organisation's risk management processes.		communicated to senior managers.	be reported to Audit Committee in January 2018.		
Standard - Engagement Planning (2200)						
8	Internal Auditors develop and document a plan for each consulting engagement. For significant consulting engagements, a written understanding is documented and communicated including the objectives, scope, respective responsibilities and other expectations.	The International Professional Practices Framework (IPPF) requires plans and working papers for all consulting as well as assurance engagements. There is scope to improve the paperwork to support consultation engagements, which is not currently standardised or included in the Audit Protocol. All consulting engagements are initiated on the basis of an agreed understanding of the objectives, scope and	A proforma must be developed for the purposes of documenting the consulting engagement objectives, scope, timing and resource allocations. For any significant consulting engagements (exceeding 10 planned days), a documented understanding must be reached with clients on the objectives, scope and respective responsibilities for the engagement.	The scope of consulting engagements is discussed with audit clients when the engagement is requested. However, consideration will be given to the development of a proforma for consulting engagements so that these discussions are recorded.	Group Auditor	March 2018

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
		<p>responsibilities of the parties involved.</p> <p>It would be good practice to ensure this is documented in the event of any significant consulting engagements.</p>				