



## Report of the Chief Auditor

Governance and Audit Committee – 18 May 2021

### Internal Audit

### Quality Assurance and Improvement Programme 2020/21

#### 1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory for all providers of public sector internal audit services in the UK.
- 1.2 It is a requirement of the PSIAS that internal audit providers must maintain a Quality Assurance and Improvement Programme (QAIP) which covers all aspects of the internal audit activity and is intended to assist in raising standards across the public sector and ensuring consistency in improvement.
- 1.3 The establishment of a QAIP will allow the evaluation of the operations of Internal Audit and identify any areas for improvement. The QAIP should allow for quality to be assessed at both individual member of staff level and at the team level.
- 1.4 The QAIP allows internal audit providers to be assessed, both internally and externally, to show that the provider is fully complying with the PSIAS. Internal assessments are both ongoing and periodic and an external assessment must be undertaken at least once every 5 years.
- 1.5 The results of the QAIP will provide evidence to all relevant stakeholders that the City and County of Swansea's Internal Audit Section is:
  - Performing its work in accordance with its Internal Audit Charter which is consistent with all aspects of the PSIAS i.e. the Mission of Internal Audit, Definition of Internal Audit, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the Attribute and Performance Standards.
  - Operating in an efficient and effective manner.
  - Is adding value and continually improving internal audit operations.

1.6 The 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.

## **2. Internal Assessment – Ongoing Review**

2.1 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 as shown in Appendix 1. 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.

- An action plan has also been produced as part of this report as shown in Appendix 2 to provide some justification in relation to those PI's that have not been achieved, together with proposed action that will be taken in 2020/21 to try and rectify this going forward.
- 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.

### **3. Internal Assessment – Periodic Review**

3.1 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 annual self-assessment was completed in July 2017 and this formed the basis for the external assessment validation that was completed in quarter 4 2017/18. A self-assessment review of conformance against the PSIAS was undertaken during April 2021 by the Chief Auditor revealed that 99.4% of the best practice of the PSIAS was in place.

## **4. External Assessments**

- 4.1 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.
- 4.2 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.
- 4.3 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.
- 4.4 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.
- 4.5 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.
- 4.6 The external assessment must be undertaken at least every 5 years, so the next assessment is due for completion by 2022/23.

## **5 Reporting**

- 5.1 The Chief Auditor will report the outcome of the periodic internal assessment to the Chief Finance and Section 151 Officer and the Audit Committee on an annual basis.
- 5.2 The results of the external assessment will also be reported to the Chief Finance and Section 151 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.

5.3 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.

## INTERNAL AUDIT – PERFORMANCE INDICATORS

No.	Performance Indicator		Target 2020/21	Actual 2020/21	Achieved/ Not Achieved
1	Audit assignments achieved against planned	%	75	68	Not Achieved
2	Clients at least satisfied with quality of audit service	%	98	99	Achieved
3	Audit recommendations accepted against made	%	95	99	Achieved
4	Audits completed within planned time	%	70	87	Achieved
5	Directly productive time against time available	%	60	62	Achieved
6	Average period from client response to issue of final report	Days	3	0.3	Achieved
7	Average period from closing meeting to issue of draft report	Days	10	1.2	Achieved
8	Directly productive time achieved against planned time	%	90	96	Achieved
9	Average cost per directly chargeable day	£	300	331	Not Achieved
10	Staff turnover rate	%	15	0	Achieved
11	Staff cost per £m gross revenue expenditure (incl HRA)	£	650	594	Achieved

## INTERNAL AUDIT – PI ACTIONS 2021/22

PI	Target / Actual	Justification	Action to be taken 2021/22
1 - Audit assignments achieved against planned	Target: 75% Actual: 68%	As reported throughout 2020/21 via the Quarterly Monitoring Reports, the Covid-19 pandemic has impacted the Team's ability to complete a number of audit assignments in the year.	It is hoped that a relaxation of restrictions in 2021/22 will allow the team to complete a greater number of planned audits in the year in line with previous year's performance records.
9 - Average cost per directly chargeable day	Target: £300 Actual: £331	As agreed by the WCIAG, average cost for this performance indicator is made up of actual salary, NI and pensions costs of the Internal Audit Team. These costs have seen an overall increase of 3% on 19/20 costs. In addition, the number of directly chargeable days has decreased from 1,526 in 2019/20 to 1,462 in 2020/21. As a result, average costs per directly chargeable day has increased overall in 2020/21 to £331, from £308 in 2019/20. The decrease in productive days has primarily been caused by a secondment, increased sickness absence and some unavoidable downtime as a result of the Covid-19 pandemic.	Marginally missed the target in year due to unprecedented circumstances. Costs will continue to be monitored throughout 2021/22.