



Internal Audit Service
PRIVATE AND CONFIDENTIAL

**Merthyr Tydfil County Borough Council –
External Assessment of Internal Audit Service**

Final Report

Audit No. 18061 (2018-19)

Report issued to:	Gary Evans, Internal Audit Manager
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Assessor:	Matthew Holder ACCA, Audit, Risk & Counter Fraud Manager
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Merthyr Tydfil County Borough Council
External Assessment of Internal Audit Service

This report may contain data as defined by the General Data Protection Regulation 2016 and the Data Protection Act 2018, which must be treated as strictly private and confidential.

1.0 Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) became effective from 01 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 have been revised from 01 April 2017 to incorporate new and revised international standards and consequent amendments to the additional public sector requirements and interpretations. It is against the amended 2017 standards that the external assessment has been benchmarked against.
- 1.2 The two possible approaches to external assessments outlined in the standard 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 Internal Auditors Group (WCAG) elected to adopt the self-assessment approach, with another member of the WCAG undertaking the validation.

2.0 Purpose

- 2.1 The purpose of the external assessment is to help improve delivery of the audit service to Merthyr Tydfil County Borough Council. The assessment is designed to be a supportive process that identifies opportunities for development, which ultimately helps to enhance the value of the audit function.

3.0 Results

- 3.1 In summary, there are 341 best practice lines within the PSIAS. The Audit Manager undertook a self-assessment review of conformance against the PSIAS during January 2019.
- 3.2 Following validation by Pembrokeshire County Council, the Internal Audit Service of Merthyr Tydfil County Borough Council is currently conforming to 328 (96%) of the requirements with partial conformance of 12 (3%) and non-conformance of 1 (1%).

3.3 The table below summarises the results.

Standard		Conformance			Total
		Yes	Partial	No	
1	Definition of Ethics	3	-	-	3
2	Code of Ethics	13	-	-	13
3	Attribute Standards				
	<u>1000</u> : Purpose, Authority & Responsibility	21	2	-	23
	<u>1100</u> : Objectivity & Independence	31	4	-	35
	<u>1200</u> : Proficiency & Professional Due Care	21	-	-	21
	<u>1300</u> : Quality Assurance & Improvement Programme	20	6	1	27
4	Performance Standards				
	<u>2000</u> : Managing the Internal Audit Activity	47	-	-	47
	<u>2100</u> : Nature of Work	31	-	-	31
	<u>2200</u> : Engagement Planning	58	-	-	58
	<u>2300</u> : Performing the Engagement	22	-	-	22
	<u>2400</u> : Communicating Results	55	-	-	55
	<u>2500</u> : Monitoring Progress	4	-	-	4
	<u>2600</u> : Communicating the Acceptance of Risks	2	-	-	2
	Total	328	12	1	341

4.0 Impact of non-compliance and steps to be taken to ensure compliance.

- 4.1 Any non-conformance with the Standards and their impact must be disclosed to Senior Management and the Audit Committee.
- 4.2 In terms of the review that has been undertaken, it is considered that Merthyr Tydfil County Borough Council's Internal Audit service generally conforms to the PSIAS and the impact of the partial-conformance is not considered to be significant. Overall it is felt that Internal Audit complies with the standards in all significant areas and operates independently and objectively.
- 4.3 The attached Action Plan (Appendix A) shows the recommendations arising from the external assessment to address the issues identified in this report and to ensure increased compliance with the standards.

ACTION PLAN

Applicable Public Sector Internal Audit Standard	Adequate & Effective	Comments	Recommendation	Management Response
<p>1000: Purpose, Authority & Responsibility.</p> <p>1120: Individual Objectivity</p> <p>1130: Impairment to Independence or Objectivity</p>		<p>A requirement of the standards is to include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities. The Internal Audit Manager was able to state how conflicts of interest would be mitigated, however there was no formal record of Internal Audit staff completing a “Code of Ethics Register of Interest” form which would outline any conflicts of interest and safeguard them if any issues arise as part of an audit engagement.</p>	<p>A “Code of Ethics Register of Interest” form should be designed and reviewed annually in order to comply with the PSIAS.</p>	<p>Acceptance: Yes</p> <p>Management Response: Form to be introduced and maintained from April 2019.</p> <p>Responsible Officer: Audit Manager (MTCBC).</p> <p>Timescale for Action: By end of April 2019.</p>

Applicable Public Sector Internal Audit Standards	Adequate & Effective	Comments	Recommendation	Management Response
<p>1000: Purpose, Authority & Responsibility.</p> <p>1110: Organisational Independence</p>		<p>The standards states that the Chief Audit Executive (CAE) periodically reviews the Internal Audit Charter and present it to Senior Management and the “Board” for approval. The Internal Audit Manager stated that the Internal Audit Charter was revised in 2018 but had not, at the time of the external assessment, been approved by the Audit Committee. The Audit Manager gave assurance that the Internal Audit Charter will be reviewed by Audit Committee at its meeting in March 2019 to ensure full compliance with the standards.</p>	<p>The Internal Audit Charter should be formally approved by the “Board” in order to comply fully with the PSIAS.</p>	<p>Acceptance: Yes.</p> <p>Management Response: IA Charter accepted and approved by audit Committee at their meeting convened on the 25th March 2019.</p> <p>Responsible Officer: Audit Manager (MTCBC).</p> <p>Timescale for Action: Completed on 25th March 2019.</p>

Applicable Public Sector Internal Audit Standards	Adequate & Effective	Comments	Recommendation	Management Response
<p>1110: Organisational Independence</p>	<p style="text-align: center;"></p>	<p>The standards state that the “Board” approves decisions relating to the appointment and removal of the CAE. This has not happened in Merthyr Tydfil County Borough Council due to the Internal Audit Manager being appointed prior to the introduction of the Public Sector Internal Audit Standards.</p>	<p>For future appointments the “Board” should approve decisions relating to the appointment and removal of the CAE in order to comply with the PSIAS.</p>	<p>Acceptance: Yes.</p> <p>Management Response: MTCBC IA has now been incorporated into the Regional Internal Audit Service (RIASS) comprising the IA teams of MT, RCT, Bridgend and Vale Councils, effective from 01st April 2019. The Chief Auditor for MT will have a different role within the RIASS and a new Head of IA for the RIASS was appointed in February 2019. That appointment was undertaken in compliance with this Standard’s requirement. Future appointments to the RIASS Head of IA role will also be in compliance.</p> <p>Responsible Officer: The Board of the RIASS.</p> <p>Timescale for Action: Completed.</p>

Applicable Public Sector Internal Audit Standards	Adequate & Effective	Comments	Recommendation	Management Response
<p>1130: Impairment to Independence or Objectivity</p>		<p>The standards ask whether internal auditors have complied with the Bribery Act 2010. Discussions with the Internal Audit Manager and the team provided sufficient details on how this would be dealt with if it arose, however during the external assessment there was no formal reference or documentation to the Bribery Act 2010 which the team and/or employees of the Council could refer to for guidance.</p>	<p>The Anti-Fraud and Corruption Policy should be updated to include the Bribery Act 2010, with training being provided to the Internal Audit Team to enhance their knowledge and conform to the PSIAS.</p>	<p>Acceptance: Yes.</p> <p>Management Response: The Policy will be updated during the 2019/2020 financial year and is included within the audit plan.</p> <p>Responsible Officer: Audit Manager (MT).</p> <p>Timescale for Action: Complete by end of August 2019.</p>

Applicable Public Sector Internal Audit Standards	Adequate & Effective	Comments	Recommendation	Management Response
<p>1300: Quality Assurance & Improvement Programme (QAIP)</p> <p>1310: Requirements of the QAIP</p> <p>1320: Reporting on the QAIP</p>		<p>The standards require that the CAE develops a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated. The processes which form the contents of the QAIP are largely in place with the completion of the self-assessment checklist being an important element of the QAIP as are the various performance targets and measures that are currently in place to monitor Internal Audit's activities. However, as yet, these haven't been formally set out in a QAIP document.</p>	<p>A Quality Assurance and Improvement Programme (QAIP) covering all aspects of the internal audit activity needs to be developed and maintained and reported to the "Board".</p>	<p>Acceptance: Yes.</p> <p>Management Response: QAIP arrangements already in place and undertaken regularly. What needs to be introduced is an 'over-arching' document to evidence this in a readily available format.</p> <p>Responsible Officer: Audit Manager (MT).</p> <p>Timescale for Action: End of September 2019.</p>

Applicable Public Sector Internal Audit Standards	Adequate & Effective	Comments	Recommendation	Management Response
<u>1312:</u> External Assessments	X	The standards require an external assessment be carried out or is planned to be carried out, at least once every five years. The external assessment was scheduled to be undertaken in 2017-18, however due to unforeseen circumstances this was not undertaken within the timeframe. The Internal Audit Manager advised that the Section 151 Officer had been made aware of the non-compliance with this standard.	The external assessment should be scheduled in and completed within the 5 year cycle to ensure compliance with the PSIAS.	<p>Acceptance: Yes.</p> <p>Management Response: Future assessments will be undertaken on the RIASS. Timescale to be determined but definitely within the 5 year window.</p> <p>Responsible Officer: Head of RIASS.</p> <p>Timescale for Action: Within the 5 year window.</p>

Applicable Public Sector Internal Audit Standards	Adequate & Effective	Comments	Recommendation	Management Response
<p>1322: Disclosure of Non-conformance</p>		<p>The standards require all instances of non-conformance with the PSIAS to be reported to the “Board”. The Internal Audit Manager stated that the Section 151 Officer was aware, however the Audit Committee are to be informed following the external assessment.</p>	<p>The “Board” should be informed of the standards not being conformed with and the implications of these within the Internal Audit section.</p>	<p>Acceptance: Yes.</p> <p>Management Response: The results of the Peer Review will be commented upon in the Annual Report and Opinion of the Audit Manager. This is reported to Audit Committee and also forms a basis of the findings and conclusion of the Annual Governance Statement. In future instance the Board of the RIASS will be informed of any non-compliance identified and any implications/impact.</p> <p>Responsible Officer: Audit Manage (MT).</p> <p>Timescale for Action: Report to Audit Committee on the 29th April 2019.</p>