

GWASANAETH ARCHWILIO MEWNOL INTERNAL AUDIT SERVICE



Cyngor Sir
CEREDIGION
County Council

INTERNAL AUDIT EXTERNAL QUALITY ASSESSMENT

AUDIT REPORT – DENBIGHSHIRE COUNTY COUNCIL

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INTERNAL AUDIT EXTERNAL QUALITY ASSESSMENT

Denbighshire County Council

1.0 Introduction

- 1.1. 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.
- 1.2. 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.
- 1.3. 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.
- 1.4. The validation assessment comprised a desktop review of the self-assessment and supporting evidence, as well as discussions with the Chief Internal Auditor (CIA) and the Chair and Deputy Chair of the Governance and Audit Committee to gain insight and views on the operation of the Internal Audit Team and adherence to the Standards.
- 1.5. The assessment criteria used can be found in [Appendix I](#).
- 1.6. Any non-conformance with the Standards and the impact must be disclosed to senior management and the Governance and Audit Committee.
- 1.7. The Head of Audit (Corporate Manager – Internal Audit (CMIA)) from Ceredigion County Council, supported by the Head of Audit & Risk from Anglesey County Council undertook a self-assessment review of conformance against the PSIAS during February and March 2024.

2.0 Purpose

- 2.1 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.

¹ Last revised in 2017

3.0 Assessment Results

- 3.1 The Public Sector Internal Audit Standards (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.
- 3.2 Across the mandatory elements of the PSIAS, there are there are 56 best practice areas or standards, which comprise 304 best practice lines within the PSIAS self-assessment.

ASSURANCE	GENERALLY CONFORMS
<p style="text-align: center;">Following validation of the self-assessment by Ceredigion County Council, the Internal Audit Service of Denbighshire County Council ‘Generally Conforms’ with the requirements. ‘Generally Conforms’ reflects the highest level of conformance following an external assessment.</p> <p>The evaluator has concluded that the Internal Audit service for Denbighshire County Council currently conforms with 45 of the Public Sector Internal Audit Standards (PSIAS) and partially conforms with six. There are 5 areas of non-conformance identified.</p>	

4.0 Improvement Action Plan

- 4.1 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 ‘non-conformance’ or ‘partial conformance’ with the PSIAS are as follows:
 - There is no formal Quality Assurance and Improvement Programme (QAIP) in place and the CIA has not carried out annual self-assessments on the Internal Audit activity’s conformance to the PSIAS. The CIA should report the QAIP and progress against it to GAC in the annual report.
 - Use of the statement ‘Conforms with the International Standards for the Professional Practice of Internal Auditing’ where no formal QAIP process in place.
 - Non-conformance with the PSIAS (Formal QAIP not in place and self-assessments on conformance to the PSIAS not undertaken by the CIA) not reported to the Governance & Audit Committee.
 - As a result of difficulties recruiting suitably qualified and experienced internal auditors, the CIA has recruited staff on career pathways. Therefore, the internal audit team do not yet possess sufficient skills and experience to cover

all areas of the Internal Audit plan. They are, however, enrolled on suitable qualifications.

- Two audits engagements in the 2023/24 IA Plan align to 'critical' corporate risks, however, it is not clear how the prioritisation of the remainder of the audit work included in the IA plan aligns to the organisation's goals and corporate risks.
- The Internal Audit activity has not evaluated the effectiveness of the organisation's risk management processes or how the organisation manages fraud risk.
- A small number of amendments to the CMIA's Annual Report, the Internal Audit Charter and the Audit Manual are needed to ensure all elements of the PSIAS are fully satisfied.

4.2 An [Assessment Summary](#) and a detailed [Improvement Action Plan](#) of eleven improvement areas identified during the assessment is included in the body of this report. The Action Plan includes suggested timescales for implementation and responsibilities for the actions.

4.3 We have provided the Chief Internal Auditor with a copy of the detailed assessment in a separate document.

4.4 Six areas of partial conformance and five areas of non-conformance were identified in the external quality assessment, this has been detailed in the Improvement Action Plan. Overall, the Denbighshire County Council's Internal Audit Service complies with the standards in all significant areas and operates independently and objectively.

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

IMPROVEMENT ACTION PLAN

Ref No.	PSIAS Self-Assessment / PSIAS Standards	Conforms	Recommendation	Responsibility	Timescale
1	1000 Purpose, Authority and Responsibility	Partial	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. It is therefore advisable to update the Internal Charter to include this information. The IA Charter also states that the CIA reports functionally to the Head of Finance and Audit and should be updated to correctly state that the CIA reports functionally to the board and administratively to the Head of Finance & Audit.	Chief Internal Auditor	Next annual IA Charter review
2	1210 Proficiency and Due Professional Care	Partial	The Council should significantly support the Internal Audit function in achieving the required qualifications for proficiency, as soon as possible.	Chief Internal Auditor	As soon as possible
3	1300 Quality Assurance and Improvement Programme (QAIP)	Does Not Conform	The CIA should develop and maintain a QAIP to assess the efficiency and effectiveness of the IA function that covers all aspects of the internal audit activity and enables conformance with the PSIAS and continuous improvement.	Chief Internal Auditor	Within 3 months
4	1310 Requirements of the Quality Assurance and Improvement Programme	Does Not Conform	The CIA should develop and maintain a QAIP that includes both internal and external assessments.	Chief Internal Auditor	Within 3 months
5	1320 Reporting on the Quality Assurance and	Partial	The QAIP of the results of the previous External Quality Assessment (2017/18) is reported to GAC as part of the Annual Report. In addition, to conform with the PSIAS,	Chief Internal Auditor	Next IA Annual Report

	Improvement Programme		Internal Self-Assessments should be undertaken by the CIA and the results included in the QAIP and reported to GAC.		
6	1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	Does Not Conform	As no formal QAIP in place, the statement 'Conforms with the International Standards for the Professional Practice of Internal Auditing' should be removed from reports until the required QAIP process is in place to confirm this.	Chief Internal Auditor	Immediately
7	1322 Disclosure of Non-conformance	Does Not Conform	The CIA should disclose any instances of non-conformance to the board. This would include that periodic self-assessments were not undertaken and a formal QAIP was not in place.	Chief Internal Auditor	Immediately
8	2010 Planning	Partial	<p>The internal audit plan was determined by considering the Corporate Risk Register, Assurance Framework and discussions with Management, there is no documented risk assessment in place.</p> <p>Two audits engagements in the 2023/24 IA Plan align to 'critical' corporate risks, however, it is not clear how the prioritisation of the remainder of the audit work included in the IA plan aligns to the organisation's goals and corporate risks.</p> <p>It may be an ideal opportunity to revise and develop the annual risk assessment process to ensure the annual audit plan is fully aligned with the Council's risk management framework and focused on the key risks to its strategic objectives. The IA Plan should also set out the estimated</p>	Chief Internal Auditor	Within 12 months

			resources required for the work and include consulting engagements.		
9	2120 Risk Management	Partial	<p>The internal audit activity should evaluate the effectiveness of the organisation's risk management processes to determine whether:</p> <ul style="list-style-type: none"> a) Organisational objectives support and align with the organisation's mission. b) Significant risks are identified and assessed. c) Appropriate risk responses are selected that align risks with the organisation's risk appetite. d) Relevant risk information is captured and communicated in a timely manner across the organisation to enable staff, management, and the board to carry out their responsibilities. <p>Internal Audit should also evaluate the potential for fraud and how the organisation manages fraud risk.</p>	Chief Internal Auditor	Within 12 months
10	2421 Errors and Omissions	Partial	The Audit Manual should be updated to include provision that in the event of a final audit report containing a significant error or omission, the relevant auditor / CMIA etc. will re-issue the corrected information to all parties who received the original communication.	Chief Internal Auditor	Within 3 months
11	2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'	Does Not Conform	The statement 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing' should be removed from reports until the results of the QAIP support such a statement.	Chief Internal Auditor	Immediately

APPENDIX I: ASSESSMENT CRITERIA

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>