

**CYNGOR SIR POWYS COUNTY COUNCIL**

**AUDIT COMMITTEE**

**17<sup>th</sup> October 2014**

**REPORT AUTHOR: County Councillor Dai Davies  
Portfolio Holder for Finance**

**SUBJECT: Review of the Internal Audit Function**

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**REPORT FOR: Information**

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1. **Background**

- 1.1 Audit Committee will be aware that an effective Internal Audit function is essential in providing an independent and objective opinion to an organisation's control environment, comprising risk management, control and governance, by evaluating the Authority's effectiveness in achieving its objectives. An effective Internal Audit function enables the Authority to make informed decisions as to improvements required to the control environment. It also assists in the Audit Committee's responsibility to ensure that a sound system of control is in operation.
- 1.2 In order to ensure that the provision of Internal Audit is of a satisfactory quality, external standards have been developed which outline the way in which such services should be planned, managed and delivered. These standards help to ensure that the internal audit function meets the needs of clients, their expectations, and the demands of ethical requirements.
- 1.3 The standards applicable to the Internal Audit function are the *Public Sector Internal Audit Standards* (PSIAS) which are based upon the *International Standards for the Professional Practice of Internal Auditing* developed by the Chartered Institute of Internal Auditors. For local government bodies, the PSIAS have been supplemented by the *Local Government Application Note* (LGAN) issued by the Chartered Institute of Public Finance & Accountancy.
- 1.4 These standards were introduced in April 2013 and are more rigorous than their predecessors. The standards also introduce an expectation that Internal Audit functions are externally assessed for compliance against the standards. Powys is the first Council in Wales to commission an external assessment. Following a tendering process, KPMG were commissioned to conduct the assessment on behalf of the Council.
- 1.5 Attached as Appendix A is a draft report from KPMG on their assessment of the Internal Audit function at Powys County Council. It should be noted at this stage that the report has a draft status as it has only recently been received by the Council and officers have not yet had the opportunity to meet with KPMG to finalise the report and agree the action plan for improvement. A meeting is scheduled to take place with KPMG on 16<sup>th</sup> October 2014 and following this, a final report will be circulated to Audit Committee together with an agreed improvement action plan.

1.6 It is proposed that Audit Committee receive a progress report against the improvement actions at their meeting in January 2015.

2. **Overall Conclusion**

2.1 The review identified that the Internal Audit Service is generally compliant with the Standards but that there are a number of areas where further improvements need to be made in order to achieve full compliance.

2.2 The most important improvement opportunity identified by the review is the need for the audit plan to be more closely linked to the Council's key risks, both to support the need for the work and to consider if there are areas of assurance need that are not being addressed.

2.3 One of the major obstacles to achieving full compliance with the Standards is the absence of a robust risk management process. As a result of this, there is a need to more closely, and explicitly, align the internal audit plan with the key risks facing the Council.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
<p><b>That Audit Committee receives the draft report on the review of the Internal Audit function and notes its content, conclusions and recommendations</b></p> <p><b>That a finalised report and action plan is circulated to Audit Committee following a meeting between officers and KPMG on 16<sup>th</sup> October 2014.</b></p> <p><b>That a report on progress with the implementation of improvement actions is presented to Audit Committee in January 2015</b></p>	<p><b>To improve the Internal Audit function and to be fully compliant with Internal Audit Standards</b></p>

<b>Relevant Policy (ies):</b>	
<b>Within Policy:</b>	<b>Y</b>
<b>Within Budget:</b>	<b>Y</b>

<b>Relevant Local Member(s):</b>	
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<b>Person(s) To Implement Decision:</b>	N/A
<b>Date By When Decision To Be Implemented:</b>	

<b>Contact Officer Name:</b>	<b>Tel:</b>	<b>Fax:</b>	<b>Email:</b>
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**Background Papers used to prepare Report:**