

NORTH YORKSHIRE COUNTY COUNCIL**AUDIT COMMITTEE****22 JUNE 2017****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 2017 and to express an opinion on the overall framework of governance, risk management and control in place within the County Council.
- 1.2 To provide Members with details of breaches to Finance, Contract and Property Procedure Rules identified during 2016/17 audit work.
- 1.3 To consider the Internal Audit performance outturn for 2016/17 and the 2017/18 performance targets for Veritau.
- 1.4 To inform Members of Veritau's conformance to professional standards and the conclusions arising from the Quality Assurance and Improvement Programme.
- 1.5 To approve changes to the County Council's Audit Charter.

2.0 BACKGROUND

- 2.1 The work of internal audit is governed by the Accounts and Audit Regulations 2015, relevant professional standards and the County Council's Internal Audit Charter. Since April 2013, the applicable standards for local government have been the Public Sector Internal Audit Standards (PSIAS). These comply with the international standards issued by the global 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 the Chartered Institute of Public Finance and Accountancy (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 Standards, the Audit Committee approved an Audit Charter which sets 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 An updated version of the PSIAS has recently been published to reflect changes made to the International Professional Practices Framework (IPPF) by global IIA. The changes are relatively minor in nature and mostly consist of further clarification. However, a number of changes are now required to the Internal Audit Charter. The revised Audit Charter with tracked changes is therefore attached as **Appendix 1**.
- 2.4 In accordance with the 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.
- 2.5 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.

- 2.6 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.
- 2.7 Audit work was undertaken across all of the County Council's services and activities in accordance with the approved Internal Audit Plan for 2016/17. The findings have been reported to this Committee in accordance with the following cycle:-

June 2016

Children & Young People's Services

September 2016	Health and Adult Services Computer audit, corporate themes and contracts
December 2016	Business and Environmental Services
March 2017	Central Services Counter fraud matters

2.8 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 control arrangements within the particular functional area or directorate.

3.0 **WORK COMPLETED IN 2016/17**

3.1 During 2016/17, 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 95% of the Internal Audit Plan against an agreed performance target of 93%. The overall opinions provided to this Committee, at meetings between June 2016 and March 2017, are detailed in **Appendix 2**.

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 2016/17, 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 Fraud and Loss Risk Assessment and Money Laundering Policy were updated during the year and a campaign to raise awareness of the Whistleblowing Policy was completed. In addition, Veritau has continued to issue alerts to service managers and schools to draw attention to potential fraud risks and scams.

3.4 The Information Governance Team (IGT) co-ordinates all requests for information and provides advice and guidance on the application of information related legislation (including the Data Protection and Freedom of Information Acts). A total of 1,302 Fol requests were received during 2016/17, compared to 1,267 in 2015/16. This represents an increase of 2.8% over the previous year and continues the upward trend in such requests. 19 Fol reviews were also completed in the year. In addition, the IGT coordinates the County Council's response to subject access requests and complaints to the Information Commissioner's Office (ICO). During 2016/17, the team handled 199 subject access requests and 8 ICO complaints.

- 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 other member councils together with a number of other public sector bodies. 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 2016/17. Investment in new services and initiatives has also continued, particularly in respect of counter fraud and data analytics.
- 4.3 **Appendix 3** details performance against the targets set by the County Council for 2016/17. **Appendix 4** sets out the targets for Veritau for 2017/18.
- 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 2016/17 are shown in **Appendix 5**.
- 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 included:

- Inappropriate authorisation of orders and payments;
- Inadequate checking of creditor invoices, mileage claims, residents' money and payroll records;
- Poor record keeping to evidence income received and accruals;
- Ineffective budgetary control procedures and reconciliations not being completed adequately.

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 maintains a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. As well as undertaking an annual survey of senior management in each client organisation and completing a detailed self assessment to evaluate performance against the Standards, the service is also subject to a periodic external assessment. The last 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.

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 6**.

7.0 **2016/17 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 Members attention is drawn to the following significant control issues which were identified during the year and considered for possible inclusion in the 2016/17 Annual Governance Statement:

- **Information security**

Further improvements are required to ensure compliance with the Council's policies for recording, processing, storing and transmitting personal and sensitive information. Whilst the overall governance framework has been strengthened and this area continues to be a focus for management attention, compliance is still not uniform across the Council. Recent audit work has identified some continuing poor practice with the handling of documents and information security. This has included sensitive information being left out, pedestals and cabinets being left unlocked and laptops left unsecured. A number of serious breaches have also occurred during the year including three incidents which needed to be reported to the Information Commissioner's Office. The number and type of breaches suggests further improvement is still required.

- **Payment Card Industry Data Security Standard (PCI DSS)**

The Payment Card Industry Data Security Standard (PCI DSS) is an international standard mandated by the five major card issuing organisations. All 'merchants', regardless of their size or the value / volume of transactions being processed, need to be PCI DSS compliant. Whilst the Council is aware of the standard and recognises the need to be complaint, there are gaps in the current arrangements. Key issues to address include allocating responsibility for ensuring compliance, mapping all processes and systems which may be subject to the PCI DSS, developing relevant policies and procedures, training staff and completing the annual self-assessment questionnaire.

- **Access to IT systems by volunteers and other non-NYCC employees**

Whilst the council has created specific policies and confidentiality agreements for non-NYCC users, there are a number of weaknesses with the current arrangements for controlling access to data and systems. The policy and confidentiality agreement lack clarity, there is no guidance for managers to determine appropriate levels of access, information security training is not mandatory, and accounts are not being disabled / deleted when no longer required.

- **Contracting (HAS)**

A social care contract was allowed to be rolled forward for over 10 years. A smaller related contract with the same provider has also been rolled forward. The contracts were last rolled forward in April 2015 (for a further 3 years). Five other similar contracts were rolled forward at the same time. There was also a lack of effective contract monitoring.

- **Highfield House Data Centre**

The audit identified a number of problems with the physical and environmental security controls protecting the IT hardware located at Highfield House, Ripon. The Council subsequently re-located the servers to the main computer facility at County Hall.

8.0 **RECOMMENDATIONS**

8.1 Members are asked to:-

- (i) note the overall “Substantial Assurance” opinion of the Head of Internal Audit regarding the overall framework of governance, risk management and control operating 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 and Finance Procedure Rules and the actions taken to address these matters.
- (iv) note the performance outturn for 2016/17 and the corresponding performance targets for Veritau for 2017/18.
- (v) approve the proposed changes to the Internal Audit Charter

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

1 June 2017

North Yorkshire County Council Internal Audit Charter

~~223~~ June 201~~7~~6

1 Introduction

- 1.1 There is a statutory duty on the County Council to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit (England) Regulations 2015 also require that the audit takes into account public sector internal auditing standards or guidance. 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 2017⁶ CIPFA adopted revised 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 In line with the PSIAS, the mission of internal audit at the County Council is:

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”

3.2 The County Council requires that the internal audit service aspires to achieve the mission through its overall arrangements for delivery of the service. In aiming to achieve this, the council expects that the service:

- demonstrates integrity
- demonstrates competence and due professional care
- is objective and free from undue influence (independent)
- aligns with the strategies, objectives, and risks of the organisation
- is appropriately positioned and adequately resourced.
- demonstrates quality and continuous improvement.
- communicates effectively.
- provides risk-based assurance.
- is insightful, proactive, and future-focused.
- promotes organisational improvement.

3.2 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.”

3.3 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
 - 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 (including the code of ethics and standards) and the results of the quality assurance and improvement programme.
- 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 following consultation with the Audit Committee and senior management. The audit

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

plan will also reflect which takes account of the requirements of the Charter, the strategy, and proper practice

- consider trends and emerging issues that may impact the organisation-

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 Council³
- 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 mission of internal audit, ~~and~~ core principles and standards as set out in the PSIAS and reflected in this charter
- the code of ethics in the PSIAS⁴
- 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*.

³ where third parties place reliance on the assurance provided then they do so at their own risk

⁴ Veritau has adopted its own code of ethics which fulfil the requirements of the PSIAS.

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 advice⁵
 - ~~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 entity⁶. 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:
- Council, Executive, or any committee (including the Audit Committee)
 - Chief Executive
 - Corporate Director – Strategic Resources (s151 officer)
 - Monitoring Officer

⁵ auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months

⁶ Veritau is part-owned by the County Council. The company provides internal audit services to a number of member councils and other public sector organisations.

- 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 Committee⁷ 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 necessary⁸.

8 Fraud, ~~and consultancy services~~ and non-audit 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 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

⁷ The committee charged with overall responsibility for governance at the county council.

⁸ The relationship between internal audit and the Audit Committee is set out in more detail in Annex 2.

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.

8.4 Where Veritau provides non-audit services (for example information governance), appropriate safeguards will be put in place to ensure audit independence and objectivity are not compromised. These safeguards include the work being performed by a separate team with different line management arrangements. Separate reporting arrangements will also be maintained. The Head of Internal Audit will report any instances where audit independence or objectivity may be compromised to the Corporate Director – Strategic Resources and the Audit Committee. The Head of Internal Audit will also take steps to limit any actual or perceived impairment that might occur (for example by arranging for the audit of these services or functional activities to be overseen externally).

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 appropriate and sufficient to meet the requirements to provide an opinion on the County Council's control environment. Where resources are judged to be inadequate or 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 HoIA will report to the Corporate Director (and the Audit Committee) any instances where internal audit independence or objectivity is likely to be compromised, together with any planned remedial action.
 - (ix). The HoIA will report to the Corporate Director (and the Audit Committee) any instances where audit work has not conformed to the code of ethics and/or the standards. This includes the reasons for non-conformance and the possible impact on the audit opinion.

| (xviii) 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

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 or any instances where the independence or objectivity of internal audit work may be compromised (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. This includes risks which management are failing to address but which the HoIA considers are unacceptable for the County Council.
- (vii) report any actual or attempted interference in the performance or reporting of internal audit work
- (viii) participate in the Committee's review of its own remit and effectiveness
- (ixviii) discuss the outcomes of the quality assurance and improvement programme, and 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.

OPINIONS ISSUED IN 2016/17

Report	Directorate/Audit Work Area	Opinion	Period Covered
June 2016	Children and Young People's	Substantial	1 June 2015 to 31 May 2016
September 2016	Health and Adult Services	Substantial	1 September 2015 to 31 August 2016
	Computer audit, corporate themes and contracts	Substantial	1 September 2015 to 31 August 2016
December 2016	Business and Environmental Services	Substantial	1 December 2015 to 30 November 2016
March 2017	Central Services	Substantial	1 February 2016 to 31 January 2017
	Counter fraud matters	N/A	1 February 2016 to 31 January 2017

PERFORMANCE TARGETS 2016/17 OUT-TURN

Target		Actual		
Operational Issues				
1	To deliver 93% of the agreed Internal Audit Plan	30 Apr 2017	94.8% of the agreed Internal Audit plan completed	✓
2	To achieve a positive customer satisfaction rating of 95%	31 Mar 2017	100% customer satisfaction	✓
3	To ensure 95% of Priority 1 recommendations made are agreed	31 Mar 2017	100% of Priority 1 recommendations were agreed.	✓
4	To ensure 95% of FOI requests are answered within the Statutory deadline	31 Mar 2017	97.8% of FOI requests received during the year were responded to within the 20 day deadline.	✓

PERFORMANCE TARGETS 2017/18

Target		
Operational Issues		
1	To deliver 93% of the agreed Internal Audit Plan.	30 April 2018
2	To achieve a positive customer satisfaction rating of 95%.	31 March 2018
3	To ensure 95% of Priority 1 recommendations made are agreed.	31 March 2018
4	To ensure 95% of FOI requests are answered within the statutory deadline of 20 working days.	31 March 2018

SIGNIFICANT BREACHES OF CONTRACT PROCEDURE RULES

The following table summarises the breaches of the Council's Contract Procedure Rules, identified by Veritau during 2016/17:

	2016/17	2015/16	2014/15
Quotations not sought or evidence not retained	0	0	5
Quotation/tender opening and recording procedures incorrect	0	0	1
CPRs waived but no documented or approved case to justify deviation	0	0	0
Failure to consult with Legal Services re contract conditions and signing and/or failure to obtain appropriate approval to proceed with procurement	0	0	1
Lease for equipment entered into without agreement of Finance	0	0	2
Contract not signed and dated by County Council and contractor	0	0	1
No contract in place or key clauses omitted	0	1	1
Correct procurement process not followed or lack of evidence to confirm	2	2	6
Contract expired but not re-tendered or contracts automatically rolled forward	1	1	0
Lowest quotation not selected and selection criteria not documented	0	0	0
Inadequate advertising	0	0	0
Scoring mechanism not indicated or not submitted to Veritau (for recording)	0	0	3
Contracts not stored in accordance with CPRs	0	0	0
No financial checks or other requisite checks	0	0	0
Yortender not utilised during procurement	0	0	1

	2016/17	2015/16	2014/15
process			
Inadequate contract monitoring	5	2	1
Cost variation forms not completed	2	0	0
Issues identified with the Gateway process	0	2	0
TOTALS	10	8	22

VERITAU

INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

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
- the requirement for all audit staff to conform to the Code of Ethics and Standards of Conduct Policy
- the requirement for all audit staff to complete annual declarations of interest
- 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
- induction programmes, training plans and associated training activities
- the maintenance of training records and training evaluation procedures
- agreement of the objectives, scope and expected timescales for each audit engagement 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 senior auditors and audit managers and sign-off of each stage of the audit process
- the ongoing investment in tools to support the effective performance of internal audit work (for example data interrogation software)
- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- performance against agreed quality targets monitored and 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 senior 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 audit managers).

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 Code of Ethics and the Standards. As part of the annual appraisal process, each internal auditor is also required to assess their current skills and knowledge against the competency profile relevant for their role. Where necessary, further training or support will be provided to address any development needs.

The Head of Internal Audit is also a member of various professional networks and obtains information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes.

The results of the annual client survey, PSIAS self-assessment and professional networking 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 board¹ as part of the annual report of the Head of Internal Audit.

External assessment

At least once every five years, arrangements must be made to subject internal audit working practices to external assessment to ensure the continued application of professional standards. The assessment should be conducted by an independent and suitably qualified person or organisation and the results 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 – 2017

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2017. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 149 surveys (2016 – 124) were issued to senior managers in client organisations. 32 surveys were returned representing a response rate of 21% (2016 - 33%). The surveys were sent using Survey Monkey and respondents were asked

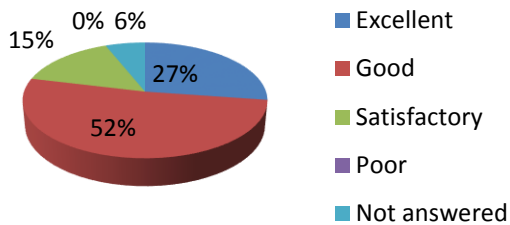
¹ As defined by the relevant audit charter.

to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:

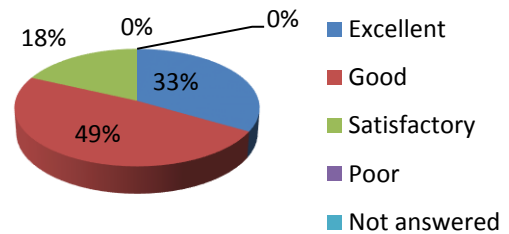
- Excellent (1)
- Good (2)
- Satisfactory (3)
- Poor (4)

Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below:

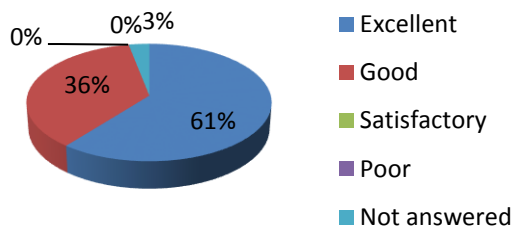
Quality of audit planning / overall coverage



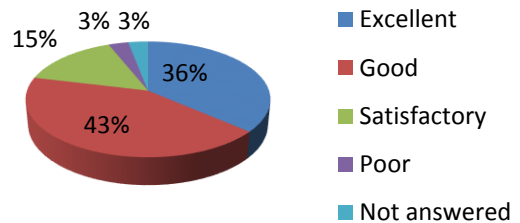
Provision of advice / guidance



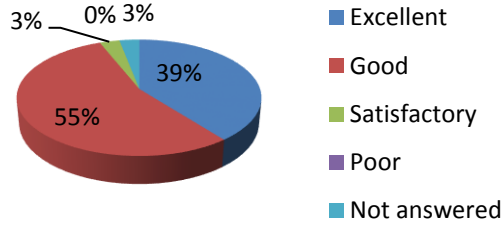
Staff - conduct / professionalism



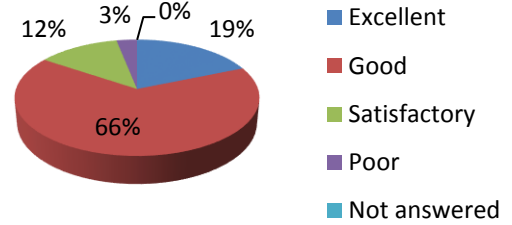
Ability to provide unbiased / objective opinions



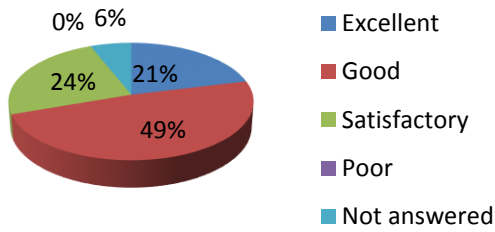
Ability to establish positive rapport with customers



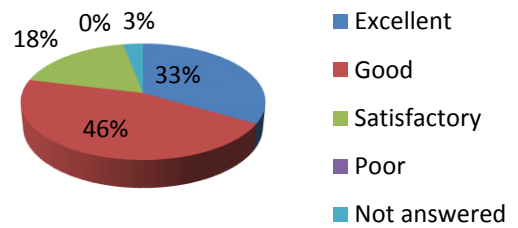
Knowledge of system / service being audited



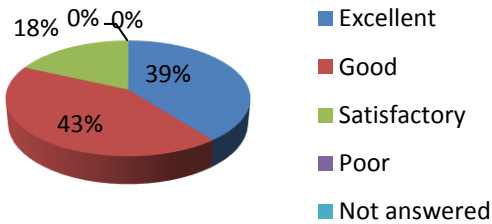
Ability to focus on areas of greatest risk



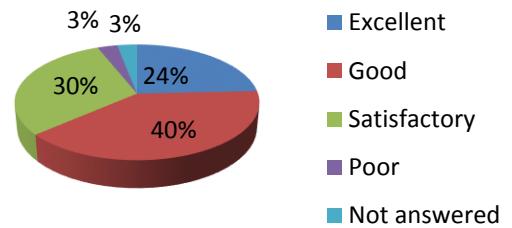
Agreeing scope / objectives of the audit



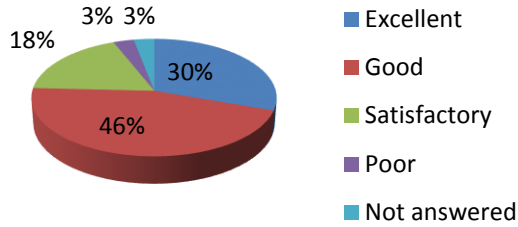
Minimising disruption to the service being audited



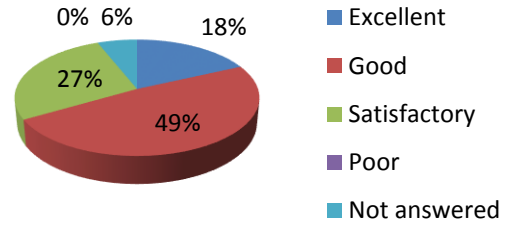
Communicating issues during the audit



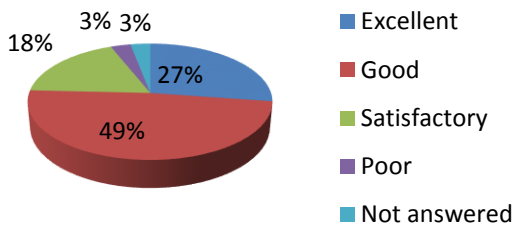
Quality of feedback at end of audit



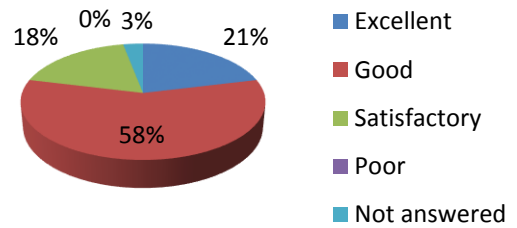
Accuracy / format / length / style of audit report



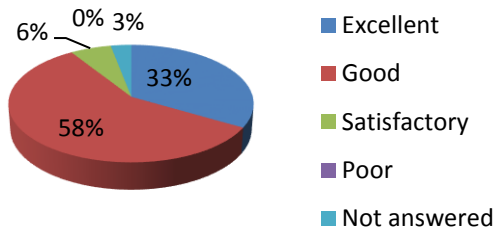
Relevance of audit opinions / conclusions



Agreed actions are constructive / practical



Overall rating for Internal Audit service



The overall ratings in 2017 were:

	2017		2016	
Excellent	11	34%	8	27%
Good	19	60%	19	63%
Satisfactory	2	6%	3	10%
Poor	0	0%	0	0%

The feedback shows that the majority of clients continue to value the service being delivered.

3.0 Self Assessment Checklist – 2017

CIPFA prepared a detailed checklist to enable conformance with the PSIAS and the Local Government Application Note to be assessed. The checklist was originally completed in March 2014 but has since been reviewed and updated annually. Documentary evidence is provided where current working practices are considered to fully or partially conform to the standards.

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

The following areas of non-conformance remain unchanged from last year:

<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.
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

<u>Conformance with Standard</u>	<u>Current Position</u>
	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?	Reliance may be placed on other sources of assurances where this is considered relevant. However, the Head of Internal Audit will only rely on other sources of assurance if he/she is satisfied with the competency, objectivity and reliability of the assurance provider.

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) in April 2014. Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to a number of local authorities.

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 conclusion from the external assessment was that working practices conform to the required professional standards. Copies of the detailed assessment report were provided to client organisations and, where appropriate, reported to the relevant audit committee.

5.0 Improvement Action Plan

Last year's quality assurance process identified the following required changes and improvements:

Change / improvement	Progress to date
The internal peer review highlighted the	Completed

need for further training to be provided on sampling and testing.	
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No specific changes to working practices have been identified in 2017. However, to enhance the overall effectiveness of the service, the following areas are considered to be a priority in 2017/18:

- Further development of in-house technical IT audit expertise
- Implementation of the data analytics strategy (stage 1) and investment in new capabilities
- Improved work scheduling, clearer prioritisation of objectives for individual assignments to enable them to be managed within budget, and better communication and agreement with clients on timescales for completion of audit work.

6.0 Overall Conformance with PSIAS (Opinion of the Head of Internal Audit)

Based on the results of the quality assurance process I consider that the service generally conforms to the Public Sector Internal Audit Standards, including the *Code of Ethics* and the *Standards*.

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 the internal audit service has a charter, policies and processes that are judged to be in conformance to 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 internal audit service from performing its responsibilities in an acceptable manner. 'Does not conform' means the deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit service from performing adequately in all or in significant areas of its responsibilities.