

AUDIT TITLE:**PSIAS COMPLIANCE REVIEW – CITY AND COUNTY OF SWANSEA****1. INTRODUCTION**

- 1.1 An effective, objective and independent internal audit service (IAS) is the cornerstone of good governance in all public sector bodies. Internal audit plays a pivotal role in providing assurance to officers and members that the system of internal control within their organisation is operating effectively and to recommend how that system of internal control can be strengthened.

2. PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 2.1 From 1 April 2013, a new set of internal audit standards for the public sector, the 'Public Sector Internal Audit Standards' (PSIAS) have been in effect. The PSIAS adopt the principle requirements of the Institute of Internal Auditors Professional Practices Framework and adapt these to ensure they are relevant and appropriate for the UK public sector. The PSIAS were updated and re-issued in 2017.
- 2.2 The overall objective of the PSIAS is to provide a high-level, overarching framework applicable to all of the public sector. In summary, the Standards:
- 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; and
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

3. LOCAL GOVERNMENT APPLICATION NOTE

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) recognised the potential significance of the changes resulting from the adoption of the PSIAS and has provided guidance to internal auditors in the form of an Application Note. The Application Note and PSIAS combined constitute 'proper practices' in internal control as set out in the Accounts and Audit Regulations.

4. EXTERNAL ASSESSMENT

- 4.1 The PSIAS and Application Note require that every local government Internal Audit Service be subject to an external assessment of its work against the requirements of the standards, regardless of whether the Internal Audit Service is provided by an in-house or external team. This assessment is required to be carried out at least once every five years. Swansea Council has opted to take part in a peer review process whereby the Chief Audit Executive has undertaken a self-assessment in accordance with the PSIAS and submitted it, together with supporting evidence, to the Head of Finance at Cardiff Council for validation.
- 4.2 The review of these documents by Cardiff Council was undertaken in December 2017. Meetings were also held with various officers within Swansea Council.

5. CONCLUSION

- 5.1 The self-assessment undertaken by the Chief Audit Executive is considered to be comprehensive, with detailed notes and comments. All documentary evidence requested was provided, and the details within these documents correlated to the comments made within the self-assessment.

- 5.2 The review of the self-assessment, documentary evidence and discussions with officers within Internal Audit have identified some additional points that should be considered further; none are considered to be significant deviations from the PSIAS. Therefore, the overall conclusion of the review is that the Internal Audit Service of Swansea Council is broadly compliant with the requirements of the PSIAS and CIPFA Application Note, with some areas for improvement. There are no significant deviations from the Standards.
- 5.3 The issues that need to be addressed to ensure full compliance with the PSIAS and Application Note are set out in the paragraphs below and the action plan attached in Appendix A. In respect of the issues identified in the self-assessment and action plan, the Chief Audit Executive has agreed to present the findings and action plan to Audit Committee for consideration.

FINDINGS

1. A self-assessment review of conformance against the requirements of the PSIAS and CIPFA Application Note was undertaken by the service in 2017/18. Of the 334 best practice lines in the self-assessment, 315 were considered to be fully in place (94%). The improvement actions for partial / non-compliance have been reported to Audit Committee. The Chief Audit Executive considers that none of these areas is of a high priority and a significant deviation from the Standards, and this interpretation is agreed.
2. From examination of the Audit Committee minutes for 14.03.17, the audit plan for 2017/18 was developed using information from a number of sources:
 - Corporate plan and One Swansea plan;
 - Reports to Cabinet, Scrutiny and Council;
 - Risk registers;
 - Other sources of assurance from both internal and external sources;
 - Any recent or proposed significant changes to the Council's systems or operations; and
 - Previous audit results and Internal Audit's cumulative knowledge of systems and procedures across the Council.
3. The report also specifies that an Audit Needs Assessment is completed utilising the risk assessment undertaken for each audit, using categories such as materiality, control environment, management concerns and sensitivity. The outcome of this is a risk index, which is used to determine the frequency of audit visits.
4. Conflicts of interest would prejudice an auditor's ability to perform his or her duties objectively. The self-assessment indicates that all staff sign an annual declaration confirming that they have read, and will comply with, the PSIAS Code of Ethics. Examination of the Charter for 2017/18 indicated that it does not explicitly document arrangements for declaration of interests, although it does state (at para. 5.6) that *"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."*
5. Should a potential conflict of interest be reported by a member of the Internal Audit Section, then the Audit Charter should provide detail in respect of how this will be managed. The Audit Charter does not currently document the arrangements in place.

6. An integral part of the Quality Assurance and Improvement Programme is the internal assessment of Internal Audit. The QAIP for 2016/17 was reviewed, and it shows that a number of systems and procedures have been established to support the internal assessment. These include a comprehensive set of performance indicators. Discussions with the Principal Auditor showed that the performance of the team is monitored and performance indicators shared with team members on an individual basis. However, it is clear from the answers to the self-assessment and discussions with officers that personal reviews are not carried out regularly.
7. Discussions with the Chief Audit Executive regarding the running of the Council's Audit Committee identified that he provides secretarial support for the Audit Committee. At the moment, it would appear that he undertakes much of the support that would normally be expected to be provided by the Council's Democratic Services officers.
8. In addition, the Chief Audit Executive is responsible for the compilation of the entire Annual Governance Statement, rather than providing information to aid in its compilation.

- R1 A risk-based approach in the form of an assurance mapping exercise should be carried out to inform the planning process and identify other sources of assurance.**
- R2 The Audit Charter should be updated to reflect the practices in place in respect of collating conflicts of interests from audit staff, at least annually.**
- R3 The Audit Charter should be updated to reflect the working practices that are in place in respect of managing conflicts of interests identified by staff i.e. they are taken into account when allocating individual workloads to auditors.**
- R4 Regular (in line with Council appraisal policy) performance reviews of the Chief Audit Executive and auditors must be carried out in order to assess skills and competencies and identify any training needs.**
- R5 In order to avoid any perceived lack of independence in the running of the Audit Committee, all secretarial services should be provided by officers from Democratic Services, albeit with the Chief Audit Executive inputting relevant experience, knowledge and advice, and attending to present reports on the Internal Audit function.**
- R6 For the avoidance of any perceived conflicts of interest or lack of independence, responsibility for the preparation of the Annual Governance Statement should lie with an officer outside Internal Audit with overall responsibility for performance, risk and governance.**