

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

4 DECEMBER 2014

PROGRESS ON 2014/15 INTERNAL AUDIT PLAN

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the progress made to date in delivering the 2014/15 Internal Audit Plan and any developments likely to impact on the Plan throughout the remainder of the financial year.

2.0 BACKGROUND

- 2.1 Members approved the 2014/15 Audit Plan on the 6 March 2014. The total number of planned audit days for 2014/15 is 1,495 (plus 1,085 days for other work including counter fraud and information governance). The performance target for Veritau is to deliver 93% of the agreed Audit Plan.
- 2.2 This report provides details of how work on the 2014/15 Audit Plan is progressing.

3.0 INTERNAL AUDIT PLAN PROGRESS BY 31 OCTOBER 2014

- 3.1 The internal audit performance targets for 2014/15 were set by the County Council's client officer. Progress against these performance targets, as at 31 October 2014, is detailed in **Appendix 1**.
- 3.2 Work is ongoing to complete the agreed programme of work. It is anticipated that the 93% target for the year will be exceeded by the end of April 2015 (the cut off point for 2014/15 audits). **Appendix 2** provides details of the final reports issued in the period. A further 10 audit reports have been issued but are still in draft.

Contingency and Counter Fraud Work

- 3.3 Veritau continues to handle cases of suspected fraud or malpractice. Such assignments are carried out in response to issues raised by staff or members of the public via the Whistleblower Hotline, or as a result of management raising concerns. Since the start of the current financial year, 18 cases of suspected fraud or malpractice have been referred to Veritau for investigation, 9 of which were internal, 6 social care and 3 external fraud cases.

Information Governance

- 3.4 Veritau's Information Governance Team (IGT) continues to handle a significant number of information requests submitted under the Freedom of Information and

Data Protection Acts. The number of FOI requests received continues to grow with a total of 796 requests received between 1 April and 31 October 2014 compared with 738 requests received during the corresponding period in 2013/14 (a 7.8% increase). The IGT is currently exceeding the performance response target of 95% for 2014/15 with 98.2% of requests so far being answered within the statutory 20 day deadline. The IGT also coordinates the County Council's subject access requests (excluding social care) and has received 32 such requests between 1 April and 31 October 2014 compared to 38 in the same period in 2013/14.

- 3.5 Veritau is also assisting with the implementation of the County Council's information governance framework. The Council's Corporate Information Governance Group (CIGG) continues to meet frequently to discuss policy development and implementation. The Head of Internal Audit attends these meetings and the Information Governance Manager works closely with the Directorate Information Governance Champions to implement the decisions made by CIGG. Encouraging progress continues to be made to address information governance matters at both a corporate and directorate level. Veritau auditors are also continuing with a programme of unannounced audit visits to County Council premises in order to assess staff awareness of the need to secure personal and sensitive information. The results of these compliance visits are reported back to CIGG and to the Audit Committee.

Variations to the 2014/15 Audit Plan

- 3.6 All proposed variations to the agreed Audit Plan arising as the result of emerging issues and/or requests from directorates are subject to a Change Control process. Where the variation exceeds 5 days then the change must be authorised by the client officer. Any significant variations will then be communicated to the Audit Committee for information. The following variations have been authorised since 1 April 2014:

One Council post implementation review	+30 days
Information security compliance checks	+15 days
Serious data security breaches (contingency)	+15 days
Contract management arrangements	+30 days
Data quality (additional time allocation)	+15 days
Local Enterprise Partnership (additional time allocation)	+10 days
Waste management (additional time allocation)	+5 days
Care home visits (additional time allocation)	+5 days
Contingency	-35 days
Net change to plan	+90 days

Follow Up of Agreed Actions

- 3.7 Veritau follow up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. On the basis of the follow up work undertaken during the year to date, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.

3.8 A new escalation procedure has now been introduced to formalise the reporting process in the event that agreed actions are not implemented. A copy of the escalation procedure is attached at **Appendix 3** for information. Further details of follow up work will be reported to this Committee every six months (in March and September).

4.0 **AUDIT CHARTER**

4.1 The Audit Charter was approved by this Committee in December 2013. A review of the Charter has now been completed and a minor change is considered necessary to clarify the fact that auditors will not be assigned to review areas where they have had any direct operational or managerial involvement within the last year. A copy of the revised Charter with the tracked changes showing is attached at **Appendix 4**.

5.0 **AUDIT OPINIONS**

5.1 The standard internal audit report format has been reviewed and a number of changes made. The changes are relatively minor but include adopting 'reasonable' assurance instead of 'moderate' assurance as part of the ranking of opinions. The number and definition of the opinions otherwise remains unchanged. The change to the opinion is considered necessary to more closely reflect the wording of the definition and to avoid possible misinterpretation.

6.0 **RECOMMENDATION**

6.1 Members are asked to:

- a) note the progress made in delivering the 2014/15 Internal Audit programme of work and the variations agreed by the client officer;
- b) approve the proposed changes to the Audit Charter;
- c) note the planned change to audit opinions.

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

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18 November 2014

Background Documents: Relevant audit reports kept by Veritau at 50 South Parade, Northallerton.

PROGRESS AGAINST 2014/15 PERFORMANCE TARGETS (AS AT 31/10/2014)

<i>Indicator</i>	<i>Milestone</i>	<i>Position at 31/10/2014</i>
To deliver 93% of the agreed Internal Audit Plan.	93% by 30/4/15	27.45%
To achieve a positive customer satisfaction rating of 95%	95% by 31/3/15	100%
To ensure 95% of Priority 1 recommendations made are agreed.	95% by 31/3/15	100%
To ensure 95% of FOI requests are answered within the Statutory deadline of 20 working days.	95% by 31/3/15	98.24%

FINAL 2014/15 AUDIT REPORTS ISSUED TO DATE

Audit Area	Directorate	Overall Opinion
Local Transport Body	BES	High assurance
Framework agreements	Contract	Substantial assurance
Information security compliance (Ryedale House)	Corporate	Moderate assurance
Information security compliance (Manor Road)	Corporate	Limited assurance
Information security compliance (Sandpiper House)	Corporate	Moderate assurance
Information security compliance (Dean Road)	Corporate	High assurance
Information security compliance (Crayke House)	Corporate	Substantial assurance
Moorside Junior School	CYPS	Substantial assurance
Children and families establishment (Woodleigh)	CYPS	High assurance
Beck House / Nidderdale Children's Resource Centre	CYPS	N/A ¹
Care home visit (Meadow Lodge)	HAS	Substantial assurance
Care home visit (Skell Lodge)	HAS	Substantial assurance
Care home visit (Westfield, Killinghall)	HAS	Substantial assurance
Care home visit (Sabre Court, Scarborough)	HAS	High assurance
Care home visit (Beanlands, Glusburn)	HAS	High assurance
Care home visit (Spring Cottage, Norton)	HAS	Substantial assurance
Care home visit (Nydsley, Pately Bridge)	HAS	High assurance
Care home visit (The Holt, Hutton Buscel)	HAS	High assurance
Care home visits – composite report	HAS	N/A
Lagan CRM – general IT controls	ICT	Moderate assurance

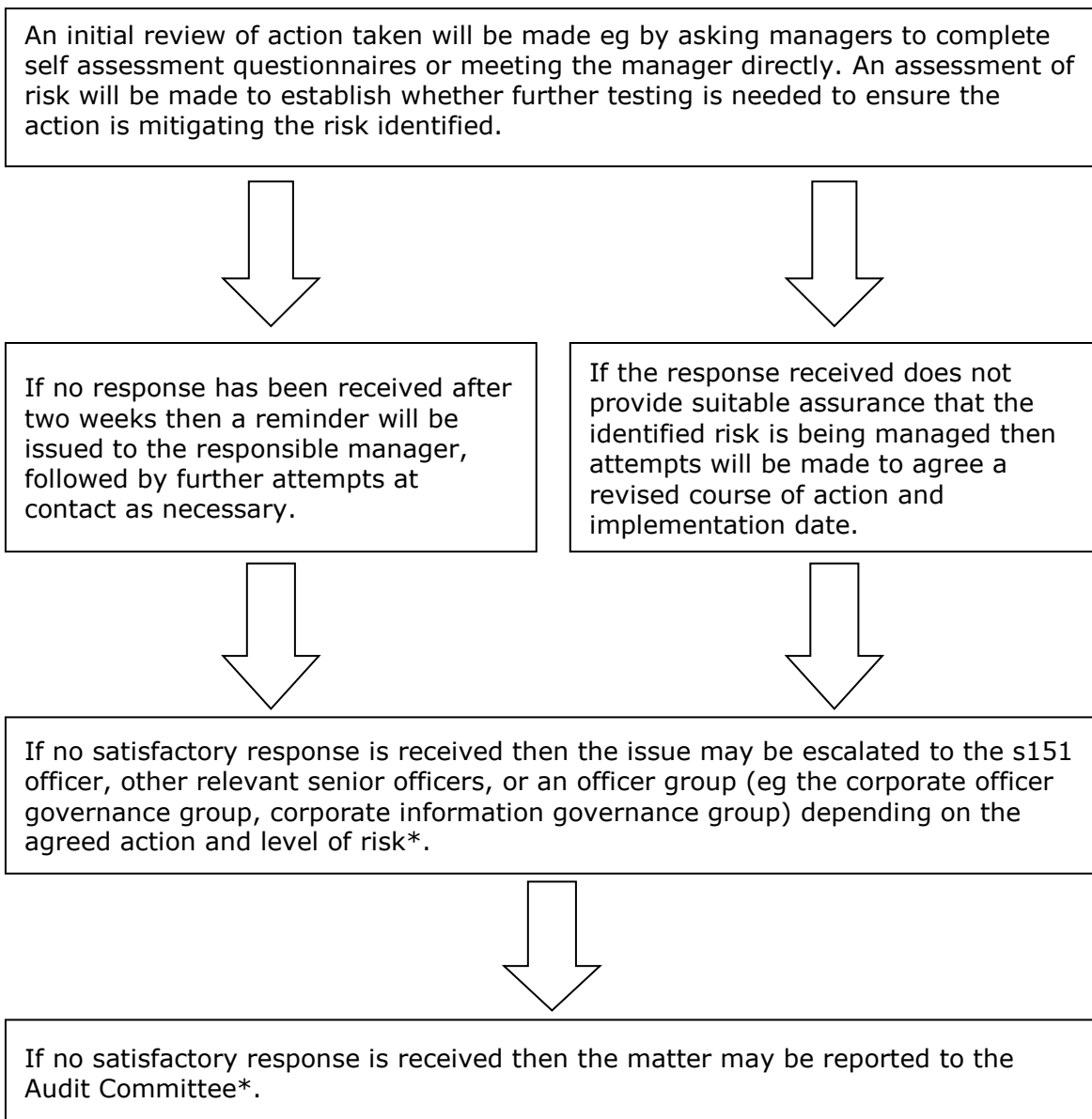
Note 1 – review of petty cash arrangements

North Yorkshire County Council Internal Audit – Follow Up and Escalation Procedure

Where internal audit work identifies an issue, actions are agreed with the service to address the problem. A date for action to be taken is also agreed.

The agreed actions are followed up by internal audit when the agreed date is reached. This will normally entail asking responsible officers to complete follow up questionnaires and reviewing the results to assess further work needed. Other follow up work may include review as part of subsequent audits and separate follow up audits.

Where no action has been taken, or the action isn't suitable then the issue will be escalated in accordance with the process set out in below.



* Decisions on whether to escalate an issue will be taken by the Head of Internal Audit in consultation with the s151 officer.

APPENDIX 4

North Yorkshire County Council Internal Audit Charter

5 December 2014³

1 Introduction

- 1.1 There is a statutory duty on the County Council to maintain an adequate and effective internal audit of its accounting records and of its system of internal control. The Accounts and Audit (England) Regulations 2011 also require that internal audit is undertaken in accordance with proper practices. The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting standards for proper practice for local government internal audit in England.
- 1.2 From 1 April 2013 CIPFA adopted new Public Sector Internal Audit Standards (PSIAS)¹ compliant with the Institute of Internal Auditors' (IIA) International Standards. The PSIAS and CIPFA's local government application note for the standards represent proper practice for internal audit in local government. This charter sets out how internal audit at North Yorkshire County Council will be provided in accordance with this proper practice.
- 1.3 This charter should be read in the context of the wider legal and policy framework which sets requirements and standards for internal audit, including the Accounts and Audit Regulations, the PSIAS and application note, and the County Council's constitution, regulations and governance arrangements.

2 Definitions

- 2.1 The standards include reference to the roles and responsibilities of the "board" and "senior management". Each organisation is required to define these terms in the context of its own governance arrangements. For the purposes of the PSIAS these terms are defined as follows at the County Council.

"Board" – the Audit Committee fulfils the responsibilities of the board in relation to internal audit standards and activities.

"Senior Management" – in the majority of cases, the term senior management in the PSIAS should be taken to refer to the Corporate Director – Strategic Resources in his role as s151 officer. This includes all functions relating directly to overseeing the work of internal audit. In addition, senior management may also refer to the Chief Executive and/or any other Corporate Director (acting individually) or collectively as the County Council's Management Board in relation to:

- enabling direct and unrestricted access for reporting purposes
- consulting on risks affecting the County Council for audit planning purposes
- approving the release of information arising from audit work to any third party.

¹ The PSIAS were adopted jointly by relevant internal audit standard setters across the public sector.

2.2 The standards also refer to the “chief audit executive”. This is taken to be the Head of Internal Audit (Veritau).

3 Application of the standards

3.1 The PSIAS defines internal audit as follows.

“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.”

3.2 The County Council acknowledges the mandatory nature of this definition and confirms that it reflects the purpose of internal audit. The County Council also requires that the service be undertaken in accordance with the code of ethics and standards set out in the PSIAS.

4 Scope of internal audit activities

4.1 The scope of internal audit work will encompass the County Council's entire control environment², comprising its systems of governance, risk management, and control.

4.2 The scope of audit work also extends to services provided through partnership arrangements, irrespective of what legal standing or particular form these may take. The Head of Internal Audit, in consultation with all relevant parties and taking account of audit risk assessment processes, will determine what work will be carried out by the internal audit service, and what reliance may be placed on the work of other auditors.

5 Responsibilities and objectives

5.1 The Head of Internal Audit is required to provide an annual report to the Audit Committee. The report will be used by the Committee to inform its consideration of the County Council’s annual governance statement. The report will include:

- the Head of Internal Audit’s opinion on the adequacy and effectiveness of the Council’s framework of governance, risk management, and control
- any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
- any particular control weakness judged to be relevant to the preparation of the annual governance statement

² For example the work of internal audit is not limited to the review of financial controls only.

- a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
- an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme
- a statement on conformance with the PSIAS.

5.2 To support the opinion the Head of Internal Audit will ensure that an appropriate programme of audit work is undertaken. In determining what work to undertake the service should:

- adopt an overall strategy setting out how the service will be delivered in accordance with this Charter
- draw up an indicative risk based audit plan on an annual basis which takes account of the requirements of the Charter, the strategy, and proper practice.

5.3 In undertaking this work, the responsibilities of the internal audit service will include:

- providing assurance to the board and senior management on the effective operation of governance arrangements and the internal control environment operating at the County Council
- objectively examining, evaluating and reporting on the probity, legality and value for money of the Council's arrangements for service delivery
- reviewing the Council's financial arrangements to ensure that proper accounting controls, systems and procedures are maintained and, where necessary, for making recommendations for improvement
- helping to secure the effective operation of proper controls to minimise the risk of loss, the inefficient use of resources and the potential for fraud and other wrongdoing
- acting as a means of deterring all fraudulent activity, corruption and other wrongdoing; this includes conducting investigations into matters referred by Members, officers, and the public and reporting findings of those investigations to the relevant officers and Members as appropriate for action
- advising the Council on relevant counter fraud and corruption policies and measures.

5.4 The Head of Internal Audit will ensure that the service is provided in accordance with proper practice as set out above and in accordance with any other relevant standards – for example County Council policy and/or legal or professional standards and guidance.

5.5 In undertaking their work, internal auditors should have regard to:

- the code of ethics in the PSIAS³
- the codes of any professional bodies of which they are members
- standards of conduct expected by the County Council
- the Committee on Standards in Public Life's *Seven Principles of Public Life*.

6 Organisational independence

6.1 It is the responsibility of corporate directors to maintain effective systems of risk management, internal control, and governance. Auditors will have no responsibility for the implementation or operation of systems of control and will remain sufficiently independent of the activities audited to enable them to exercise objective professional judgement.

6.2 Audit advice and recommendations will be made without prejudice to the rights of internal audit to review and make further recommendations on relevant policies, procedures, controls and operations at a later date.

6.3 The Head of Internal Audit will put in place measures to ensure that individual auditors remain independent of areas they are auditing for example by:

- rotation of audit staff
- ensuring staff are not involved in auditing areas where they have recently been involved in operational management, or in providing consultancy and advice⁴
- seeking external oversight of any audit of functional activities managed by the Head of Internal Audit through Veritau client management arrangements.

7 Accountability, reporting lines, and relationships

7.1 Internal audit services are provided under contract to the Council by Veritau Limited. The company is a separate legal entity. Staff undertaking internal audit work will be employed by Veritau or another Veritau group company. Staff may also be seconded to Veritau from the County Council. The Corporate Director – Strategic Resources acts as client officer for the contract, and is responsible for overall monitoring of the service.

7.2 In its role in providing an independent assurance function, Veritau has direct access to Members and senior managers and can report uncensored to them as considered necessary. Such reports may be made to the:

³ Veritau has adopted its own code of ethics which fulfil the requirements of the PSIAS.

⁴ auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months

- Council, Executive, or any committee (including the Audit Committee)
- Chief Executive
- Corporate Director – Strategic Resources (s151 officer)
- Monitoring Officer
- Any other corporate director and/or service manager.

7.3 The Corporate Director – Strategic Resources (as s151 officer) has a statutory responsibility for ensuring that the County Council has an effective system of internal audit in place. In recognition of this, a protocol has been drawn up setting out the relationship between internal audit and the Corporate Director – Strategic Resources. This is included in Annex 1.

7.4 The Head of Internal Audit will report independently to the Audit Committee⁵ on:

- proposed allocations of audit resources
- any significant risks and control issues identified through audit work
- his/her annual opinion on the Council's control environment.

7.5 The Head of Internal Audit will informally meet in private with members of the Audit Committee, or the committee as a whole as required. Meetings may be requested by committee members or the Head of Internal Audit.

7.6 The Audit Committee will oversee (but not direct) the work of internal audit. This includes commenting on the scope of internal audit work and approving the annual audit plan. The committee will also protect and promote the independence and rights of internal audit to enable it to conduct its work and report on its findings as necessary⁶.

8 Fraud and consultancy services

8.1 The primary role of internal audit is to provide assurance services to the County Council. However, the service may also be required to undertake fraud investigation and other consultancy work to add value and help improve governance, risk management and control arrangements.

8.2 The prevention and detection of fraud and corruption is the responsibility of management. However, all instances of suspected fraud and corruption should be notified to the Head of Internal Audit, who will decide on the course of action to be taken in consultation with the relevant corporate director and/or other

⁵ The committee charged with overall responsibility for governance at the county council.

⁶ The relationship between internal audit and the Audit Committee is set out in more detail in Annex 2.

advisors (for example human resources). Where appropriate, cases of suspected fraud or corruption will be investigated by Veritau.

- 8.3 Where appropriate, Veritau may carry out other consultancy related work, for example specific studies to assess the economy, efficiency, and effectiveness of elements of service provision. The scope of such work will be determined in conjunction with the relevant corporate directors and/or service managers. Such work will only be carried out where there are sufficient resources and skills within Veritau and where the work will not compromise the assurance role or the independence of internal audit. Details of all significant consultancy assignments completed in the year will be reported to the Audit Committee.

9 Resourcing

- 9.1 As part of the audit planning process the Head of Internal Audit will review the resources available to internal audit, to ensure that they are sufficient to meet the requirements to provide an opinion on the County Council's control environment. Where resources are judged to be insufficient, recommendations to address the shortfall will be made to the Corporate Director – Strategic Resources and to the Audit Committee.

10 Rights of access

- 10.1 To enable it to fulfil its responsibilities, the County Council gives internal auditors employed by Veritau the authority to:
- enter all Council premises or land, at any reasonable time
 - have access to all data, records, documents, correspondence, or other information - in whatever form - relating to the activities of the Council
 - have access to any assets of the Council and to require any employee of the Council to produce any assets under their control
 - be able to require from any employee or Member of the Council any information or explanation necessary for the purposes of audit.
- 10.2 Corporate directors and service managers are responsible for ensuring that the rights of Veritau staff to access premises, records, and personnel are preserved, including where the County Council's services are provided through partnership arrangements, contracts or other means.

11 Review

- 11.1 This charter will be reviewed periodically by the Head of Internal Audit. Any recommendations for change will be made to the Corporate Director – Strategic Resources and the Audit Committee, for approval.

**Relationship between the Corporate Director – Strategic Resources
(the s151 Officer) and internal audit**

- 1 In recognition of the statutory duties of the Council's Corporate Director – Strategic Resources (the Corporate Director) for internal audit, this protocol has been adopted to form the basis for a sound and effective working relationship between the Corporate Director and internal audit.
 - (i) The Head of Internal Audit (HoIA) will seek to maintain a positive and effective working relationship with the Corporate Director.
 - (ii) Internal audit will review the effectiveness of the Council's systems of control, governance, and risk management and report its findings to the Corporate Director (in addition to the Audit Committee).
 - (iii) The Corporate Director will be asked to comment on those elements of internal audit's programme of work that relate to the discharge of his/her statutory duties. In devising the annual audit plan and in carrying out internal audit work, the HoIA will give full regard to the comments of the Corporate Director.
 - (iv) The HoIA will notify the Corporate Director of any matter that in the HoIA's professional judgement may have implications for the Corporate Director in discharging his/her s151 responsibilities.
 - (v) The Corporate Director will notify the HoIA of any concerns that he/she may have about control, governance, or suspected fraud and corruption and may require internal audit to undertake further investigation or review.
 - (vi) The HoIA will be responsible for ensuring that internal audit is provided in accordance with proper practice.
 - (vii) If the HoIA identifies any shortfall in resources which may jeopardise the ability to provide an opinion on the County Council's control environment, then he/she will make representations to the Corporate Director, as well as to the Audit Committee.
 - (viii) The Corporate Director will protect and promote the independence and rights of internal audit to enable it to conduct its work effectively and to report as necessary.

Relationship between the Audit Committee and internal audit

- 1 The Audit Committee plays a key role in ensuring that the County Council maintains a robust internal audit service and it is therefore essential that there is an effective working relationship between the Committee and internal audit. This protocol sets out some of the key responsibilities of internal audit and the Committee.
- 2 The Audit Committee will seek to:
 - (i) raise awareness of key aspects of good governance across the County Council, including the role of internal audit and risk management
 - (ii) ensure that adequate resources are provided by the County Council so as to ensure that internal audit can satisfactorily discharge its responsibilities
 - (iii) protect and promote the independence and rights of internal audit to conduct its work properly and to report on its findings as necessary.
- 3 Specific responsibilities in respect of internal audit include the following.
 - (i) Oversight of, and involvement in, decisions relating to how internal audit is provided.
 - (ii) Approval of the internal audit charter.
 - (iii) Consideration of the annual report and opinion of the Head of Internal Audit (HoIA) on the County Council's control environment.
 - (iv) Consideration of other specific reports detailing the outcomes of internal audit work.
 - (v) Consideration of reports dealing with the performance of internal audit and the results of its quality assurance and improvement programme.
 - (vi) Consideration of reports on the implementation of actions agreed as a result of audit work and outstanding actions escalated to the Committee in accordance with the approved escalation policy.
 - (vii) Approval (but not direction) of the annual internal audit plan.
- 4 In relation to the Audit Committee, the HoIA will:
 - (i) attend its meetings and contribute to the agenda
 - (ii) ensure that overall internal audit objectives, workplans, and performance are communicated to, and understood by, the Committee
 - (iii) provide an annual summary of internal audit work in accordance with the agreed work programme of the Committee, and an opinion on the

Annex 2

Council's control environment, including details of unmitigated risks or other issues that need to be considered by the Committee

- (iv) establish whether anything arising from the work of the Committee requires changes to the audit plan or vice versa
 - (v) highlight any shortfall in the resources available to internal audit and to make recommendations to address these to the Committee
 - (vi) report any significant risks or control issues identified through audit work which the HoIA feels necessary to specifically report to the Committee
 - (vii) participate in the Committee's review of its own remit and effectiveness
 - (viii) consult with the board on how external assessment of the internal audit service will be conducted (required once every five years).
- 5 The HoIA will informally meet in private with members of the Audit Committee, or the committee as a whole as required. Meetings may be requested by committee members or the HoIA.