

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2015/16**

**COMMITTEE:**

**AUDIT COMMITTEE**

**7<sup>th</sup> December 2015**

<b>Item No. 6</b>
<b>Public Sector Internal Audit Standards - External Assessment</b>

**REPORT OF:-**

**GROUP DIRECTOR, CORPORATE & FRONTLINE SERVICES**

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**1. PURPOSE OF THE REPORT**

The purpose of this report is to provide an overview of the external assessment arrangements required as part of the Public Sector Internal Audit Standards and seek Audit Committee approval in respect of the recommended option.

**2. RECOMMENDATIONS**

It is recommended that Members review the information contained within the report and:

- 2.1 Approve that Rhondda Cynon Taf County Borough Council participates in the peer review process in respect of an External Assessment which reviews conformance against the Public Sector Internal Audit Standards at least once every 5 years.

**3. BACKGROUND**

- 3.1 The [Public Sector Internal Audit Standards](#) ('The Standards') came into force on the 1<sup>st</sup> April 2013 and consist of the following:

- Definition of Internal Auditing;
- Code of Ethics; and
- Standards for the Professional Practice of Internal Auditing.

- 3.2 The Standards aim to promote further improvement in the professionalism, quality and effectiveness of Internal Audit Services across the public sector.

- 3.3 The Standards require that each public sector Internal Audit Service has in place robust arrangements for quality assurance and requires that Internal Audit be the subject of an external assessment at least once every 5 years, as follows:

**“1310 Requirements of the Quality Assurance and Improvement Programme**

*The quality assurance and improvement programme must include both internal and external assessments.*

1311 Internal Assessments

*Internal assessments must include:*

*Ongoing monitoring of the performance of the internal audit activity; and Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.*

*Interpretation:*

*Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity.*

1312 External Assessments

*External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Internal Audit Manager must discuss with the Audit Committee:*

- *The form of external assessments;*
- *The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.”*

*Interpretation:*

*External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.”*

3.4 As part of Welsh Councils exploring the area of external assessments in more detail, the Chief Internal Auditors Group Wales has undertaken investigatory work in respect of what arrangements are in place in other parts of the United Kingdom. Key findings include:

- [Blackpool Council](#) recently reported to its Audit Committee that:  
*“The Council has obtained quotations from a number of external providers who could undertake the external assessment; however quotations received are in the region of £9-11k.”*
- Peer review approaches have been developed whereby clusters of local authorities undertake validation assessments of each other’s arrangements (i.e. a self assessment with independent external validation). In order to ensure independence and objectivity, reciprocal reviews between authorities are not permitted.

3.5 Following on, the Chief Internal Auditors Group Wales has determined that there is sufficient interest across local authorities to establish a peer review approach. In view of this, the Group agreed to set out options for their respective Audit Committees to consider the appropriate form of external assessment and approve a way forward (in accordance with Standard 1312).

**4. A PROPOSED APPROACH TO EXTERNALLY ASSESSING THE COUNCIL'S INTERNAL AUDIT SERVICE**

4.1 As set out at paragraph 3.3, there are two options available to the Council in seeking an external assessment of the Internal Audit Service's conformance with the Standards. These are:

- (A) Procure a full external assessment from an external provider; or
- (B) Undertake a self-assessment in readiness for independent external validation.

4.2 As set out in paragraph 3.5, there is sufficient interest across Wales to undertake peer reviews whereby an Internal Audit Service would undertake a self-assessment and provide it for external validation by a peer. To enable Audit Committee to make an informed decision, the Group Director for Corporate & Frontline Services together with the Operational Audit Manager have assessed the advantages and disadvantages of procuring a full external assessment to that of a peer review. These are set out in Table 1 below.

Table 1 – Advantages and disadvantages of each option

<b>Option</b>	<b>Advantages</b>	<b>Disadvantages</b>
(A) Full external assessment	<ul style="list-style-type: none"> <li>• Conformance with the Standards (i.e. an external review undertaken at least once every 5 years).</li> <li>• Audit Committee will receive an independent view of Internal Audit's conformance with the Standards.</li> <li>• Qualified and independent party undertaking the review.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher cost compared to the peer review approach (Option B).</li> <li>• No budget provision in place to fund the procurement of an external provider (circa £9-11k).</li> <li>• A full external assessment could take up more time of Internal Audit staff compared to the self-assessment approach                             <ul style="list-style-type: none"> <li>○ i.e. a self-assessment will not be provided in advance resulting in an external assessor potentially requiring more time in respect of 'question and answer' sessions.</li> </ul> </li> <li>• Limits the opportunity for this Council to 'learn from others'.</li> </ul>
(B) Self-assessment with independent external validation	<ul style="list-style-type: none"> <li>• Conformance with the Standards (i.e. an external review undertaken at least once every 5 years).</li> <li>• Audit Committee will receive an independent</li> </ul>	<ul style="list-style-type: none"> <li>• A proportion of The Operational Audit Manager's time will not be spent working 'directly for this Council'.</li> </ul>

(peer review)	<p>view of Internal Audit's conformance with the Standards.</p> <ul style="list-style-type: none"> <li>• Qualified and independent party undertaking the review.</li> <li>• A more cost effective option compared to the full external assessment option as only the mileage and officer time from each authority will be incurred (no costs will be re-charged however).</li> <li>• Approach can be accommodated within existing resources.</li> <li>• During a peer review, there may be an opportunity to learn from another Council in respect of working practices that may add value to this Council.</li> </ul>	
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4.3 Based on the information included in Table 1, it is considered that the most effective option in terms of ensuring conformance with the Standards, workforce development, service development and cost is Option B: Self-assessment with independent external validation (peer review). In practice this would mean:

- The Rhondda Cynon Taf Council Internal Audit Service completing a self assessment and providing it for external validation by an independent and qualified officer from another local authority in Wales. The results of the external assessment would be reported to Audit Committee;
- The Rhondda Cynon Taf Council Operational Audit Manager validating a self assessment completed by another local authority in Wales. In order to manage independence and objectivity, this would be a different local authority to that which undertook the Rhondda Cynon Taf assessment; and
- The costs incurred would be officer time and travel, both of which would not be recharged between local authorities. N.B when allocating peers, the distance to be travelled would be considered in order to keep the cost element to a minimum.

4.4 Subject to Audit Committee considering the above information and agreeing a preferred option, the Operational Audit Manager will begin planning arrangements to enable an assessment of the service to be undertaken in line with the Standards.

4.5 Members will note that in accordance with the workplan for Audit Committee,

a report will be presented at the meeting scheduled to be held on 31<sup>st</sup> March 2016 whereby the Internal Audit Service's self assessment against the Standards will be reported (Standard 1311 'Internal Assessment'). This will be supplemented by a statement of conformance within the 'The Head of Internal Audit Annual Report' which is scheduled to be reported at the meeting to be held on 3<sup>rd</sup> May 2016.

**5. SUMMARY**

- 5.1 The Public Sector Internal Audit Standards require that an external assessment of an organisation's Internal Audit function be carried out once every five years by a qualified and independent assessor or assessment team. External assessments can be in the form of a full assessment or a self-assessment with independent external validation, with Audit Committee considering and approving the form of external assessment adopted.
  
- 5.2 The advantages and disadvantages of two options have been assessed and, based on this, the recommended option is a self-assessment with independent external validation (peer review).

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**LOCAL GOVERNMENT ACT, 1972**

**as amended by**

**THE ACCESS TO INFORMATION ACT, 1985**

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**LIST OF BACKGROUND PAPERS**

**AUDIT COMMITTEE**

**7<sup>th</sup> December 2015**

**Report of the Group Director, Corporate & Frontline Services**

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<b>Item</b>	<b>File Ref:</b>
6. Public Sector Internal Audit Standards - External Assessment	IA / MC
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