

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

26 JULY 2018

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 2018 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 2017/18 audit work.
- 1.3 To consider the Internal Audit performance outturn for 2017/18 and the 2018/19 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.

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. The latest version of the standards was published in April 2017. Since the standards were first 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 The Internal Audit Charter has been reviewed and no changes are considered necessary at this time.
- 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 2017/18. The findings have been reported to this Committee in accordance with the following cycle:-

September 2017	Children & Young People’s Services Computer audit, corporate themes and contracts
November 2017	Health and Adult Services Business and Environmental Services

- 2.8 Further details about the overall opinion for each functional area or directorate, and the period covered by the audit work are given in **Appendix 1**.

3.0 INTERNAL AUDIT WORK COMPLETED IN 2017/18

- 3.1 During 2017/18, 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 95.4% of the Internal Audit Plan against an agreed performance target of 93%.
- 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 2017/18, 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 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 Investment in professional training and new initiatives has also continued, particularly in respect of GDPR/data protection, IT audit and data analytics.
- 4.3 **Appendix 3** details performance against the targets set by the County Council for 2017/18. **Appendix 4** sets out the relevant targets for Veritau for 2018/19.

5.0 BREACHES OF FINANCE, CONTRACT AND PROPERTY PROCEDURE RULES

- 5.1 As in previous years, breaches of Finance, Contract and Property procedures rules are identified through ongoing internal audit work.
- 5.2 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 Procedure Rules although a number of issues were noted. Examples of typical errors included:

- a lack of proper segregation when ordering goods, checking receipt and authorising payment
- procedures not being followed when setting up or amending supplier details
- ineffective budgetary control procedures
- low value contracts not being recorded correctly
- purchase orders not being completed when required
- school lettings policies not being regularly reviewed
- physical assets not being adequately secured
- reconciliations not being completed as required
- inadequate contract monitoring
- debtors invoices not being raised in a timely manner
- receipts not being retained.

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. The next assessment is due to place this year.

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**.

7.0 **2017/18 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 and no reliance was placed on the work of other assurance bodies in reaching this opinion. 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 2017/18 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. 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. There have also been a number of data security breaches in the year, including one incident that required reporting to the Information Commissioner's Office.

- **Transparency**

There were three main issues found during the audit. Firstly, there was a lack of compliance with the requirements outlined in the Transparency Code, with only a few areas publishing the required data in an accessible manner. Secondly, there was no management oversight or checks on whether the relevant information was being published or not. Finally, there was no evidence to show that the relevant information asset owners had received any training or guidance on what was expected.

- **HAS - bed returns**

NFI data matching exercises are continuing to identify cases where information about deaths on bed returns is not being processed correctly or in a timely manner. This has resulted in number of overpayments being made to care home providers. Participation in the NFI mortality screening data matching exercise is helping to identify cases but this is a backstop.

- **Visits to Care Providers – The Lodge, Scarborough**

A number of weaknesses were identified with the controls and procedures for managing and safeguarding the financial affairs of service users at the home. Financial risk assessments had not been completed for residents. The current policy on the handling of service users' money was also out of date. The residents' cash sheets stated incorrect values, no reconciliation or checks were

being performed, and they were also not signed. No receipts were being retained for money received or services provided at the residential home.

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 significant control issues identified through internal audit work in 2017/18.
- (iii) 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.
- (iv) note the performance outturn for 2017/18 in respect of internal audit and the corresponding performance targets for 2018/19.

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 July 2018

APPENDIX 1**OPINIONS ISSUED IN 2017/18**

Report	Directorate/Audit Work Area	Opinion	Period Covered
September 2017	Children and Young People's	Substantial	1 June 2016 to 31 May 2017
	Computer audit, corporate themes and contracts	Substantial	1 September 2016 to 31 August 2017
November 2017	Health and Adult Services	Substantial	1 September 2016 to 31 August 2017
	Business and Environmental Services	Substantial	1 December 2016 to 30 November 2017
March 2018	Central Services	Substantial	1 February 2017 to 31 January 2018

PERFORMANCE TARGETS 2017/18 OUT-TURN

Target			Actual	
Operational Issues				
1	To deliver 93% of the agreed Internal Audit Plan	30 Apr 2018	95.4% of the agreed Internal Audit plan completed	✓
2	To achieve a positive customer satisfaction rating of 95%	31 Mar 2018	100% customer satisfaction	✓
3	To ensure 95% of Priority 1 recommendations made are agreed	31 Mar 2018	100% of Priority 1 recommendations were agreed.	✓

PERFORMANCE TARGETS 2018/19

Target		
Operational Issues		
1	To deliver 93% of the agreed Internal Audit Plan.	30 April 2019
2	To achieve a positive customer satisfaction rating of 95%.	31 March 2019
3	To ensure 95% of Priority 1 recommendations made are agreed.	31 March 2019

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 and other associated 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, samples of completed audit files are also subject to internal peer review by a senior audit manager to confirm quality standards are being maintained. Any key learning points are shared with the relevant 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 – 2018

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2018. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 159 surveys (2017 – 149) were issued to senior managers in client organisations. 22 surveys were returned representing a response rate of 14% (2017 - 21%). The surveys were sent using Survey Monkey and respondents were asked to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:

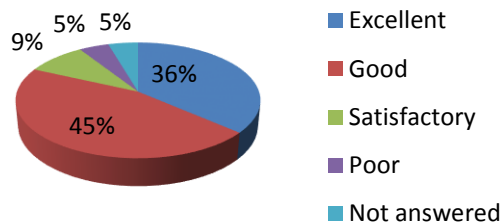
- Excellent (1)
- Good (2)

¹ As defined by the relevant audit charter.

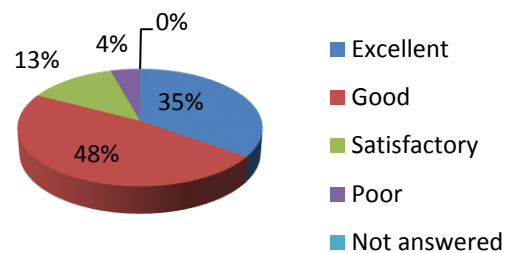
- Satisfactory (3)
- Poor (4)

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

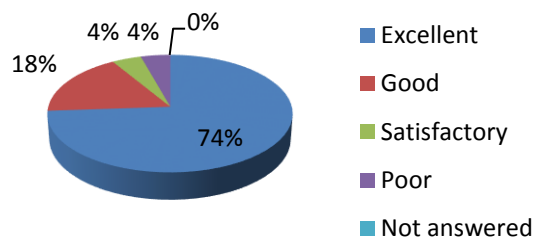
Quality of audit planning / overall coverage



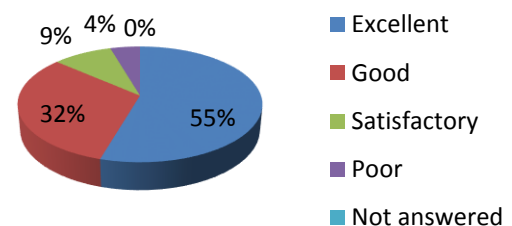
Provision of advice / guidance



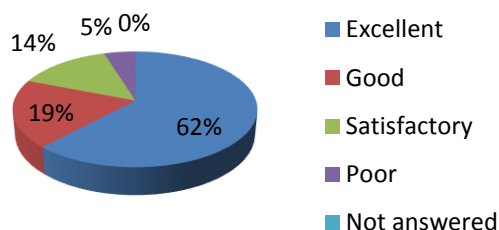
Staff - conduct / professionalism



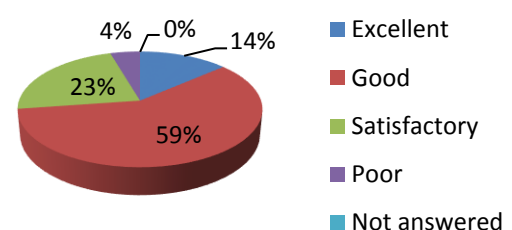
Ability to provide unbiased / objective opinions



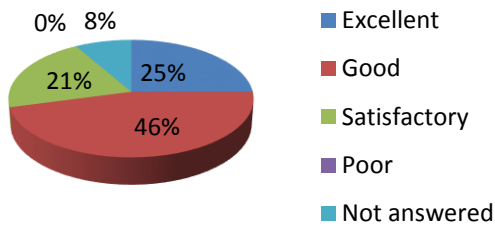
Ability to establish positive rapport with customers



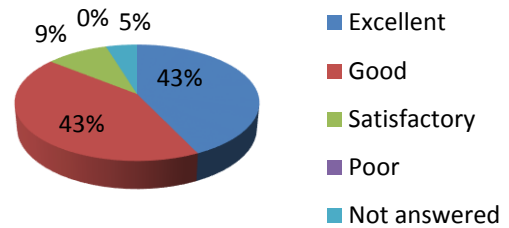
Knowledge of system / service being audited



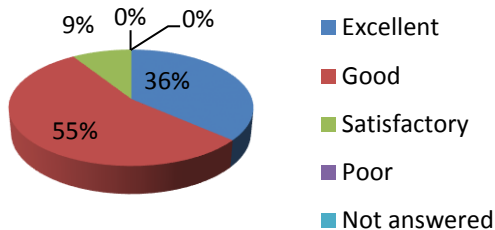
Ability to focus on areas of greatest risk



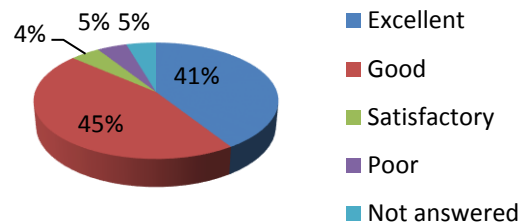
Agreeing scope / objectives of the audit



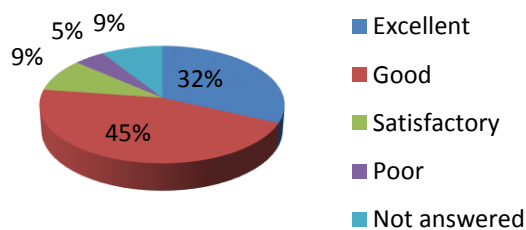
Minimising disruption to the service being audited



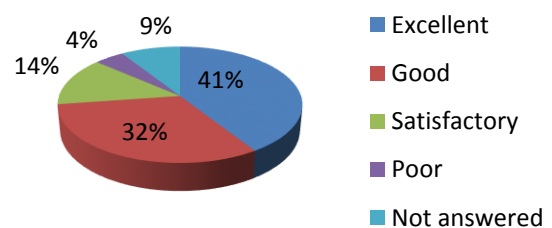
Communicating issues during the audit



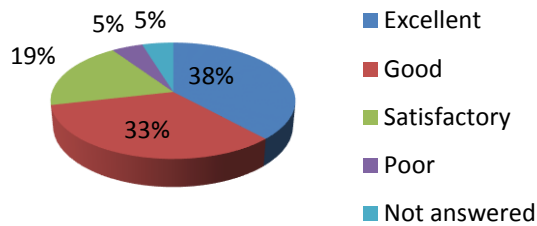
Quality of feedback at end of audit



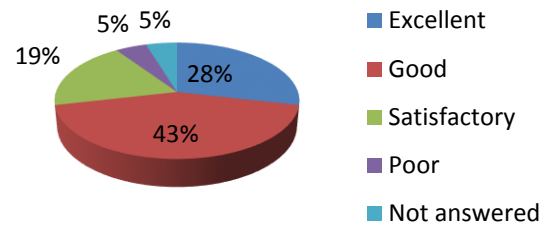
Accuracy / format / length / style of audit report



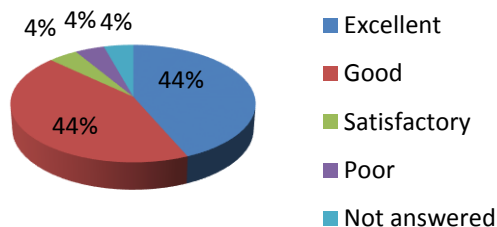
Relevance of audit opinions / conclusions



Agreed actions are constructive / practical



Overall rating for Internal Audit service



The overall ratings in 2018 were:

	2018		2017	
Excellent	10	45%	11	27%
Good	10	45%	19	63%
Satisfactory	1	5%	2	10%
Poor	1	5%	0	0%

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

3.0 Self Assessment Checklist – 2018

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.

The current working practices are generally considered to be at standard. However, a few areas of non-conformance have been identified. These areas are mostly as a result of Veritau being a shared service delivering internal audit to a number of clients as well as providing other related governance services. None of the issues

identified are considered to be significant and 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 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

No specific changes to working practices have been identified in 2018. However, to enhance the overall effectiveness of the service, the following areas continue to be a priority in 2018/19:

- 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.