

NORTH YORKSHIRE COUNTY COUNCIL**AUDIT COMMITTEE****21 JUNE 2019****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 2019 and to express an opinion on the overall framework of governance, risk management and control in place within the County Council.
- 1.2 To consider the Internal Audit performance outturn for 2018/19 and the 2019/20 performance targets for Veritau.
- 1.3 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. The applicable standards for local government are 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 material 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 2018/19. The findings have been reported to this Committee in accordance with the following cycle:-

June 2018	Children & Young People's Services
October 2018	Computer audit, corporate themes and contracts Business and Environmental Services
December 2018	Health and Adult Services
March 2019	Central Services

3.0 INTERNAL AUDIT WORK COMPLETED IN 2018/19

- 3.1 During 2018/19, 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 94.6% 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 2018/19, 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 1** details performance against the targets set by the County Council for 2018/19. **Appendix 2** sets out the relevant targets for Veritau for 2019/20.

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.
- 5.3 There were no material breaches of the Procedure Rules although a number of issues were raised with management through the normal audit reporting process.

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. As previously reported to the Committee, an external assessment of Veritau internal audit working practices was undertaken in November 2018 by the South West Audit Partnership (SWAP). SWAP is a not for profit public services company operating primarily in the South West of England. The assessment concluded that Veritau internal audit activity generally conforms to the PSIAS¹ and, overall, the findings were very positive.
- 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 3**.

7.0 2018/19 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 2018/19 Annual Governance Statement:

- **Information security**

Further improvements are still required to ensure compliance with the Council's policies for recording, processing, storing and transmitting personal

¹ PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

and confidential information. Recent audit work at County Hall and other establishments has identified 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 serious data security breaches in the year, including three incidents that have required reporting to the Information Commissioner's Office.

▪ **Contract Management**

We have identified a number of contracts where the existing contract management arrangements have been inadequate. As a result, there is an increased risk that services to the Council are not delivered as expected, performance issues are not identified, charges are incorrect or excessive, and changes to scope are not properly assessed. Contractor resilience and other risks to supply are also not monitored on an ongoing basis.

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 2018/19.
- (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 2018/19 in respect of internal audit and the corresponding performance targets for 2019/20.

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

3 June 2019

PERFORMANCE TARGETS 2018/19 OUT-TURN

Target		Actual		
Operational Issues				
1	To deliver 93% of the agreed Internal Audit Plan	30 Apr 2019	94.6% of the agreed Internal Audit plan completed	✓
2	To achieve a positive customer satisfaction rating of 95%	31 Mar 2019	100% customer satisfaction	✓
3	To ensure 95% of Priority 1 recommendations made are agreed	31 Mar 2019	100% of Priority 1 recommendations were agreed.	✓

PERFORMANCE TARGETS 2019/20

Target		
Operational Issues		
1	To deliver 93% of the agreed Internal Audit Plan.	30 April 2020
2	To achieve a positive customer satisfaction rating of 95%.	31 March 2020
3	To ensure 95% of Priority 1 recommendations made are agreed.	31 March 2020

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 Quality Assurance group. The review process is designed to ensure audit work is completed consistently and to the required quality standards. The work of the Quality Assurance group is overseen by a senior audit manager. 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 board² 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 – 2019

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2019. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 171 surveys (2018 – 159) were issued to senior managers in client organisations. 20 completed surveys were returned representing a response rate of 12% (2018 - 14%). 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:

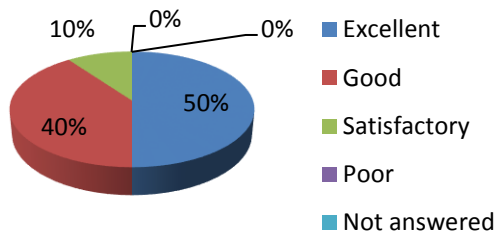
- Excellent (1)
- Good (2)

² As defined by the relevant audit charter.

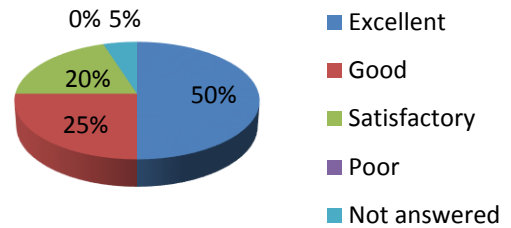
- Satisfactory (3)
- Poor (4)

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

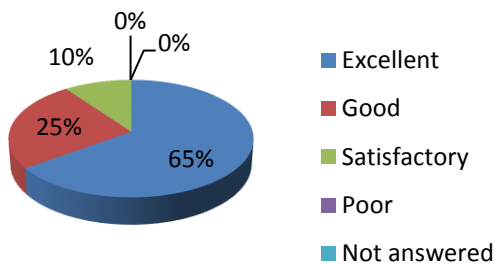
Quality of audit planning / overall coverage



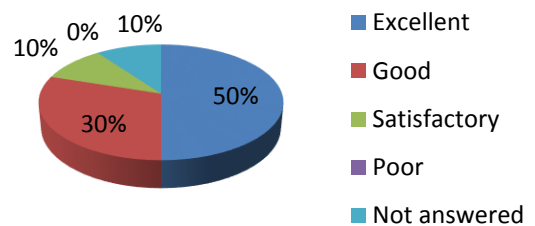
Provision of advice / guidance



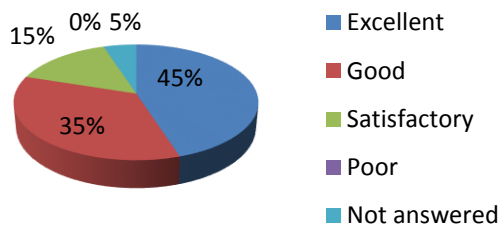
Staff - conduct / professionalism



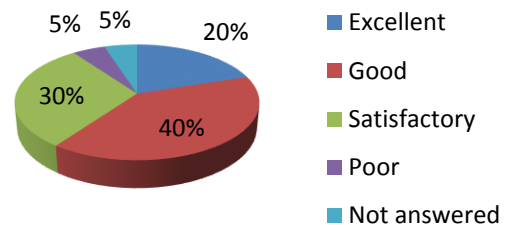
Ability to provide unbiased / objective opinions



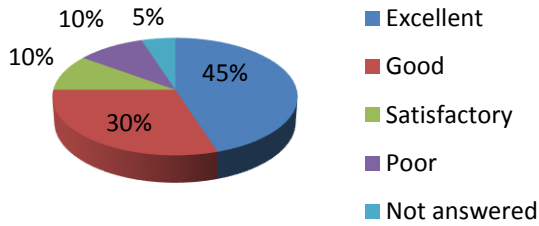
Ability to establish positive rapport with customers



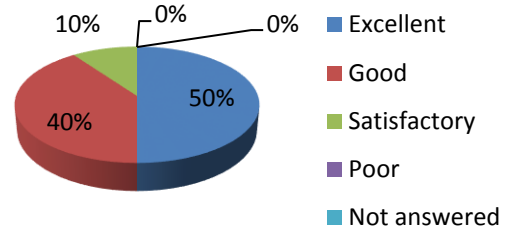
Knowledge of system / service being audited



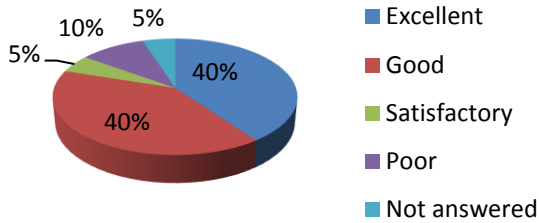
Ability to focus on areas of greatest risk



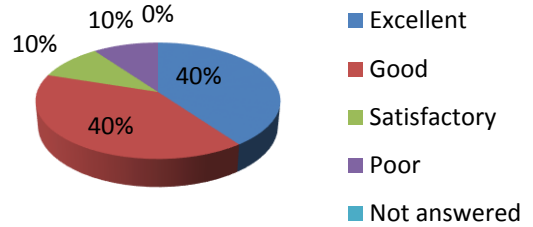
Agreeing scope / objectives of the audit



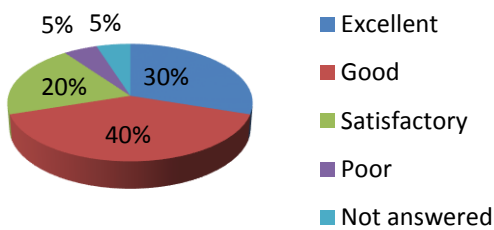
Minimising disruption to the service being audited



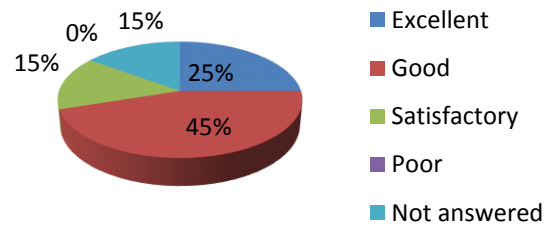
Communicating issues during the audit



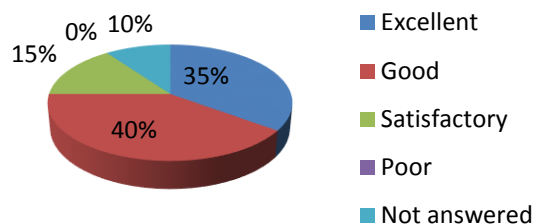
Quality of feedback at end of audit



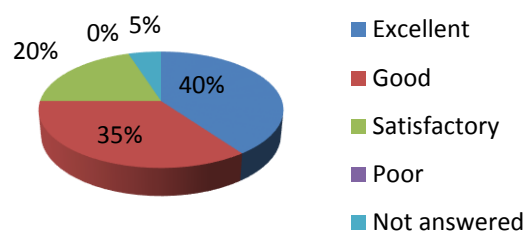
Accuracy / format / length / style of audit report



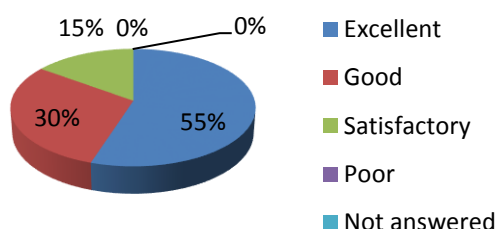
Relevance of audit opinions / conclusions



Agreed actions are constructive / practical



Overall rating for Internal Audit service



The overall ratings in 2019 were:

	2019		2018	
Excellent	11	55%	10	45%
Good	6	30%	10	45%
Satisfactory	3	15%	1	5%
Poor	0	0%	1	5%

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

3.0 Self Assessment Checklist – 2019

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. See Improvement Action Plan below.
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?	Whilst reliance may be placed on other sources of assurance there is no formal process to identify and assess these sources.

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.

An external assessment of Veritau internal audit working practices was undertaken in November 2018 by the South West Audit Partnership (SWAP). SWAP is a not for profit public services company operating primarily in the South West of England. As a large shared service internal audit provider it has the relevant knowledge and expertise to undertake external inspections of other shared services and is independent of Veritau.

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 audit committee chairs.

A copy the external assessment report was reported to this committee on 7 March 2019.

The report concluded that Veritau internal audit activity generally conforms to the PSIAS³ and, overall, the findings were very positive. The feedback included comments that the internal audit service was highly valued by its member councils and other clients, and that services had continued to improve since the last external assessment in 2014. However, the report did include some areas for further development. These areas, and initial draft proposed actions, are summarised below.

5.0 Improvement Action Plan

The external assessment identified a number of areas for further consideration and possible improvement. The following action plan has been developed to address these recommendations:

Assessors Recommendation	Proposed Action	Responsibility	Action By
Guidance from the IIA recommends that the Audit Committee (Board) "Meets with the Head of Internal Audit at least once a year without the presence of management." This does not happen as a matter of course with all	While IIA guidance recommends this approach, there is no explicit requirement for annual meetings in the standards. And existing audit charters for each client already recognise that the Head of Internal Audit will meet with	NA	NA

³ PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

Assessors Recommendation	Proposed Action	Responsibility	Action By
<p>clients of Veritau, however, the Charter allows this to happen and all Chairs of Audit Committees feel that if they wanted such a meeting, it would happen. Some teams have taken a 'purest' approach and hold at least one meeting a year with the Audit Committee or Chair without management being present. The HoIA audit should consider if Veritau should adopt a similar approach or be satisfied that such meeting will take place should it become necessary to do so. (Attribute Standard 1111).</p>	<p>members of the relevant committee in private, as required.</p> <p>No formal changes to current arrangements are proposed. Although formal annual meetings will be arranged if individual committees express a preference for this arrangement.</p>		
<p>The self-assessment identified that Council CEO's or Audit Committee Chairmen do not contribute to the performance appraisal of the HoIA. The responsibility for this rests with the Board of Directors, many of whom are Section 151 Officers for the representative Councils. In addition, reliance is placed on Customer Satisfaction results. To ensure that this is reflective of the key clients, the Chairman of the Board may want to consider the introduction of a 360-degree feedback process when</p>	<p>The chairman of the Veritau board will be asked to consider whether further input from client Chief Executives and Chairs of Audit Committees (or equivalent) is needed to meet the requirements of the standards.</p>	<p>Veritau Chair</p>	<p>May 2019</p>

Assessors Recommendation	Proposed Action	Responsibility	Action By
assessing the HoIA's performance. (Attribute Standard 1100).			
While the annual planning process is well documented, the self-assessment acknowledged that each piece of audit work is not prioritised. Doing so assists when decisions need to be taken on bringing in new pieces of work due to new and emerging risks. Consideration should be given to priority ranking audit work. (LGAN requirement).	<p>All work included in annual audit plans is considered a priority for audit in the coming year. However, it is recognised that further prioritisation may support decision making, for example where changes to audit plans are required.</p> <p>As part of the development of audit plans for 2019/20, we will explore how audits included in each plan are given a priority rating.</p>	Deputy Head of Internal Audit and Audit Managers	April 2019
Whilst reliance may be placed on other sources of assurance, the self-assessment brought attention to the fact that there has not been an assurance mapping exercise to determine the approach to using other sources of assurance. Completion of such an exercise would ensure that work is coordinated with other assurance bodies and limited resources are not duplicating effort. (Attribute Standard 2050).	A review of potential sources of assurance for each client will be undertaken during the course of 2019/20. This will be used to assess the scope for more detailed assurance mapping at each client; and to help develop a standard approach if appropriate.	Deputy Head of Internal Audit and Audit Managers	April 2020
It is clear that the actions from the last review have been completed, however, the resulting Quality	<p>Actions included in 2018/19 annual reports will be SMART.</p> <p>Progress against</p>	Head of Internal Audit	June 2019 (annual report)

Assessors Recommendation	Proposed Action	Responsibility	Action By
Assessment Improvement Programme (QAIP) should remain a live document to demonstrate continuous improvement. While the process of the QAIP is reported to the Audit Committee annually, the report does not outline the detailed actions with SMART targets for completion. (Attribute Standard 1320).	actions will be reported to the Veritau and VNY boards during the course of the year.		

The following areas will continue to be a priority in 2019/20:

- Further development of in-house technical IT audit expertise
- Investment in new data analytics 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

We also plan to review the current assurance categories to ensure they remain fit for purpose.

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.