



## Report of the Chief Auditor

Audit Committee – 9 April 2019

### Internal Audit Charter 2019/20

<b>Purpose:</b>	This report outlines the background to the Public Sector Internal Auditing Standards (PSIAS) which were introduced with effect from 1 <sup>st</sup> April 2013 and presents an Internal Audit Charter for approval by the Committee.
<b>Policy Framework:</b>	None
<b>Consultation:</b>	Corporate Management Team, Legal, Finance, Access to Services
<b>Recommendation(s):</b>	It is recommended that the Committee approve the Internal Audit Charter 2019/20 as attached.
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#### 1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into force on 1<sup>st</sup> 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 objectives 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 last updated in 2017 and 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

1.6 The PSIAS also require an external assessment of the internal audit function 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.

1.7 The City and County of Swansea, along with the majority of all other local authorities in Wales, chose to undertake a self-assessment with the results being independently validated by another authority. Our validation visit was completed in January 2018 which concluded that the City and County of Swansea's Internal Audit Section is broadly compliant with the PSIAS and Cipfa Application Note with no significant deviations from the Standards being noted. The results of the peer review were reported to Audit Committee in April 2018.

## **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 Core Principles for the Professional Practice of Internal Auditing, the

Code of Ethics, the Standards and the Definition of Internal Auditing).

- 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 2019/20 for the City and County of Swansea's Internal Audit Section can be found in Appendix 1.

2.5 The Charter was approved by the Corporate Management Team on the 13<sup>th</sup> March 2019 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  
2019/20



## City and County of Swansea

# Internal Audit Charter 2019/20

## 1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into force on 1<sup>st</sup> 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:
  - Mission of Internal Audit.
  - Definition of Internal Audit.
  - Core Principles for the Professional Practice of Internal Audit
  - Code of Ethics.
  - International Standards for the Professional Practice of Internal Auditing.
- 1.5 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.
- 1.6 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 resides 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 Head of Financial Services & Service Centre.
- 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 a 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 an 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 articulates what internal audit aspires to accomplish within an organisation. This Mission, 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 for the Professional Practice of Internal Auditing articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. 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. The Core Principles are listed in Appendix A.

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, confidentiality and competency. All audit staff are required to complete annual declarations to confirm that they

comply with the Code of Ethics. Further details on the Code of Ethics can be found in Appendix B.

- 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 the City and County of Swansea are shown in the following table:

<b>PSIAS</b>	<b>City &amp; County Swansea</b>
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. This also assists in ensuring the

Council's Audit Committee discharges its responsibilities in line with the Committee's Statement of Purpose which can be found in Appendix D.

#### **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 Resources Directorate reporting to the Head of Financial Services & Service Centre.
- 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 possible conflicts of interest, of whatever kind, which may impair their ability to demonstrate an impartial, unbiased and objective approach to their work on an



annual basis. Staff are also required to declare any potential conflicts of interest as they arise during the year. The declarations are considered by the Principal Auditor when allocating work to the individual Auditors and Senior Auditors to ensure any potential conflicts of interest are appropriately managed.

## **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 Financial Services & Service Centre 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 function with effect from 1<sup>st</sup> June 2015 based in the Internal Audit Section.
- 7.6 The Corporate Fraud function is responsible for raising the profile of fraud awareness and promoting an anti-fraud and corruption culture across the Council. Where appropriate the Corporate Fraud Investigators 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 Head of Financial Services & Service Centre and 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. The results of the internal self-assessment are reported to the Head of Financial Services & Service Centre and Audit Committee as part of the Internal Audit Annual Report.
- 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.
- 9.7 Further details of the QAIP can be found in Appendix D.

**Appendices:** Appendix A – Core Principles of Internal Audit  
Appendix B – Code of Ethics  
Appendix C – Audit Committee Terms of Reference  
Appendix D – Quality Assurance & Improvement Programme (QAIP)

## **Core Principles for the Professional Practice of Internal Auditing**

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organisation to organisation, but 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 *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'*.

The Core Principles are:

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

## Code of Ethics

### **Public sector requirement**

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation

The purpose of the Institute's Code of ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's code of ethics extends beyond the definition of internal auditing to include two essential components:

### **Components**

1. Principles that are relevant to the profession and practice of internal auditing
2. Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

### **Applicability and Enforcement**

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable for disciplinary action.

### **Public sector interpretation**

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of

## **1. Integrity**

### **Principle**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement

### **Rules of Conduct**

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility
- 1.2 Shall observe the law and make disclosures expected by the law and the profession
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

## **2. Objectivity**

### **Principle**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

### **Rules of Conduct**

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.

- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review

### **3. Confidentiality**

#### **Principle**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so

#### **Rules of Conduct**

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

### **4. Competency**

#### **Principle**

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

#### **Rules of Conduct**

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services

#### **Public sector requirement**

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, further information on which can be found at [www.public-standards.gov.uk](http://www.public-standards.gov.uk)

# **The 7 Principles of Public Life**

## **1. Selflessness**

Holders of public office should act solely in terms of the public interest.

## **2. Integrity**

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

## **3. Objectivity**

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

## **4. Accountability**

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

## **5. Openness**

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

## **6. Honesty**

Holders of public office should be truthful.

## **7. Leadership**

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.



## **Audit Committee Terms of Reference**

### **Audit Committee Statement of Purpose**

1. Our audit committee is a key component of the City and County of Swansea's corporate governance. It provides an independent and high level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

2. The purpose of our audit committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the City and County of Swansea's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

### **Governance, Risk and Control**

3. To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

4. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances.

5. To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

6. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

7. To monitor the effective development and operation of risk management in the Council.

8. To monitor progress in addressing risk related issues reported to the committee.

9. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

10. To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.

11. To monitor the counter fraud strategy, actions and resources.

### **Internal Audit and External Audit**

12. To approve the internal audit charter and resources.

13. To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.

14 To consider summaries of specific internal audit reports as requested.

15. To consider reports dealing with the management and performance of the providers of internal audit services.

16. To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.

17. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

18. To consider specific reports as agreed with the external auditor.

19. To comment on the scope and depth of external audit work and to ensure it gives value for money.

20. To commission work from internal and external audit.

### **Financial Reporting**

21. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

22. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Accountability Arrangements**

23. To report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

*Note: Audit Committee Statement of Purpose extracted from the Council Constitution (31.01.18).*



## **Quality Assurance & Improvement Programme**

The Quality Assurance & Improvement Programme (QAIP) should be based on the following key elements to ensure compliance with the Standards:

- Supervision of the work undertaken by internal auditors as an ongoing process throughout the year.
- Internal reviews or self-assessments to appraise the quality of the audit work and compliance with the PSIAS which is usually undertaken on an annual basis.
- External reviews carried out by a qualified independent person to appraise the quality of the audit work and compliance with the PSIAS which must be completed at least once every 5 years.

### **Internal Assessment – Ongoing Review**

The following systems and procedures have been established to form the internal assessment ongoing review element of the QAIP.

- Policies and procedures have been established to guide staff in the performance of their internal audit duties. Guidance in policies and procedures is provided to internal audit staff by the Chief Auditor, Principal Auditor and Senior Auditors. The Team also has access to a set of guidance notes and templates that are stored on a shared drive for staff to refer to when necessary.
- Audit work is allocated to staff based on their level of skills, experience and competence. A quarterly Audit Plan is prepared by the Principal Auditor which allocates audit assignments to staff and is reviewed by the Chief Auditor before being issued.
- A Lead Auditor is assigned to each audit and will be either the Principal Auditor or a Senior Auditor. The role of the Lead Auditor is to supervise and monitor progress in completion of the audit and to complete a quality assurance review to ensure that the work has been completed to the required level and complies with the PSIAS. The level of supervision required will depend upon the competence and experience of the auditor.
- The Lead Auditor will also review the draft and final report to ensure it fully reflects the findings of the audit and includes appropriate recommendations and level of assurance.
- All draft and final reports are subject to review by the Principal Auditor prior to being issued.
- A Quality Control Questionnaire is issued with the final report to the client to obtain their feedback on the audit. Any issues identified in the completed QCQ are discussed with the auditor and action taken where required.
- A comprehensive set of Performance Indicators are maintained. The PI's are measured at team and individual level with targets being set at the start of each year. The PI's measured at individual auditor level are monitored on a quarterly basis by the Principal Auditor and Chief Auditor and any

issues identified are discussed with the auditor and action taken where necessary. The team PI's are monitored annually and are reported to the Chief Finance Officer and the Audit Committee in the Internal Audit Annual Report.

- The Welsh Chief Auditors Group collects performance indicator information from across Wales which is used to compare performance against other similarly sized internal audit teams.
- Performance indicator information is also used as part of the annual appraisal process under the Employee Performance Management Policy. All employees receive an annual appraisal which is a competency based process that reviews performance and training and development needs.
- Use is made of available training programmes to keep staff up to date with professional practice and to meet any skill shortages identified. Particular use is made of the annual training programme put together by the South Wales Chief Auditors Group.

### **Internal Assessment – Periodic Review**

The following systems and procedures have been established for the periodic internal assessment:

- A quarterly review of progress made against the Annual Audit Plan is made by the Chief Auditor to ensure the Section is meeting its aims and objectives. The results of the review are reported to the Chief Finance Officer and the Audit Committee in the quarterly Internal Audit Monitoring Report.
- The Chief Auditor completes an annual self-assessment of compliance with the PSIAS using the detailed checklist included in CIPFA's Local Government Application Note.
- The annual self-assessment also fulfils the requirement established in the Accounts and Audit (Wales) Regulations 2014 for an annual assessment of the effectiveness of the Internal Audit service.
- The results of the annual self-assessment are reported to the Chief Finance Officer and the Audit Committee as part of the Chief Auditors Annual Report.

### **External Assessment**

An external assessment of compliance with the PSIAS must be completed at least once every 5 years and may either be a full external assessment or a self-assessment which is subject to independent external validation.

The format of the external assessment must be considered fully by the Chief Auditor and discussed with the Audit Committee. If an independent validation is to be used, the person or team appointed must be appropriately qualified, have sufficient knowledge of the PSIAS and there must be no conflicts of interest or impairment to objectivity.

The external assessment in Swansea was undertaken during quarter 3 and quarter 4 2017/18 with the preferred method being a self-assessment subject to an external validation using the peer review group established by the Welsh Chief Auditors Group. This approach was agreed with the Chief Finance Officer and was approved by Audit Committee on the 8 August 2017.

As agreed by the Welsh Chief Auditors Group, the external assessment saw Chief Auditors acting as independent assessors of other Internal Audit Sections arranged on a random basis.

The outcome of the external assessment was presented to the then Head of Financial Services & Service Centre (now the Chief Finance Officer), the Director of Resources and the Chief Executive on 28/03/18 and to Audit Committee on the 10/04/18. In summary, the peer review concluded that the City and County of Swansea's Internal Audit Section is broadly compliant with the PSIAS and CIPFA Application Note with no significant deviations from the Standards being noted.

The external assessment must be undertaken at least every 5 years, so the next assessment will be completed in 2022/23.

## **Reporting**

The Chief Auditor will report the outcome of the periodic internal assessment to the Chief Finance Officer and the Audit Committee on an annual basis.

The results of the external assessment will also be reported to the Chief Finance Officer and the Audit Committee when received along with an Action Plan to address any issues raised in the report. The Action Plan will be subject to regular monitoring with progress being reported to the Chief Finance Officer and the Audit Committee.

The Chief Auditor will only use the phrase 'Conforms with International Standards for the Professional Practice of Internal Auditing' in reports where the results of the QAIP support the statement.