

**NORTH YORKSHIRE COUNTY COUNCIL****AUDIT COMMITTEE****26 JUNE 2014****ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT****1.0 PURPOSE OF THE REPORT**

- 1.1 To provide a summary of the internal audit work performed during the year ended 31 March 2014 and to express an opinion on the overall internal control environment in place within the County Council.
- 1.2 To provide Members with details of breaches to Finance, Contract and Property Procedure Rules identified during 2013/14 audit work.
- 1.3 To consider the Internal Audit performance outturn for 2013/14 and the 2014/15 performance targets for Veritau.
- 1.4 To inform Members of the conclusions arising from the Quality Assurance and Improvement Programme

**2.0 BACKGROUND**

- 2.1 The work of internal audit is governed by the Accounts and Audit Regulations 2011, the Internal Audit Terms of Reference and relevant professional standards. From 1 April 2013, the Chartered Institute of Public Finance and Accountancy (CIPFA), together with other standard setters across the public sector, adopted new standards for internal audit. These new Public Sector Internal Audit Standards (PSIAS) comply with the international standards issued by the Institute of Internal Auditors (IIA). As well as providing a definition of internal auditing, the PSIAS detail the Code of Ethics for internal auditors and provide quality criteria against which performance can be evaluated. Since the standards were adopted CIPFA has also issued further guidance in the form of an application note. The application note includes a checklist to assist internal audit practitioners to review and update working practices.
- 2.2 To comply with the new Standards, the Audit Committee approved an Audit Charter in December 2013, setting out the purpose, authority and responsibility of internal audit. The Audit Charter also defined certain elements of the internal audit framework including the 'board', 'senior management' and the 'chief audit executive', as follows:

'Board' – was defined as the Audit Committee (given its responsibilities in relation to internal audit standards and activities);

'Senior Management' – was defined as the Corporate Director - Strategic Resources in his role as S151 officer. In addition, senior management may also refer to the Management Board or the Chief Executive and/or any other Corporate Director;

'Chief audit executive' – was defined as the Head of Internal Audit (Veritau).

2.3 In accordance with the new Standards, the Head of Internal Audit is required to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control operating within the County Council. The Head of Internal Audit should also contribute to the preparation of the Annual Governance Statement by identifying any significant control issues identified during the course of audit work, and report any breaches of the County Council's Finance, Contract and Property Procedure Rules to the Audit Committee.

2.4 To comply with the new Standards, the Head of Internal Audit is also required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The objective of the QAIP is to ensure that working practices continue to conform to the required professional standards. The results of the QAIP should be reported to senior management and the Audit Committee along with any areas of non-conformance with the Standards. The QAIP consists of various elements, including:

- maintenance of a detailed audit procedures manual and standard operating practices
- ongoing performance monitoring of internal audit activity
- regular customer feedback
- training plans and associated training and development activities
- periodic self-assessments of internal audit working practices (to evaluate conformance to the Standards).

In addition, a formal external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

2.5 The results of customer feedback and the self-assessment are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans.

2.6 Audit work was undertaken across all of the County Council's services and activities in accordance with the approved Internal Audit Plan for 2013/14. The findings have been reported to this Committee in accordance with the following cycle:-

April 2013	Children & Young People's Services
September 2013	Health and Adult Services IT Audit
December 2013	Business and Environmental Services Corporate themes

March 2014

Central Services  
Counter fraud matters

2.7 In each of the above reports, with the exception of the report on counter fraud matters, the Head of Internal Audit provided an opinion on the system of internal control in operation within the particular functional area or directorate.

### 3.0 **WORK COMPLETED IN 2013/14**

- 3.1 During 2013/14, Veritau has been responsible for evaluating the adequacy and effectiveness of the County Council's control environment, promoting counter fraud arrangements, and providing advice and making recommendations to management to improve controls and/or to address the poor or inappropriate use of resources. Veritau completed almost 94% of the Internal Audit Plan against an agreed performance target of 93%. The overall opinions provided to this Committee, at meetings between April 2013 and June 2014, are detailed in **Appendix 1**.
- 3.2 The results of completed audit work have been reported to the relevant service managers, the Corporate Director – Strategic Resources and the Audit Committee. Audit findings relating to 2013/14, which have not yet been reported to this Committee, will be presented in due course as part of the agreed Audit Committee programme of work. On the basis of the follow up work undertaken during the year, satisfactory progress has been made by management to address identified control weaknesses. Outstanding actions continue to be monitored and in most cases progress is considered to be acceptable.
- 3.3 As previously reported, Veritau has been involved in a number of investigations into suspected fraud and corruption. These investigations have been carried out in response to concerns raised by management or through the whistleblowing reporting system. Further proactive work has also been carried out to address a number of specific fraud risks. The County Council's Fraud and Loss Risk Assessment and Whistleblowing policies were also updated during the year. In addition, Veritau has continued to issue alerts to service managers and schools to draw attention to potential threats and scams.
- 3.4 The Information Governance Team (IGT) co-ordinates all requests for information (excluding Social Care Data Protection requests) and provides advice and guidance on the application of information related legislation (including the Data Protection and Freedom of Information Acts). A total of 1,307 FOI requests were received during 2013/14, compared to 1,029 in 2012/13. This represents an increase of 27%.
- 3.5 The IGT has also continued to help develop the County Council's information governance policy framework. As the County Council's Senior Information Risk Owner, the Corporate Director – Strategic Resources, has continued to chair the Corporate Information Governance Group (CIGG), which meets on a regular basis. CIGG has addressed new and emerging issues during the year as well as coordinating the development of the IG policy framework. In addition, Veritau's auditors have continued to undertake unannounced visits to County Council offices and establishments in order to test understanding and compliance with the policy framework. As previously reported, these visits have found a variety of potential data security risks. The results have been reported to CIGG and the relevant management.

3.6 To assist in the development and maintenance of the County Council's governance arrangements, Veritau's auditors meet with the S151 Officer, Monitoring Officer and other senior officers on a regular basis to identify and address key governance issues and concerns.

#### 4.0 INTERNAL AUDIT PERFORMANCE MANAGEMENT

4.1 Despite the challenging climate, Veritau has continued to deliver cost effective internal audit, counter fraud and information governance services to the County Council and the City of York Council together with a number of other public sector bodies in North Yorkshire. These services continue to be valued by the company's clients particularly at a time of significant change.

4.2 The Veritau group achieved a combined operating profit before tax in 2013/14. Investment in new services and initiatives has also continued, particularly in respect of counter fraud.

4.3 **Appendix 2** details performance against the targets set by the County Council's client officer for 2013/14. **Appendix 3** sets out the targets for Veritau for 2014/15.

#### 5.0 BREACHES OF FINANCE, CONTRACT AND PROPERTY PROCEDURE RULES

5.1 As in previous years, the majority of identified breaches relate to the Contract Procedure Rules. Details of those breaches identified through internal audit work during 2013/14 are shown in **Appendix 4**.

5.2 It should be noted that some of the variations in the type and number of breaches identified between the years can be attributed to the fact that audit work will focus on different risk areas each year. In addition, the content of the various Procedure Rules does not remain the same and new rules are introduced whilst others are amended or deleted.

5.3 Where breaches are identified, it is usually sufficient to draw the matter to the attention of management for the appropriate remedial action to be taken. If a wider training need is identified this will be addressed accordingly. Finally in those cases where the breach identifies a fundamental weakness/deficiency in the relevant Procedure Rule this will be addressed separately as part of the ongoing review process for all the County Council's Procedure Rules.

5.4 There were no significant breaches of the Finance Procedure Rules although a number of relatively minor breaches were noted. Examples of typical errors identified included:

- Orders not being fully completed, issued or annotated to record details of deliveries;
- Invoices not being adequately checked prior to payment and/or duplicate invoices being paid;
- Incorrect payments to employees and pensioners;
- Inappropriate authorisation of timesheets and credit notes;

- Authorised signatory lists not being kept up to date;
- Income being used as petty cash;
- Inventory records not being properly maintained, disposals not authorised and/or annual stock checks not being carried out;
- VAT not being accounted for correctly and/or appropriate VAT receipts retained;
- Ineffective budgetary control procedures and reconciliations;
- Security and insurance issues with the storage of cash;
- Purchasing cards being used by individuals other than the named officer or not being returned when employee leaves.

5.5 There were no breaches of Property Procedure Rules identified during the year.

## 6.0 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

6.1 As noted above, Veritau has developed a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. As well as undertaking a survey of senior management in each client organisation and completing a detailed self assessment to evaluate performance against the Standards, the decision was taken to arrange for an external assessment to be carried out. The assessment was conducted by the South West Audit Partnership (SWAP) and completed in April 2014. The results of the assessment provide evidence to support the QAIP as well as helping to inform the Improvement Action Plan for 2014/15.

6.2 The outcome of the QAIP demonstrates that the service conforms to *International Standards for the Professional Practice of Internal Auditing*. Further details of the QAIP and Improvement Action Plan prepared by Veritau are given in **Appendix 5**.

6.3 The annual self-assessment process outlined in **Appendix 5** enables Councils to discharge their responsibilities for evaluating the effectiveness of internal audit. As a result, there is no longer a requirement for a separate item relating to the “effectiveness of internal audit 2013/14”.

## 7.0 2013/14 AUDIT OPINION

7.1 As part of the annual report, the Head of Internal Audit is required to provide:

- (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
- (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
- (c) an opinion on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework (ie the control environment)
- (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification

- (e) details of any issues which the Head of Internal Audit judges are of particular relevance to the preparation of the Annual Governance Statement
- (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

7.2 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating within the County Council is that it provides **Substantial Assurance**. There are no qualifications to this opinion. The only reliance placed on the work of other assurance bodies in reaching this opinion related to computer audit work, which was undertaken on behalf of Veritau by Audit North. In giving this opinion attention is drawn to the following significant control issues, which are considered relevant to the preparation of the 2013/14 Annual Governance Statement:

- **Information Security** - Further improvements are required to ensure compliance with the County Council's policies for recording, processing and storing personal and sensitive data. Recent audit work has identified continuing poor practice with the handling of documents and information security. A number of breaches have occurred during the year. Whilst none have required disclosure to the ICO, the number and type of breaches suggests further improvement is required.
- **Service Continuity Planning** - A revised Service Continuity Strategy was approved by Management Board in September 2011. Following a pilot exercise in BES, Management Board gave approval for the roll-out of the revised methodology to all directorates in April 2012. Directorates were required to complete Business Impact Assessments and Incident Management Plans. They were also expected to nominate at least one service continuity lead to act as a single point of contact for directorate staff and the Emergency Planning Unit (EPU). The role of the EPU, was to provide training, advice and support to each directorate but not be responsible for the completion or adequacy of their plans. Whilst all service areas have now completed plans there is further scope for improvement before service continuity planning is fully embedded within the County Council. The Service Continuity Strategy is not readily available to staff. The level of training provided to services and commitment shown by each directorate is variable. There are inconsistencies in the format and content of plans and there is no mechanism to share best practice.
- **Highways Maintenance Contract** - the Highways Maintenance Contract (HMC) covers the provision of all aspects of the highways service. The service includes highway and bridge maintenance, winter maintenance, maintenance of the County Council's fleet of vehicles, street lighting maintenance, improvement works, gully emptying, grass cutting, emergency provision and surface dressing of the network. The annual value of the contract is approximately £43m. Prior to April 2012, the contract was operated by Balfour Beatty Infrastructure Services. The new contract was awarded to Ringway Infrastructure Services Ltd (Ringway) for 10 years. The importance of the service combined with the length and value of the HMC means effective client side management is essential. This is however dependant on the quality of performance and other management information. Whilst performance data has been received regularly, there have been some issues with interfacing the various operational systems. Information relating to some orders and

payments has also not been reliable. The problems have led to delays in work being allocated and completed. Significant additional work has also been required to check and reconcile data. Improvements have been made but these are taking time to feed through into performance.

## 8.0 **RECOMMENDATIONS**

### 8.1 Members are asked to:-

- (i) note the overall “Substantial Assurance” opinion of the Head of Internal Audit regarding the control environment within the County Council
- (ii) note the outcome of the quality assurance and improvement programme and the confirmation that the internal audit service conforms with the Public Sector Internal Audit Standards
- (iii) note the breaches to Contract, Finance and Property Procedure Rules and the actions taken to address these matters.
- (iv) note the performance outturn for 2013/14 and the performance targets for Veritau for 2014/15.

MAX THOMAS  
Head of Internal Audit

Report prepared and presented by Max Thomas, Head of Internal Audit

Veritau Ltd  
Assurance Services for the Public Sector  
County Hall  
Northallerton

10 June 2014

## OPINIONS ISSUED IN 2013/14

<b>Report</b>	<b>Directorate/Audit Work Area</b>	<b>Opinion</b>	<b>Period Covered</b>
Apr 2013	Children and Young People's	Substantial	1 March 2012 to 28 Feb 2013
Sept 2013	Health and Adult Services	Moderate	1 September 2012 to 31 August 2013
	Computer Audit	Substantial	1 September 2012 to 31 August 2013
Dec 2013	Business and Environmental Services	Substantial	1 December 2012 to 30 November 2013
	Corporate / thematic audits	Substantial	1 February 2013 to 31 October 2013
Mar 2014	Central Services	Substantial	1 February 2013 to 31 January 2014
	Counter fraud matters	N/A	1 February 2013 to 31 January 2014



## PERFORMANCE TARGETS 2013/14 OUT-TURN

Target		Actual		
<b>Operational Issues</b>				
1	To deliver 93% of the agreed Internal Audit Plan	30 Apr 2014	95% of the agreed Internal Audit plan completed	✓
2	To achieve a positive customer satisfaction rating of 95%	31 Mar 2014	100% customer satisfaction	✓
3	To ensure 95% of Priority 1 recommendations made are agreed	31 Mar 2014	100% of Priority 1 recommendations were agreed.	✓
4	To ensure 95% of FOI requests are answered within the Statutory deadline	31 Mar 2014	97.3% of FOI requests received during the year were responded to within the 20 day deadline.	✓

## PERFORMANCE TARGETS 2014/15

Target		
<b>Operational Issues</b>		
1	To deliver 93% of the agreed Internal Audit Plan.	30 April 2015
2	To achieve a positive customer satisfaction rating of 95%.	31 March 2015
3	To ensure 95% of Priority 1 recommendations made are agreed.	31 March 2015
4	To ensure 95% of FOI requests are answered within the statutory deadline of 20 working days.	31 March 2015

**SIGNIFICANT BREACHES OF CONTRACT PROCEDURE RULES**

The following table summarises the breaches of the Council's Contract Procedure Rules, identified by Veritau during 2013/14:

	<b>Schools 2013/14</b>	Schools 2012/13	Schools 2011/12	<b>Other 2013/14</b>	Other 2012/13	Other 2011/12
Quotations not sought or evidence not retained	3	9	7	0	0	0
Quotation/tender opening and recording procedures incorrect	2	11	18	0	0	0
LMS/CP rules waived but no documented or approved case to justify deviation	0	0	1	0	1	1
Failure to consult with Legal Services re contract conditions and signing and/or failure to obtain appropriate approval to proceed with procurement	0	6	5	0	0	0
Lease for equipment entered into without agreement of Finance	0	0	1	0	0	0
Contract not signed and dated by County Council and contractor	0	0	0	0	0	0
No contract in place or key clauses omitted	0	3	5	0	0	1
Correct procurement process not followed or lack of evidence to confirm	1	1	2	0	1	0
Contract expired but not re-tendered or contracts automatically rolled forward	1	1	1	0	0	0

	<b>Schools 2013/14</b>	Schools 2012/13	Schools 2011/12	<b>Other 2013/14</b>	Other 2012/13	Other 2011/12
Lowest quotation not selected and selection criteria not documented	0	0	1	0	0	0
Inadequate advertising	0	0	0	0	0	0
Scoring mechanism not indicated or not submitted to Veritau (for recording)	0	0	0	1	0	0
Contracts not stored in accordance with CPRs	0	0	0	0	0	2
No financial checks or other requisite checks	0	17	25	0	2	0
Failure to comply with all aspects of Rule 18	0	0	0	0	0	0
SCMS not utilised during procurement process	0	0	0	0	0	0
Inadequate contract monitoring	0	0	0	4	3	1
Cost variation forms not completed.	0	0	0	0	0	0
Issues identified with the Gateway process	0	0	0	0	1	0
<b>TOTALS</b>	<b>7</b>	<b>48</b>	<b>66</b>	<b>5</b>	<b>8</b>	<b>5</b>

## VERITAU GROUP

### INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME – 2014

#### 1.0 Background

##### Ongoing quality assurance arrangements

Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards (specifically the Public Sector Internal Audit Standards). These arrangements include:

- the maintenance of a detailed audit procedures manual
- detailed job descriptions and competency profiles for each internal audit post
- regular performance appraisals
- regular 1:2:1 meetings to monitor progress with audit engagements
- training plans and associated training activities
- the maintenance of training records and training evaluation procedures
- the objectives, scope and expected timescales for each audit engagement subject to agreement with the client before detailed work commences (audit specification)
- the results of all audit testing work documented using the company's automated working paper system (Galileo)
- file review by an audit manager and sign-off of each stage of the audit process
- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- performance against agreed quality targets reported to each client on a regular basis.

On an ongoing basis, a sample of completed audit files is also subject to internal peer review by a second audit manager to confirm quality standards are being maintained. The results of this peer review are documented and any key learning points shared with the internal auditors (and the relevant audit manager) concerned.

The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken (for example, increased supervision of individual internal auditors or further training).

##### Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self assessment checklist and obtain evidence to demonstrate

conformance with the standards. To support this process, each internal auditor is required to assess their current skills and knowledge against the competency profile relevant for their role.

The results of the annual client survey and PSIAS self-assessment are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans.

The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board<sup>1</sup> as part of the annual report of the Head of Internal Audit.

The process followed is also intended to enable council clients to discharge their responsibilities for evaluating the effectiveness of internal audit each year as set out in the Accounts and Audit (England) Regulations 2011 section 6(3).

#### External assessment

At least once every five years, internal audit working practices are subject to external assessment to ensure the continued application of professional standards. The assessment is conducted by an independent and suitably qualified person or organisation and the results are reported to the Head of Internal Audit. The outcome of the external assessment also forms part of the overall reporting process to each client (as set out above). Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year.

## **2.0 Customer Satisfaction Survey – 2014**

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2014. Where relevant, the survey also asked questions about the counter fraud and information services provided by Veritau. A total of 96 surveys were issued to senior managers in client organisations. 21 surveys were returned (a response rate of 22%). Respondents were asked to rate the different elements of the audit process, as follows:

- Excellent (1)
- Good (2)
- Satisfactory (3)
- Poor (4)

Respondents were also asked to provide an overall rating for the service.

The results of the survey are set out in the table below:

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<sup>1</sup> As defined by the relevant audit charter.

	1	2	3	4	N/A
1 The quality of planning and the overall coverage of the audit plan	2	10	7	1	1
2 The provision of advice and guidance	5	13	3		
3 The conduct and professionalism of audit staff	10	11			
4 The ability of audit staff to provide unbiased and objective opinions	7	13	1		
5 The ability of audit staff to establish a positive rapport with customers	7	11	3		
6 The auditors' overall knowledge of the system / service being audited	4	7	8	1	1
7 The auditors' ability to focus on the areas of greatest risk	2	15	3		1
8 Agreeing the scope and objectives of the audit	4	11	5		1
9 The auditors' ability to minimise disruption to the service being audited	7	9	4		1
10 The communication of issues found by the auditors during their work	4	13	3		1
11 The quality of feedback at the end of the audit	4	14	2		1
12 The accuracy, format, length and style of audit reports	6	12	1	1	1
13 The time taken to issue audit reports	3	12	5		1
14 The relevance of audit opinions and conclusions	2	14	4		1
15 The extent to which agreed actions are constructive and practical	3	13	4		1
<b>Overall rating for the Internal Audit services provided by Veritau</b>	2	17	1		1

The ratings were broadly in line with the previous year and suggest that the service is well regarded by clients. However, there is a need to focus on some of the areas where the ratings are lower. In particular, auditors need to demonstrate a better understanding of the systems and services being audited. There is also scope to improve the quality of planning and the overall coverage of audit plans.

### 3.0 Self Assessment Checklist – 2014

The checklist prepared by CIPFA to enable conformance with the PSIAS and the Local Government Application Note to be assessed was completed in March 2014. Documentary evidence was provided where current working practices were considered to fully or partially conform to the standards.

In most areas the current working practices were considered to be a standard. However, the following areas of non-conformance were identified. None of the issues identified are considered to be significant. In addition, in some cases, the existing arrangements are considered appropriate for the circumstances and hence require no further action.

<u>Conformance with Standard</u>	<u>Current Position</u>
Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Internal Audit?	The Head of Internal Audit's performance appraisal is the responsibility of the board of directors. The results of the annual customer satisfaction survey exercise are however used to inform the appraisal.
Is feedback sought from the chair of the audit committee for the Head of Internal Audit's performance appraisal?	See above
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific engagement will be agreed by the Head of Internal Audit and the relevant client officer. Engagements will not be accepted if there is any actual or perceived conflict of interest, or which might otherwise be detrimental to the reputation of Veritau.
Has the Head of Internal Audit reported the results of the QAIP to senior management and the audit committee?	As this is the first full year of the PSIAS, the results of the QAIP still need to be reported to senior management and the board of each respective client. The expectation is that this stage will be completed by 30 June 2014 (and each



<u>Conformance with Standard</u>	<u>Current Position</u>
	subsequent year).
Has the Head of Internal Audit included the results of the QAIP and progress against any improvement plans in the annual report?	See above – still to be done for this year. The outcomes of the QAIP and details of any specific development needs (as set out in the annual Improvement Action Plan) will be included in the annual report.
Has the Head of Internal Audit stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	See above – still to be done for this year.
Has the Head of Internal Audit reported any instances of non-conformance with the PSIAS to the audit committee?	See above – still to be done for this year.
Has the Head of Internal Audit considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	See above – still to be done for this year.
Does the risk-based plan set out the - (b) respective priorities of those pieces of audit work?	Audit plans detail the work to be carried out and the estimated time requirement. The relative priority of each assignment will be considered before any subsequent changes are made to plans. Any significant changes to the plan will need to be discussed and agreed with the respective client officers (and reported to the audit committee).
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	<p>Whilst reliance may be placed on other sources of assurance there is no formal process to identify and assess other sources of assurances.</p> <p><i>Action: the use of assurance mapping will be further developed and, where appropriate, future audit plans will highlight where other sources of assurance are being relied upon.</i></p>

<u>Conformance with Standard</u>	<u>Current Position</u>
Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following – (c) the respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?	In future, specifications will set out the expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties).  <i>Action: the audit manual and standard working papers will be changed to reflect this requirement</i>
For consulting engagements, have internal auditors established an understanding with the engagement clients about the following – (c) the respective responsibilities of the internal auditors and the client and other client expectations?	In future, specifications (and reports) will set out the expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties).  <i>Action: the audit manual and standard working papers will be changed to reflect this requirement</i>
When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	This has not been done previously. In future, specifications and reports will set out the expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties). The Audit manual has already been amended to reflect this requirement.  <i>Action: the audit manual and standard working papers will be changed to reflect this requirement</i>

#### **4.0 External Assessment**

As noted above, the PSIAS require the Head of Internal Audit to arrange for an external assessment to be conducted at least once every five years to ensure the continued application of professional standards. The assessment is intended to provide an independent and objective opinion on the quality of internal audit practices.

Whilst the new Standards were only adopted in April 2013, the decision was taken to request an assessment at the earliest opportunity in order to provide assurance to our clients.

The assessment was conducted by Gerry Cox and Ian Baker from the South West Audit Partnership (SWAP). Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to over 12 local authorities (including county, unitary and district councils across Somerset, Wiltshire and Dorset). The Partnership was established in 2005 and currently employs over 60 members of staff.

The assessment consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed an audit committee chair. The fieldwork was completed in early April 2014.

A copy of the assessment report is attached at **Annex A**.

The conclusion from the external assessment was that the current working practices conform to the required professional standards. The assessors made a number of observations and recommendations which will now be taken forward in the Improvement Action Plan (see below).

## 5.0 Improvement Action Plan

The following changes and improvements to working practices will be made:

<b>Change / improvement</b>	<b>Target completion date</b>
The use of assurance mapping will be further developed and, where appropriate, future audit plans will highlight where other sources of assurance are being relied upon.	31 March 2015
The audit manual and standard working papers will be changed to ensure that the expectations on Veritau and the relevant client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties) are fully understood. The standard templates for audit specifications and reports will be amended to reflect this change. Where appropriate, information sharing agreements will also be established with client organisations.	30 September 2014
Further comparative benchmarking information will be sought from other internal auditor providers in order to help demonstrate that the current internal audit service provides value for money.	31 March 2015
Whilst the current outsourced arrangement with Audit	31 March 2015

<p>North is working well further efforts will be made to develop the capacity of the 'in-house' IT audit provision in order to be able to offer a more cost effective option to client organisations.</p>	
<p>The standard Audit Charter will be amended to make it clear that auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months.</p>	<p>30 September 2014</p>
<p>Current internal audit working practices will continue to be reviewed to ensure that there is consistency in service delivery across the different teams.</p>	<p>31 March 2015</p>

# **SELF-ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION**

**VERITAU GROUP**

**MAY 2014**

**COMPLETED BY:  
THE SOUTHWEST AUDIT PARTNERSHIP**



## INTRODUCTION

In accordance with the International Standards for the Professional Practice of Internal Auditing “The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity” (*Performance Standard 1300*). In order to achieve this, the Head of Internal Audit Partnership commissioned a Quality Review of Veritau.

There are two suggested approaches to conducting the review:

- External Quality Assessment
- Self-Assessment with Independent Validation

Due to the prohibitive costs of an External Quality Assessment, recognised as achieving the highest level of quality assurance, Veritau opted for the second option, with independent validation being carried out through peer review. For the process to pass the ‘independence’ test the Manual recommends that “at least three organisations come together to form a pool of professionals, all of whom are qualified to conduct external assessments”.

In order to achieve this Veritau worked together with the South West Audit Partnership (SWAP), the Devon Audit Partnership (DAP) and Hertfordshire’s Shared Internal Audit Service (SIAS), whereby each Audit Team would carry out a self-assessment and then SWAP would act as Validators for Veritau, Veritau for SIAS, SIAS for DAP and DAP for SWAP.

## SCOPE AND METHODOLOGY

As part of the preparation for the Quality Assurance Review (QAR), Veritau prepared a self-assessment document (utilising the Checklist for Assessing Conformance with the Public Sector Internal Auditing Standards (PSIAS) and the Local Government Application Note), providing links to necessary evidence to support their findings. The self-assessment team conducted a QAR of the internal audit (IA) activity undertaken by Veritau across its client organisations in preparation for validation by an independent assessor. The team also reviewed the IA activity’s risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes as well as the service Procedure Manuals for the delivery of Internal Audit reviews.

The principal objective of the QA was to assess the IA activity’s conformance to the International Standards for the Professional Practice of Internal Auditing (Standards).

The QA Review Team from SWAP was made up of their Company Chief Executive – Gerry Cox who is a Chartered Auditor and Certified Auditor with over 25 years management experience in Internal Auditing. The second member of the team was SWAP’s Director of Quality - Ian Baker, a Fellow Member of the Institute of Management Services with over 10 years management experience in Internal Auditing.

In addition to reviewing the evidence supplied by the Self-Assessment Team the Review Team were on site for three days meeting with Veritau staff, client officers and Committee Members. In addition to interviewing the Head of Internal Audit a further thirteen interviews were held, with eight of these representing client organisations and the other five being staff members.

## OPINION AS TO CONFORMITY TO THE *STANDARDS*

**It is our overall opinion that the Veritau IA activity ‘Generally Conforms’ to the *Standards* and Code of Ethics.**

For a detailed list of conformance to individual standards, please see Attachment A. The QAR team identified opportunities for further improvement, details of which are provided in this report.

The guidance suggests a scale of three ratings, “generally conforms,” “partially conforms,” and “does not conform.” “Generally Conforms” is the top rating and means that an IA activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. “Partially Conforms” means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner. “Does Not Conform” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

## SUMMARY OF POSITIVE OBSERVATIONS

The IA activity environment is well-structured and progressive, where the Standards are clearly understood and management is endeavouring to provide useful audit tools and implement appropriate practices to ensure the service remains current and provides added value to its clients; summarised by one client officer as a “*modern internal audit service focussing on what’s important*”. Other positive observations include:

- The Head of Internal Audit is highly respected by both staff and client representatives.
- Interviews indicate that the service has a good organisational profile.
- We asked each of the eight client representatives to rate the internal audit service provided by Veritau, out of 10. The service received an average score of 8.4 which indicates it is highly valued by its clients.
- Annual feedback from the client survey indicates a positive view on the conduct, professionalism and approach of Veritau staff.
- The service receives a high level of satisfaction from individual audit review feedback forms.
- Veritau offer good internal training and development for new auditors.
- The service has a comprehensive procedure manual to guide its staff.

Consequently, the observations and recommendations by the QA Review Team captured below are intended to build on the foundations already in place in the IA activity.

## OBSERVATIONS AND RECOMMENDATIONS

### PART I – MATTERS FOR CONSIDERATION OF VERITAU MANAGEMENT

1. The self-assessment identified the need for specifications to set out expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties). It would be beneficial to have an agreed Audit Charter (or some form of engagement agreement) with all client organisations engaged with and other related documents such as Information Sharing Protocols (*Attribute Standard 1000*).
2. Whilst guidance exists on a Quality Assurance Improvement Programme, we were not provided evidence of a maintained Action Plan. The matters arising from this Assessment should be used as a basis for starting such a plan which should be maintained as a live document and periodically reported to the Board for progress (*Attribute Standard 1300*).
3. With the financial pressures faced by Local Authority clients it is essential for all service providers to demonstrate value for money. Where possible, management should try to obtain comparative benchmarking data that demonstrates to its owners that Veritau represents VFM (*Performance Standard 2000*).

### PART II – ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY OF VERITAU

1. In our opinion the coverage of IT Audit in annual plans is low. Reliance on ICT and related risks will only increase and it is essential that a balanced proportion of the Annual Plan should reflect this (*Performance Standard 2010*).
2. The Audit Charter states that the service is “ensuring staff are not involved in auditing areas where they have recently been involved in operational management, or in providing consultancy and advice”. This is good practice, however, the term ‘recently’ can be seen to be ambiguous and should be specified i.e. 12 months (*Attribute Standard 1130*).
3. Internal audit plans and activities are coordinated with the external auditors of each client organisation. However, it is recognised that there is further scope for coordination of other internal providers of assurance (*Performance Standard 2050*).
4. Some staff raised concerns over consistency across the Company; an example cited was the follow up processes. This is a challenge for any growing organisation. Veritau has a comprehensive Procedure Manual and utilises Galileo to perform reviews and so should expect consistency. The production of management reports which are regularly monitored to ensure Company practice is enforced should help to address this perceived issue.



## RECOMMENDATIONS

We recommend that:

- the Head of Internal Audit presents this report to the Veritau Board and each of its client organisations Audit Committees;
- the Head of Internal Audit uses the Observations and Recommendations from this report to develop a Quality Assessment Improvement Programme (QAIP) that is maintained as a live document;
- the Head of Internal Audit presents the QAIP to the Veritau Board and each of its client organisations Audit Committees and thereafter reported periodically to monitor progress and on-going development of the service.

## ATTACHMENT A

### STANDARDS CONFORMANCE

### EVALUATION SUMMARY

#### SOUTH WEST AUDIT PARTNERSHIP

Standards Conformance Evaluation Summary		("X" Evaluator's Decision)		
		GC	PC	DNC
<b>OVERALL EVALUATION</b>				
<b>ATTRIBUTE STANDARDS</b>				
<b>1000</b>	<b>Purpose, Authority, and Responsibility</b>	X		
1010	Recognition of the Definition of Internal Auditing	X		
<b>1100</b>	<b>Independence and Objectivity</b>	X		
1110	Organisational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
<b>1200</b>	<b>Proficiency and Due Professional Care</b>			
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
<b>1300</b>	<b>Quality Assurance and Improvement Program</b>			
1310	Requirements of the Quality Assurance and Improvement	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
1322	Disclosure of Non-conformance	X		
<b>PERFORMANCE STANDARDS</b>				
<b>2000</b>	<b>Managing the Internal Audit Activity</b>			
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination		X	
2060	Reporting to Senior Management and the Board	X		

## Standards Conformance Evaluation Summary

		("X" Evaluator's Decision)		
		GC	PC	DNC
<b>2100</b>	<b>Nature of Work</b>			
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
<b>2200</b>	<b>Engagement Planning</b>			
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
<b>2300</b>	<b>Performing the Engagement</b>			
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
<b>2400</b>	<b>Communicating Results</b>			
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
2431	Engagement Disclosure of Non-conformance	X		
2440	Disseminating Results	X		
<b>2500</b>	<b>Monitoring Progress</b>	X		
<b>2600</b>	<b>Management's Acceptance of Risks</b>	X		
<b>IIA Code of Ethics</b>		X		

## Definitions

**GC – “Generally Conforms”** means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformity to the others, within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, “successful practice,” etc.

**PC – “Partially Conforms”** means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

**DNC – “Does Not Conform”** means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity’s effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

## ATTACHMENT B INDEPENDENT VALIDATOR STATEMENT

The validator was engaged to conduct an independent validation of the Veritau self-assessment. The primary objective of the validation was to verify the assertions made by the self-assessment team concerning adequate fulfilment of the organisation's basic expectations of the IA activity and its conformity to the International Standards for the Professional Practice of Internal Auditing (Standards).

In acting as validator, I am fully independent of the organisation and have the necessary knowledge and skills to undertake this engagement. The validation, started in February 2014 and culminated with a three day site visit on 11<sup>th</sup> April. The validation consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with fourteen individuals, including the Head of Internal Audit. Apart from five members of Veritau staff, we met with four Section 151 Officers, two Assistant Directors, a Chief Executive and an Audit Committee Chairman.

I concur fully with the IA activity's conclusions in the self-assessment from where some of the observations were identified.

Implementation of all the recommendations contained in this report will serve only to improve the effectiveness and enhance the value of the IA activity, which is already highly regarded, and ensure its full conformity to the *Standards*.



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Gerry Cox CMIIA

Chief Executive – South West Audit Partnership

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Date 3<sup>rd</sup> June 2014