

**AUDIT COMMITTEE: 30 November 2015**

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**PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) – EXTERNAL  
ASSESSMENT**

**REPORT OF THE CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 8.4**

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**Reason for this Report**

1. To update the Audit Committee Members on the proposed arrangements for the Public Sector Internal Audit Standards - External Assessment.

**Background**

2. The Committee was informed of the PSIAS at its meeting on the 27<sup>th</sup> March 2013, where it was agreed that the Standards be adopted by the Internal Audit Section from the 1<sup>st</sup> April 2013.
3. The Internal Audit Section has fully implemented these Standards and the Audit Charter. These and the general approach to Internal Audit, are firmly based around the definitions for audit and the standards set within the PSIAS.
4. The PSIAS require that an assessment is carried out by external assessors at least once every five years.

**Issues**

5. The Audit & Risk Manager has met with members of the Welsh Chief Auditor's Group, where it was proposed that the Welsh authorities establish a peer group to undertake such assessments. The vast majority of authorities supported this approach and agreed to seek approval from their Managers within their authorities (18 signed up to date). This approach is consistent with a peer group established for Core cities across the UK. This approach, based around a robust self-assessment and an external evaluation, fully meets the requirements of the Standard and has significant cost savings.
6. A draft Terms of Reference has been drawn up for discussion when the Welsh Chief Auditors next meet, which provides information on how the assessment arrangement is likely to be progressed, but is subject to more detailed discussion. See Appendix A attached.
7. Work has begun on grouping and matching authorities to avoid any potential conflicts of interest and soon each authority will have details to enable some timelines to be set for the external assessments to take place.

8. This approach has been agreed in principle with the Head of Finance and Section 151 Officer.

### **Legal Implications**

9. There are no legal implications arising from this report.

### **Financial Implications**

10. There are no financial implications arising directly from this report, however, this approach to external assessments will save the Council the cost of other forms of assessment, which would need to be purchased from external providers.

## **RECOMMENDATIONS**

11. To advise members of the approach to be adopted for carrying out external assessments in compliance with Public Sector Internal Audit Standards (PSIAS).

**DEREK KING**  
**AUDIT & RISK MANAGER**

The following is attached:

Appendix A - Terms of Reference

## TERMS OF REFERENCE

### Welsh Chief Internal Auditor Group

### External Assessment – Peer Review

#### Purpose of the Paper

At a recent meeting of the Welsh Chief Auditors meeting it was agreed that member authorities should look to formalise the arrangements for their external assessments and develop a clear basis for the approach to undertaking such assessments.

It was agreed at this meeting that the external assessment process could be undertaken as a peer review whereby one Authority would undertake a peer assessment of a different Authority within the group. It was also agreed that reciprocal reviews would not be undertaken. The majority of Chief Auditors present agreed to support this approach. It was for individual authorities to decide if they wish to be part of the peer review group.

#### Background Information

Members of the Peer Group:

To be confirmed once response received.

External Assessments:

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

The purpose of the external assessment is to help improve delivery of the audit service to an organisation. The assessment should be a supportive process that identifies opportunities for development which ultimately helps to enhance the value of the audit function to your Authority.

The two possible approaches to external assessments outlined in the standard include either a full external assessment or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- Possess a recognised professional qualification
- Have appropriate experience of internal audit - at least five years at manager level within the public sector / local government
- Have detailed knowledge of leading practices in internal audit
- Have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The Head of Internal Audit should discuss the proposed form of the external assessment with their Line Manager (where relevant) or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Audit Committee regarding the nature of the

assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The Head of Internal Audit should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

### **Proposed Approach**

Members of the peer group have elected to adopt the latter of the 2 approaches with another member of the peer group undertaking the validation. The key benefit to this approach is cost. Evidence gathered show costs for a full external assessments at around £15K and a validated assessment, similar to the approach proposed, at approx. £11k.

There are obvious financial savings to members of the group by adopting the peer review approach outlined within this paper. In addition, such an approach is in keeping with the promotion of collaborative working arrangements.

### **Independence and Objectivity**

Prior to the commencement of the assessments taking place all parties will agree the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. It is important to ensure the independence of the auditor undertaking the peer assessment. Any known or perceived conflicts of interest should therefore be disclosed. It should be acknowledged at the outset that all Welsh Internal Audit services have some knowledge of each other.

### **The Assessment Process**

Completion of the Checklist:

Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment.

#### **Pre Assessment Phase:**

- Confirm the terms of reference for the review, timescales and dates for the review.
- Obtain background information in order to obtain an appreciation of the function. This should include the IA Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives).
- Obtain details of responsibilities, resources, structure and activity.
- Obtain details of any external client organisations e.g. Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be required.
- Obtain the completed self-assessment which has been sign posted to the supporting evidence.
- Obtain any other information relating to the effective performance of the internal audit function.
- Obtain evidence of how quality is maintained and how performance is measured and reported.

### **Assessment Phase (on-site visit):**

- Review of documentation in support of the standards / checklist.
- Examine a sample of audit engagements according to the PSIAS and procedures.
- Interview key staff to confirm audit procedures and process.
- Undertake an exit meeting with the Head of Internal Audit.

### **Post Assessment Phase:**

The review should conclude with a detailed report providing an opinion on the Internal Audit activity's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards highlighting any areas of partial conformance or areas which do not conform along with recommendations for improvement, where appropriate.

### **Reporting Phase:**

- Discussion of the draft report with the Head of Internal Audit.
- Issue of draft final report and agreed actions to the Head of Internal Audit and Sponsor to confirm accuracy.
- Issue final report to the Head of Internal Audit and Sponsor
- Head of Internal Audit / Sponsor to issue final report to their Audit Committee which includes an action plan and implementation dates.

It is envisaged that each phase of the assessment process should take approximately 1 day, and overall, the assessment completed within 5 working days.