

Report of the Chief Auditor

Audit Committee – 14 March 2017

PUBLIC SECTOR INTERNAL AUDIT STANDARDS EXTERNAL ASSESSMENT

Purpose:	This report provides background to the required external assessment of compliance with the Public Sector Internal Audit Standards and the proposed method of securing the external assessment.
Policy Framework:	None
Reason for Decision:	To allow arrangements to be put in place for the external assessment prior to 31 March 2018
Consultation:	Legal, Finance, Access to Services.
Recommendation(s):	It is recommended that 1) Committee agree that the external assessment should be by way of a self-assessment with an independent external validation provided through the Welsh Chief Auditor's Peer Group 2) The Chair is nominated as the 'appropriate sponsor' who must agree the scope of the external assessment
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1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) were introduced in the United Kingdom on 1 April 2013 and compliance with the Standards is mandatory for all providers of internal audit services in the public sector.

- 1.2 One of the requirements of the Standards is that an external assessment of each internal audit provider must be conducted at least once every 5 years.
- 1.3 The Standards also require that the form of the external assessment and the qualifications and independence of the external assessor is discussed with the Audit Committee
- 1.4 This report satisfies the requirements of the Standards in terms of the external assessment and recommends the way forward for securing the external assessment of the City and County of Swansea's Internal Audit Section.

2 External Assessment – Requirements

- 2.1 The PSIAS require an external assessment at least once every 5 years by a qualified, independent assessor or assessment team from outside the organisation.
- 2.2 The external assessment can be either a full external assessment or a self-assessment with an independent external validation. Where a self-assessment is adopted, it is recommended that the checklist published by CIPFA in its Local Government Application Note for the PSIAS is used.
- 2.3 An external assessor must demonstrate competence in the professional practice of internal auditing and the external assessment process. The external assessor must be appropriately qualified and have sufficient knowledge of the PSIAS.
- 2.4 The external assessor must have no real or apparent conflict of interest and not be part of or under the control of the organisation to which the internal audit activity belongs.
- 2.5 The PSIAS also state that the scope of the external assessment must be agreed with an 'appropriate sponsor' e.g. the Accounting / Accountable Officer or the Chair of the Audit Committee.
- 2.6 It is also a requirement that the format of the external assessment is discussed with the Audit Committee.

3. Proposed External Assessment

- 3.1 In recent years, the requirement for an external assessment of compliance with the PSIAS has been discussed at a number of Welsh Chief Auditors Group meetings.
- 3.2 As a result of the discussions, it was agreed that the Welsh Chief Auditors would establish a peer group to provide an external

assessment via a robust external validation of the self-assessment checklist provided by CIPFA.

- 3.3 Terms of reference for the peer group have been established by the Welsh Chief Auditors Group to fully meet the requirements of the PSIAS.
- 3.4 The peer review will be undertaken by the Chief Auditor of another Welsh authority and to ensure independence and objectivity, 2 authorities will not be allowed to undertake each other's external assessment.
- 3.5 The main advantage of the proposed approach is that it fully complies with the requirements of the PSIAS in terms of the assessor's qualifications, independence, objectivity and knowledge of the Standards and the external assessment process.
- 3.6 The peer review approach will also be delivered without the cost of employing an external assessor. Evidence has been gathered showing that a full external assessment is likely to cost around £15k while an external validation costs round £11k.
- 3.7 There will be no costs involved in the peer review approach apart from the Chief Auditor's time in completing an external validation of another authority. The peer review approach is also in keeping with the collaborative working agenda being promoted by the Welsh Government.
- 3.8 A proposed list of external reviews has been drawn up and it is proposed that the external validation of Swansea will be undertaken by the Chief Auditor of the City and County of Cardiff while the Chief Auditor of Swansea will undertake the external validation of Blaenau Gwent County Borough Council.
- 3.9 The Section 151 Officer supports the provision of the external assessment by self-assessment with an external validation by the peer group established by the Welsh Chief Auditors.
- 3.10 The intention of identifying an appropriate sponsor for the external review is to further safeguard the independence of the external assessment process. It is proposed that the Chair of the Audit Committee is appointed as the appropriate sponsor and is responsible for agreeing the scope of the external review with the Chief Auditor.
- 3.11 Following the external review a draft report will be produced which will be sent to the Chief Auditor and Sponsor to confirm factual accuracy. A final report will then be issued to the Chief Auditor and Sponsor including an action plan to address any issues identified during the assessment. The final report and action plan will also be presented to the Audit Committee.

4 Equality and Engagement Implications

4.1 There are no equality and engagement implications associated with this report

5. Financial Implications

5.1 There are no financial implications associated with this report.

6. Legal Implications

6.1 Provision of an adequate and effective internal audit function is a legal requirement under the Accounts and Audit (Wales) Regulations 2005 as amended. For local government in Wales, the PSIAS is mandatory for all principal local authorities. An effective internal audit service also ensures that the Well-being goals within the Well-being of Future Generations Act Wales (2015) are being met.

Background Papers: Public Sector Internal Audit Standards

Appendices: None