

# ANNUAL HEAD OF INTERNAL AUDIT REPORT 2020/21

Date: 27 July 2021

ANNEX 1



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## BACKGROUND

- 1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the council's audit charter. These require the Head of Internal Audit to bring an annual report to the Audit and Governance Committee. The report must include an opinion on the adequacy and effectiveness of the council's framework of governance, risk management and control. The report should also include:
  - (a) any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
  - (b) any particular control weakness judged to be relevant to the preparation of the annual governance statement
  - (c) a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
  - (d) an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme, including a statement on conformance with the PSIAS.



## INTERNAL AUDIT WORK CARRIED OUT IN 2020/21

- 2 During the last year, the Covid pandemic has had a significant impact on the council's working practices. In addition, much of the council's resources have been directed towards responding to Covid related issues. This has also impacted upon the work of internal audit.
- 3 A summary of internal audit work undertaken during the year is included in appendix A, below. During the first part of the year, work on core audit assignments was suspended at the request of the council. This included finalisation of work from the previous year and follow up of previously agreed actions. During this period, Veritau continued to provide support to the council, including providing advice and assisting in the processing of Covid-19 business support grants (alongside the counter fraud team). The 2020-21 audit plan was approved by the audit committee in July 2020 and work recommenced after summer 2020, with all audit work being undertaken remotely.
- 4 Audit work undertaken since then has focussed on those areas considered higher risk, with priority given to material financial systems. We have also taken a pragmatic approach to finalising work suspended during the early part of the year. In many cases, we have rolled forward the original findings into new work undertaken or planned, to review the findings in light of subsequent changes. The delay in starting work during the year has also meant that we currently have a higher level of outstanding 2020/21 work than would normally be expected at this point. The intention will be to bring the audit cycle back in line with normal arrangements over the next year.

- 5 Appendix B, below, provides details of the key findings arising from internal audit assignments completed, that we have not previously reported to the committee. Appendix C provides an explanation of our assurance levels and priorities for management action.

## FOLLOW UP OF AGREED ACTIONS

- 6 All actions agreed with services as a result of internal audit work are followed up to ensure that underlying control weaknesses are addressed. During the ongoing Covid-19 pandemic, given the additional demands on officers, Veritau has agreed with management to take a pragmatic approach to follow up work. We have concentrated on following up higher priority actions. Significant outstanding actions are detailed in this report at appendix D.

## PROFESSIONAL STANDARDS

- 7 In order to comply with Public Sector Internal Audit Standards (PSIAS) the Head of Internal Audit is 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 professional standards. The results of the QAIP are reported to the committee each year as part of the annual report. 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).
- 8 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The most recent external assessment of Veritau internal audit working practices was undertaken in November 2018<sup>1</sup>. This concluded that Veritau internal audit activity generally conforms to the PSIAS<sup>2</sup>.
- 9 The outcome of the recently completed self-assessment demonstrates that the service continues to generally conform to the PSIAS, including the Code of Ethics and the Standards. Further details of the QAIP are given in appendix E.

<sup>1</sup> Reported to the Audit and Governance committee in January 2019.

<sup>2</sup> PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.



- 10 The Internal Audit Charter sets out how internal audit at the council will be provided in accordance with the PSIAS. The Charter is reviewed on an annual basis and any proposed changes are brought to the Audit & Governance Committee. No changes are proposed at this time.

## OPINION OF THE HEAD OF INTERNAL AUDIT

- 11 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the council is that it provides Reasonable Assurance. No reliance was placed on the work of other assurance providers in reaching this opinion, and there are no significant control weaknesses which, in the opinion of the Head of Internal Audit, need to be considered for inclusion in the Annual Governance Statement.
- 12 The opinion given is based on work that has been undertaken directly by internal audit, and on cumulative knowledge gained through our ongoing liaison and planning with officers. However, in giving the opinion, we would note that Covid-19 has significantly affected the council over the last year, with a wide ranging impact on business operations and controls. While the work of internal audit is directed to the areas that are most at risk, or provide most value for the council, it is not possible to conclude on the full extent of the impact of Covid-19 on the council's operations.

## APPENDIX A: 2020/21 INTERNAL AUDIT WORK

Audit	Status	Assurance Level <sup>3</sup>
Council Tax & NNDR	Draft	Substantial Assurance
Benefits	Fieldwork complete	TBC
Creditors	Draft	Limited Assurance
General Ledger	Final	Substantial Assurance
Debtors	Draft	Substantial Assurance
Housing Rents	Draft	Reasonable assurance
Absence Management	Fieldwork complete	TBC
Contract Management and Procurement	Final	Substantial Assurance
Community Infrastructure Levy	Final	Reasonable Assurance
<p><b>Other work</b></p> <p>Internal audit work has been undertaken in a range of other areas during the period, including those listed below.</p>		
<ul style="list-style-type: none"> <li>• Covid related advice and support: including administration of government grants; supplier relief; and use of video conferencing applications.</li> <li>• Follow up of agreed actions.</li> <li>• Support and advice provided through the year on controls and processes.</li> <li>• Grant certification and central government submissions work, including Covid enforcement and compliance grant and Arts Council Selby950 grant, Pooling of Housing Capital Receipts.</li> </ul>		

<sup>3</sup> Draft audit opinions have been included where reports have not been finalised. The opinion could change if significant new information is received which changes the auditors opinion of risk and control.

## APPENDIX B: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
General Ledger	Substantial Assurance	An audit of the main accounting system and budgetary control.	5 May 2021	<p>It was found that systems were working well. Controls relating to bank reconciliations, feeder systems, suspense accounts and journals were operating effectively.</p> <p>Budget management and monitoring was generally effective. Some budget forecasts were not being updating in a timely manner.</p>	Finance will monitor timeliness of forecasting submissions and work with budget managers to reinforce rigour of budget management.
Contract Management and Procurement	Substantial Assurance	An audit of processes for procurement and contract management during the pandemic, including re-letting of contracts, and supplier relief.	1 June 2021	<p>It was found that during the pandemic procedures remained effective and contracts were re-let in line with contract procedure rules.</p> <p>The pandemic caused some challenges. Tendering and contract management processes were adapted appropriately.</p> <p>The council's reviewed its contract register to identify suppliers that may be at risk due to the pandemic. One supplier did receive relief and processes and controls for this were appropriate and effective. However, not all suppliers and contract managers were made aware of the</p>	The contract register will be updated, and liaison will take place with contract managers, to identify any contracts eligible for future supplier relief that may be required as a result of the pandemic.



System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
				availability of supplier relief to support cash flow issues arising from the pandemic.	

## APPENDIX C: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

<b>Audit opinions</b>	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
<b>Opinion</b>	<b>Assessment of internal control</b>
Substantial assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

<b>Priorities for actions</b>	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

## APPENDIX D: HIGHER PRIORITY ACTIONS WITH REVISED DATES OF MORE THAN 12 MONTHS FROM ORIGINALLY AGREED DATE

Audit	Agreed Action	Priority Rating	Responsible Officer	Due	Notes / Update
Payment Card Industry Data Security Standard (PCI DSS)	New software purchased as old system ceased to be supported. Implementation of new software should resolve PCI DSS issues Management responsibility has been defined. Responsibility for completing annual PCI DSS assessment to be assigned.	1	Head of Business Development and Improvement	Revised date: 5 October 2021 (previously December 2020 and July 2021)	A new income management system has been procured from Civica that will enable PCI DSS compliance. Originally it was planned that this would be implemented by September 2020 but was delayed due to Covid. CivicaPay was rescheduled to launch on 27 July and the council was on track to do so. However, the proposed approach to taking telephone payments will be reviewed first and the go live date has been moved to 5 October 2021.
Performance Management	PDR guidance to be reviewed and updated HR to undertake QA review of sample of PDRs Return rate of PDRs to be monitored & all PDRs reviewed and returned to manager if not complete. Training plan to be completed promptly following PDR process.	2	Head of Business Development and Improvement	Revised date: 30 September 2021 (previously December 2020 and June 2021)	In light of local government re-organisation, a review of PDR guidance has been conducted and the council has concluded that arrangements are appropriate and no changes are proposed at this time.  The council will shortly be issuing reminders to managers regarding completion of 2021 PDRs, following which they will review completion of PDRs and develop the training plan. This has been delayed due to other priorities.

## APPENDIX E: 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
- attendance on relevant courses and access to e-learning material
- the maintenance of training records and training evaluation procedures
- membership of professional networks
- 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 (Sword Audit Manager)
- file review by senior auditors and audit managers and sign-off at 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
- regular client liaison meetings to discuss progress, share information and evaluate performance

On an ongoing basis, samples of completed audit work are 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 an Assistant Director. 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 where required (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 ongoing performance management arrangements, 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, professional networking, and ongoing quality assurance and performance management arrangements are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans. The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board<sup>4</sup> 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 2021

In March 2021 we asked clients for feedback on the overall quality of the internal audit service provided by Veritau. Where relevant, the survey also asked questions about counter fraud and information governance services. A total of 165 surveys (2020 – 136) were issued to senior managers in client organisations. A total of 19 responses were received representing a response rate of 12% (2020 – 11%). The surveys were sent using Survey Monkey and the respondents were required to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:

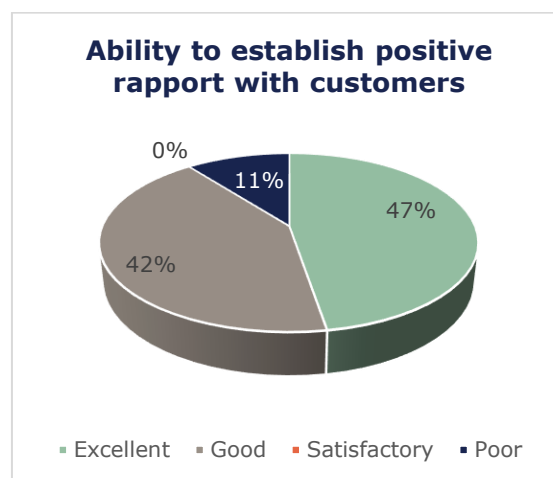
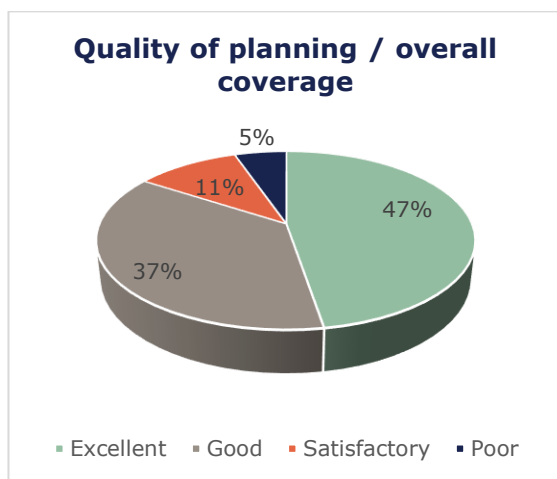
- Excellent (1)
- Good (2)

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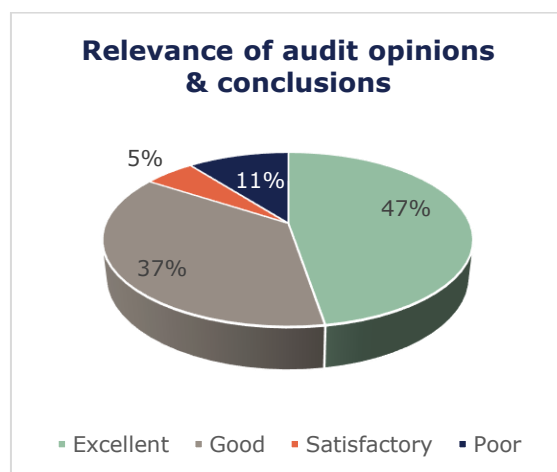
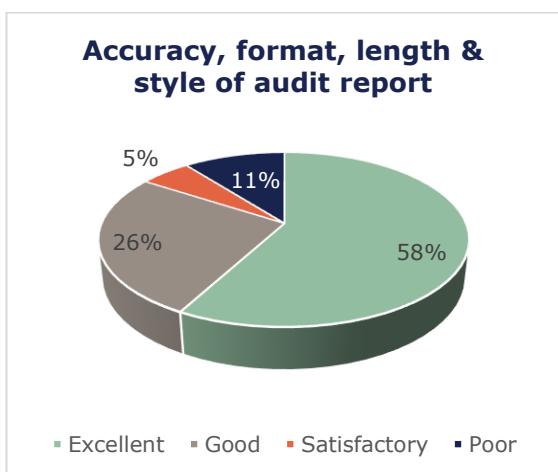
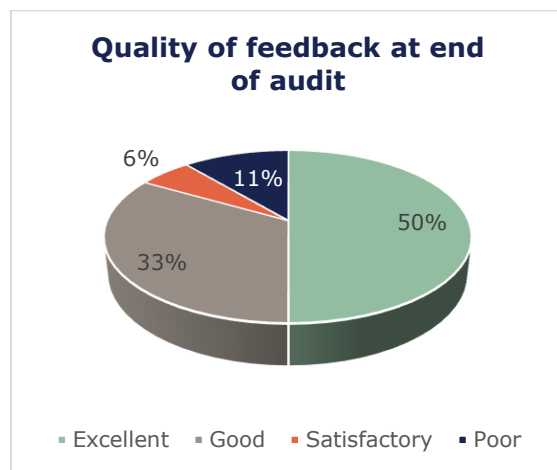
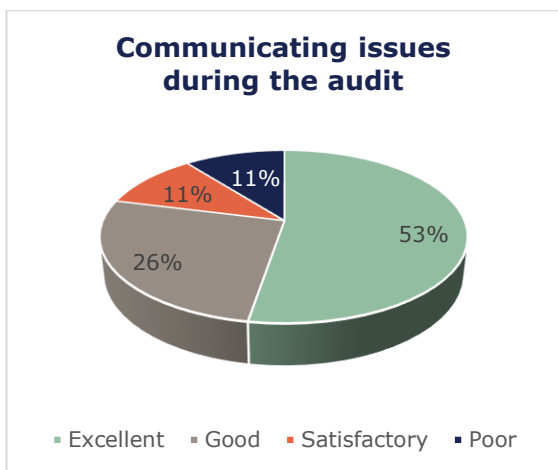
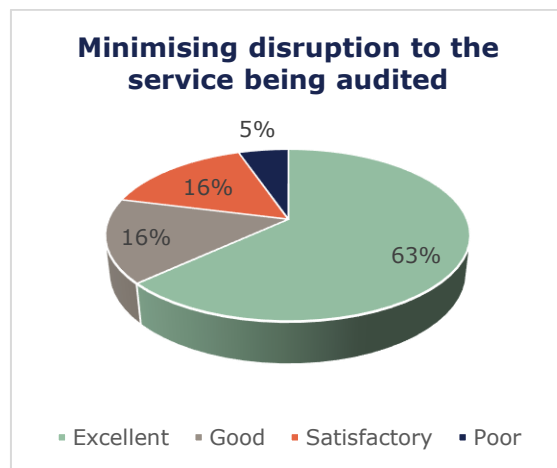
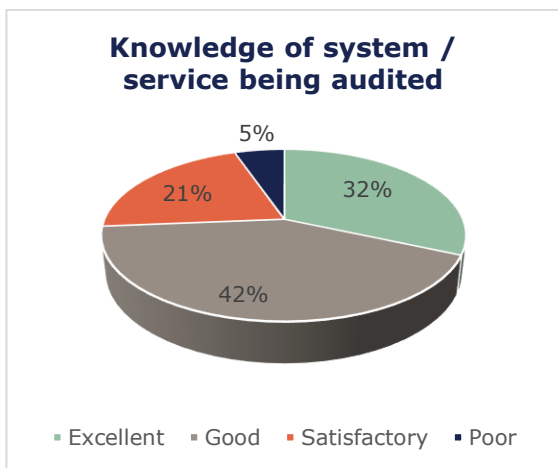
<sup>4</sup> As defined by the relevant audit charter.

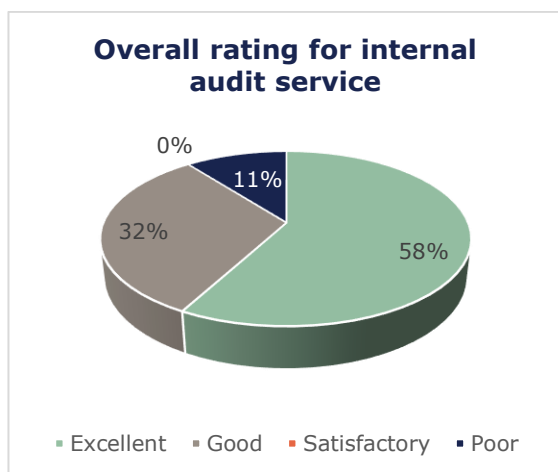
- Satisfactory (3)
- Poor (4)

Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below. These are presented as percentages, for consistency with previous years. However, it is recognised that the low number of respondents means that the percentage for each category is sensitive to small changes in actual responses (1 respondent represents about 5%).









The overall ratings in 2021 were:

	2021		2020	
<b>Excellent</b>	11	58%	3	20%
<b>Good</b>	6	32%	11	73%
<b>Satisfactory</b>	0	0%	0	0%
<b>Poor</b>	2	11%	1	7%

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

### 3.0 Self-Assessment Checklist 2021

CIPFA has 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 and 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. A comprehensive update of the checklist was undertaken in 2020, following revisions by CIPFA.

Current working practices are considered to be at standard. However, as in previous years there are a few areas of non-conformance. 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. Existing arrangements are considered appropriate for the circumstances and require no further action.

The following areas of non-compliance remain largely unchanged from last year.

<b>Conformance with standard</b>	<b>Current position</b>
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	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific

Conformance with standard	Current position
committee before the engagement was accepted?	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 respective priorities of audit work?	<p>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).</p> <p>Work is currently ongoing to introduce flexible audit planning arrangements. As part of this exercise, we will be seeking to assign priorities to audit activities on an ongoing basis during the course of the relevant reporting period. Once complete, the new arrangements will remove this area of non-compliance.</p>
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?	An approach to using other sources of assurance, where appropriate is currently being developed (see below).

#### 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 last 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 30/01/2019.

The report concluded that Veritau internal audit activity generally conforms to the PSIAS<sup>5</sup> 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.

## 5.0 Improvement Action Plan

The external assessment identified a number of areas for further consideration and possible improvement. An action plan was developed to address these areas. These actions have all been completed, other than one area (shown below) which remains in progress.

Recommendation	Current Position
<p>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).</p>	<p>This work is in progress. Work has been undertaken over the last two years to identify other sources of assurance for each client. This exercise is ongoing, and more detailed actions have been incorporated into a longer term development strategy for Veritau internal audit services (see below).</p>

In 2020/21, the Quality Assurance group reviewed internal processes for the follow up of actions agreed during internal audit assignments. It found that follow up work is generally being undertaken routinely, and in line with

<sup>5</sup> PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

expected procedures. In the majority of cases, actions raised in our reports are completed by the client and these actions address the issues originally raised.

Findings from follow up work are recorded on the Veritau internal audit management system. In most cases, sufficient evidence is held on the system to show that actions have been completed. However there are some cases where responses received from clients do not fully demonstrate that those actions have addressed the original findings. We also found that some improvements are needed to documenting and updating of information on the system. In particular, records were not always up to date, with some actions which had passed the agreed deadline remaining outstanding. This is partly due to the impact of Covid 19 – with a number of clients requesting an easing of follow up work during the pandemic. In 2021 we will review all outstanding actions, to bring details up to date. We will also be providing further training to the audit teams on documenting evidence to support the findings from follow up work.

In the last year, we have also recognised the need for a more fundamental review of internal audit practices within Veritau. While current arrangements meet the standards, the pace of change in local government and the wider public sector mean that we need to update aspects of the service to ensure it stays up to date and continues to deliver good value. We have therefore developed a three year strategy to help us improve the service. The strategy sets out the actions we will be taking within Veritau to modernise our practices, from April 2021. The five key areas we are focussing on are:

- increasing engagement across all clients
- further development of strategic planning frameworks
- redesign and modernisation of audit processes (for example flexible work planning and reducing the time to deliver findings)
- increasing investment in high value data analytics work
- introducing better measures of outcomes from audit work, to enable us to direct resources to areas of most value to our clients

## **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.