

Report of the Chief Auditor

Audit Committee – 14 March 2017

INTERNAL AUDIT CHARTER 2017/18

Purpose:	This report outlines the background to the Public Sector Internal Auditing Standards (PSIAS) which were introduced with effect from 1 st April 2013 and presents an Internal Audit Charter for approval by the Committee.
Policy Framework:	None
Reason for Decision:	There is a requirement under the PSIAS for every internal audit provider to have an Internal Audit Charter which must be approved by the Audit Committee
Consultation:	Corporate Management Team, Legal, Finance, Access to Services.
Recommendation(s):	It is recommended that the Committee approve the Internal Audit Charter 2017/18
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1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into force on 1st April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government
- 1.2 The PSIAS were developed by CIPFA and the Chartered Institute of Internal Auditors (CIIA) and are mandatory for all providers of internal audit services in the public sector.

- 1.3 The standards are based on the mandatory elements of the global CIIA's International Professional Performance Framework with additional requirements to reflect the UK public sector.
- 1.4 The objective of the PSIAS are to
- Define the nature of internal auditing within the UK public sector
 - Set basic principles for carrying out internal audit in the UK public sector
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning
- 1.5 The PSIAS were reviewed in 2015 and now consist of the following
- Mission of Internal Audit
 - Definition of Internal Audit
 - Core Principles for the Professional Practice of Internal Auditing
 - Code of Ethics
 - International Standards for the Professional Practice of Internal Auditing

2. Internal Audit Charter

- 2.1 One of the requirements of the PSIAS is that every internal audit provider in the UK public sector whether in-house, shared service or outsourced must have an Internal Audit Charter
- 2.2 The Internal Audit Charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The guidance produced by CIPFA on implementing the PSIAS states that the Charter should
- Recognise the mandatory nature of the PSIAS (the Definition of Internal Auditing, Code of Ethics and the Standards themselves)
 - Define the scope of internal audit activities
 - Establish the responsibilities and objectives of internal audit
 - Recognise that internal audit's remit extends to the entire control environment of the organisation and not just financial controls
 - Define the terms 'board' and 'senior management' for the purposes of the internal audit activity
 - Establish the organisational independence of internal audit
 - Establish the accountability, reporting lines and relationships between the chief audit executive (Chief Auditor) and
 - The board (Audit Committee)
 - Those to whom the Chief Auditor must report functionally

- Those to whom the Chief Auditor may report administratively
 - Set out the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of the paid service) with regards to internal audit.
 - Define the role of internal audit in any fraud-related work
 - Set out the arrangements that exist within the organisation's anti-fraud and anti-corruption policies, requiring the Chief Auditor to be notified of all suspected or detected fraud, corruption or impropriety, to inform his or her annual internal audit opinion and the risk-based plan
 - Establish internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations where appropriate, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities
 - Cover the arrangements for appropriate resourcing
 - Include arrangement for avoiding conflicts of interest if internal audit undertakes non-audit activities.
- 2.3 The Chief Auditor is required to review the Internal Audit Charter periodically and present it to the Corporate Management Team and Audit Committee for approval. The PSIAS state that final approval of the Internal Audit Charter resides with the Audit Committee.
- 2.4 The Internal Audit Charter for the City and County of Swansea's Internal Audit Section has been reviewed with the changes shown as tracked changes in Appendix 1
- 2.5 The Charter has been approved by the Executive Board on 8 March 2017 and is now reported to the Audit Committee for approval

3 Equality and Engagement Implications

- 3.1 There are no equality and engagement implications associated with this report

4. Financial Implications

- 4.1 There are no financial implications associated with this report.

5. Legal Implications

- 5.1 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: None

Appendices: Appendix 1 City and County of Swansea – Internal Audit Charter
2017/18

CITY AND COUNTY OF SWANSEA

INTERNAL AUDIT CHARTER

2017/18

1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into force on 1st April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government
- 1.2 The PSIAS were adopted by the Relevant Internal Audit Standard Setters which is made up of 7 organisations including CIPFA and the Welsh Government.
- 1.3 The PSIAS were developed by CIPFA and the Chartered Institute of Internal Auditors (CIIA) and are mandatory for all providers of internal audit services in the public sector.
- 1.4 The PSIAS consist of the following
 - Definition of Internal Audit
 - Code of Ethics
 - International Standards for the Professional Practice of Internal Auditing
- 1.5 The PSIAS were further reviewed in 2015 and with effect from 1 April 2016, the following were added to the Standards
 - Mission of Internal Audit
 - Core Principles for the Professional Practice of Internal Auditing
- 1.6 One of the requirements of the PSIAS is that each internal audit provider must have an Internal Audit Charter which is a formal document that
 - Defines the purpose, authority and responsibility for internal audit
 - Establishes the internal audit activity's position within the organisation
 - Authorises access to records, personnel and physical assets
 - Defines the scope of internal audit activities
 - Defines the nature of assurance and consulting activities
- 1.7 The Internal Audit Charter must be reviewed periodically by the Chief Auditor and presented to the Corporate Management Team and Audit

Committee for approval. Responsibility for the final approval of the Internal Audit Charter lies with the Audit Committee

2. Definition of Internal Audit

2.1 The statutory nature of Internal Audit is established by the following legislation

- Section 151 of the Local Government Act 1972 which states that local authorities are required to make arrangements for the proper administration of its financial affairs and shall ensure that one of its officers has responsibility for the administration of those affairs. In Swansea, the Section 151 Officer is the Corporate Director (Resources).
- The Accounts and Audit (Wales) Regulations 2014 state that *‘a larger relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. The 2014 Regulations also say that ‘a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit’.*

2.2 Against this statutory background, the PSIAS provides the following definition of internal audit

- *‘Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve and organisation’s operations*
- *It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’*

2.3 The Mission of Internal Audit as outlined in the latest version of the Standards is as follows

‘To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight’

2.4 The Core Principles of internal audit are shown below. The Standards state that failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit’s mission

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives and the risks of the organisation
- Is appropriately positioned and adequately resourced

- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive and future-focused
- Promotes organisational improvement

2.5 The PSIAS also includes a Code of Ethics which all internal audit staff are required to comply with. The principles which underpin the Code of Ethics are integrity, objectivity, competency and confidentiality.

2.6 Internal auditors are also expected to adhere to the requirements of any professional body that they are members of as well as the Council's Officers' Code of Conduct.

2.7 A number of generic terms are used throughout the PSIAS which must be defined in the Internal Audit Charter. The terms and how they are interpreted in Swansea are shown in the following table

PSIAS	City & County Swansea
Chief Audit Executive	Chief Auditor
Senior Management	Corporate Management Team
Board	Audit Committee

3. Role and Function of Internal Audit

3.1 A professional, independent and objective Internal Audit service is one of the key elements of good governance in local government with the foundation of an effective Internal Audit service being compliance with standards and proper practices.

3.2 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the Council's objectives

3.3 Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

3.4 It is management's responsibility to establish and maintain a sound control environment including risk management, internal control processes, accounting records and governance arrangements.

3.5 It is Internal Audit's role to review the established systems and advise management that suitable arrangements are in place and are operating properly. It is particularly important that the work of Internal Audit adds value to the services under review.

- 3.6 Internal Audit will work with management to improve the control environment and assist the Council in achieving its objectives.
- 3.7 The role undertaken by Internal Audit and the annual opinion on the control environment provided by the Chief Auditor which also informs the Council's Annual Governance Statement provides a vital assurance function over the Council's activities.

4. Scope of Internal Audit

- 4.1 The definition of Internal Audit established by the PSIAS covers the control environment of the Council as a whole
- 4.2 This means that the scope of Internal Audit similarly covers the Council's operations as a whole and is not limited to the review of financial systems.
- 4.3 Financial Procedure Rule 12 – Internal Audit states that the Chief Auditor will maintain an adequate and effective Internal Audit service and provides authority to:
- Enter at all reasonable times on any Council premises or land
 - Have access to, and removal if necessary into custody of, all records, documents and correspondence relating to any financial or other transaction of the Council
 - Require and receive such explanations as are necessary concerning any matter under examination
 - Require any employee of the Council to produce on demand cash, stores or any other Council property under his/her control

5 Independence of Internal Audit

- 5.1 It is essential that Internal Audit is independent of the services it reviews and reports upon. Internal Audit must be seen to be independent and all staff must be free of any restrictions which prevent them acting in an independent and objective manner.
- 5.2 The Internal Audit Section is part of the Corporate Services Directorate reporting to the the Chief Finance and Deputy Section 151 Officer.
- 5.3 The Chief Auditor has no other management responsibilities which restrict the independence of Internal Audit
- 5.4 The Chief Auditor also has unrestricted access to the Chief Executive, Directors, Chief Officers and Heads of Service and may report to any level of management if this is considered necessary. Regular meetings are also held with the Council's external auditor.

- 5.5 The Chief Auditor reports functionally to the Audit Committee in his own name and has unrestricted access to the Chair of the Audit Committee and elected members. The Chief Auditor attends all Audit Committee meetings and contributes to the agenda.
- 5.6 All Internal Audit staff are required to declare any conflicts of interest, of whatever kind, which may impair their ability to demonstrate an impartial, unbiased and objective approach to their work.

6 Consultancy Role of Internal Audit

- 6.1 In addition to the assurance function provided by Internal Audit, there are also occasions where it may also provide a consultancy or advisory role e.g. providing training or advice on controls for systems under development.
- 6.2 On such occasions, Internal Audit is providing advice and guidance and is not giving assurance. Where this occurs, Internal Audit always retains the right to review the service at a later date and make further recommendations.
- 6.3 Should a request be received for consultancy work of a significant nature which is not included in the annual plan, the work will not be accepted if it will restrict the ability to complete the required assurance work and deliver the annual internal audit opinion.

7 Fraud, Bribery and Corruption Role of Internal Audit

- 7.1 The establishment of systems and controls to prevent fraud, bribery and corruption is the responsibility of management.
- 7.2 Internal Audit will be aware of the risk of loss by fraud, bribery or corruption in all audit reviews undertaken and will report any exposure to the risk of loss.
- 7.3 Financial Procedure Rule 12 – Internal Audit requires any responsible officer who suspects financial irregularity to inform the Head of Finance and Delivery immediately and to provide facilities for investigation in accordance with the Council's Anti-Fraud and Corruption Policy.
- 7.4 The details of any suspected or detected frauds will be considered when preparing the risk based Internal Audit Plan and will also inform the Chief Auditor's annual internal audit opinion.
- 7.5 The Council established a Corporate Fraud Team with effect from 1st June 2015.
- 7.6 The Team will be responsible for raising the profile of fraud awareness and promoting an anti-fraud and corruption culture across the Council. Where appropriate the Corporate Fraud Team will undertake or assist

management in the investigation of suspected cases of fraud, corruption or bribery.

8 Internal Audit Resources

- 8.1 Internal Audit should be appropriately resourced to meet its objectives in terms of the number of staff, grades, qualifications, personal attributes and experience.
- 8.2 The PSIAS require the Chief Auditor to be professionally qualified and suitably experienced.
- 8.3 Risk assessment methodology is used to identify the level of audit coverage required to provide the annual internal audit opinion on the control environment.
- 8.4 A risk based annual Internal Audit plan is produced which matches the required audit coverage to the available resources. The plan is approved by the Audit Committee and the Chief Auditor is required to bring to the attention of the Committee the potential consequences of any shortfall in resources which may impact on the provision of the annual opinion.
- 8.5 The annual plan will be constantly reviewed during the year in response to any changes e.g. vacancies, new risks, frauds and special investigations.
- 8.6 Quarterly reports showing progress made against the annual plan and identifying any required changes to the plan will be presented to the Audit Committee.

9 Quality Assurance and Improvement Programme

- 9.1 To ensure compliance with the PSIAS, the Chief Auditor must put in place a Quality Assurance and Improvement Programme (QAIP).
- 9.2 The QAIP must include both internal and external assessments of Internal Audit.
- 9.3 The internal assessment includes the ongoing supervision and review of work produced by Internal Audit staff as well as performance against targets and client feedback for each audit completed.
- 9.4 A periodic, internal self-assessment must also be undertaken to confirm compliance with the PSIAS.
- 9.5 The PSIAS also require an external assessment at least once every 5 years. The external assessment may either be a full assessment by a suitably qualified external assessor or a self-assessment with independent external validation.

- 9.6 The results of the QAIP must be included in the Chief Auditor's annual report to the Audit Committee. The report must highlight any areas of non-conformance with any significant areas of non-conformance being included in the Annual Governance Statement.