

# NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

28 JUNE 2021

### 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 2021 and to express an opinion on the overall framework of governance, risk management and control in place within the County Council.
- 1.2 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. 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 Audit Charter is reviewed on an annual basis and any proposed changes are brought to the Audit Committee. The Charter was last updated in October 2019. No further 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).
- 2.6 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. 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>.
- 2.7 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.

### 3.0 ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT

- 3.1 The annual report of the Head of Internal Audit is attached at **appendix 1**. The report includes details of the internal audit work completed during 2020/21, the annual opinion of the Head of Internal Audit and the results of the Quality Assurance and Improvement Programme.
- 3.2 In addition to the annual opinion the Head of Internal Audit is required to provide:
- (a) details of any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)

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<sup>1</sup> Reported to the Audit Committee in March 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.

- (b) details of 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.

3.2 As well as completing internal audit work we have also provided a counter fraud service to the County Council. This has included the maintenance of policies, risk assessments, fraud prevention and detection measures, fraud awareness training and the investigation of suspected fraud. Further details of this work are provided in the annual counter fraud report for 2020/21 which is a separate item on this agenda.

#### 4.0 **BREACHES OF FINANCE, CONTRACT AND PROPERTY PROCEDURE RULES**

4.1 As in previous years, breaches of Finance, Contract and Property procedures rules are identified through ongoing internal audit work.

4.2 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.

4.3 There were no material breaches of the Procedure Rules identified during the year although a number of issues were raised with management through the normal audit reporting process.

#### 5.0 **RECOMMENDATIONS**

5.1 Members are asked to note:-

- (i) the "**Substantial Assurance**" opinion of the Head of Internal Audit regarding the overall framework of governance, risk management and control operating within the County Council as set out in appendix 1
- (ii) the significant control issue which is recommended for inclusion in the 2020/21 Annual Governance Statement
- (iii) 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

MAX THOMAS  
Head of Internal Audit

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

Veritau - Assurance Services for the Public Sector  
County Hall  
Northallerton

10 June 2021



**North Yorkshire County Council**

**Annual report of the Head of Internal  
Audit**

**2020/21**

**Head of Internal Audit:** Max Thomas

**Circulation List:** Members of the Audit Committee

**Date:** 28 June 2021



## **Internal audit work completed in 2020/21**

- 1 A draft internal audit plan was originally prepared for approval at the March 2020 Audit Committee meeting. However, this meeting was cancelled due to the Covid-19 pandemic and the programme of work was then updated to reflect the ongoing impact of the pandemic on council processes and control arrangements. The updated plan was subsequently agreed by the S151 officer. The agreed plan was then presented to the audit committee in July 2020.
- 2 During the year, the 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-19 related issues. This has also impacted upon the work of internal audit. During the first quarter of the year, work on audit assignments was put on hold. This included finalisation of audit work from the previous year and the follow up of previously agreed actions. During this period, Veritau continued to provide advice and support to the Council. Much of this work was directly related to measures being taken by the Council to respond to the pandemic. Once routine audit work recommenced the majority of audits have been undertaken remotely.
- 3 **Annex A** provides details of 2020/21 completed work. At the time of writing, a further 7 audit reports have been issued but remain in draft. Other work is continuing with a number of other audits close to draft report stage. **Annex B** provides an explanation of our current assurance levels and priority rankings.
- 4 We have also continued to promote good governance, provide advice and make recommendations to management to help improve controls. Auditors meet with the s151 Officer, Monitoring Officer and other senior officers on a regular basis to help identify and address key governance issues and concerns.
- 5 The results of completed audit work have been reported to the relevant managers, the Corporate Director – Strategic Resources and the Audit Committee. Audit findings relating to 2020/21, 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.

## **Internal audit performance management**

- 6 Veritau continues to deliver cost effective internal audit, counter fraud and information governance services to the County Council and its other member councils together with a number of other public sector bodies. These services are valued by the company's clients particularly at a time of significant change.
- 7 Investment in professional training and new initiatives has also continued, particularly in respect to GDPR/data protection, IT audit and data analytics. A new internal audit strategy has also been prepared which will introduce agile auditing techniques (with more flexible risk based audit plans, shorter focused audit reviews, and the increased use of assurance mapping and continuous auditing). This will ensure future internal audit work remains closely aligned to the needs of the County Council and adds value.

- 8 Internal audit traditionally measures performance by the number of audit reports issued and other outputs compared to the agreed plan. However, as noted in paragraph 2 above, most audit work was suspended in quarter 1 due to the pandemic. The audit plan for 2020/21 was also intentionally flexible so that we could respond to any Covid-19 related risks and issues. Given this, no specific performance measures were set for the year.

### **Quality Assurance and Improvement Programme (QAIP)**

- 9 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.
- 10 The outcome of the QAIP demonstrates that the service continues to 'generally conform' to the PSIAS including the Code of Ethics and the Standards. Further details of the QAIP and Improvement Action Plan prepared by Veritau are given in **Annex C**.

### **2020/21 Internal Audit Opinion**

- 11 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**. No reliance was placed on the work of other assurance bodies in reaching this opinion.
- 12 The opinion given is based on work that has been undertaken directly by internal audit, and on the 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 County 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.
- 13 In giving this opinion Members attention is also drawn to the following significant control issue which is considered relevant to the preparation of the 2020/21 Annual Governance Statement:

#### Information security

Further improvements are still required to ensure compliance with the Council's data protection policies. Ongoing work has identified continuing poor practice with the handling of documents and information security. There have also been a number of serious data security breaches in the year, including two incidents that have required reporting to the Information Commissioner's Office.

## Final internal audit reports issued – 2020/21

<b>Audit Area</b>	<b>Directorate</b>	<b>Overall Opinion</b>
Assurance frameworks at council companies - procurement	Corporate	Reasonable assurance
Governance at council companies	Corporate	Substantial assurance
County catering	CS	No opinion given
Extra care housing	HAS	Reasonable assurance
Mental health aftercare (s117)	HAS	Limited assurance
Care provider review – Henshaws	HAS	No opinion given
Fleet management	BES	Substantial assurance
Trading Standards	BES	Substantial assurance
Minerals planning (investigation)	BES	No opinion given
High Needs SEN	CYPS	Reasonable assurance
Developing Stronger Families - June 2020 claim	CYPS	No opinion given
Developing Stronger Families - September 2020 claim	CYPS	No opinion given
North Yorkshire Pension Fund – expenditure	NYPF	Substantial assurance

## Internal audit opinions / priority rankings – 2020/21

<b>Opinion</b>	<b>Definition</b>
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited

<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.

## 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>1</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

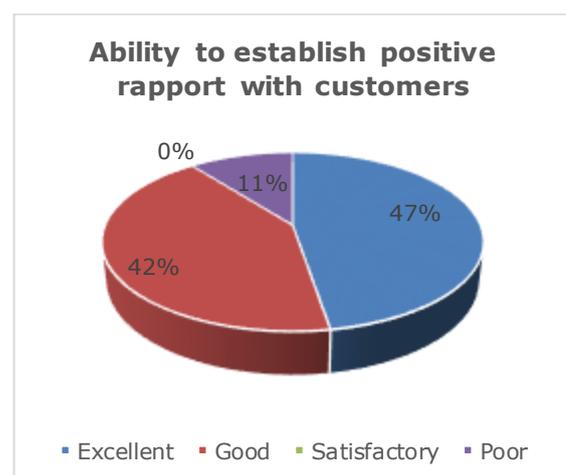
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<sup>1</sup> As defined by the relevant audit charter.

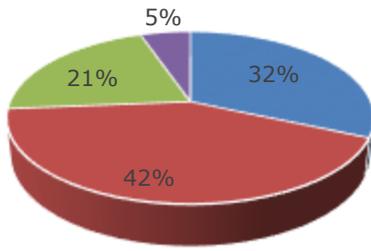
165 surveys (2020 – 136) were issued to senior managers in client organisations. A total of 19 responses were received representing a response rate of 12% (2020 – 11%). The surveys were sent using Survey Monkey and the respondents were required to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:

- Excellent (1)
- Good (2)
- 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%).

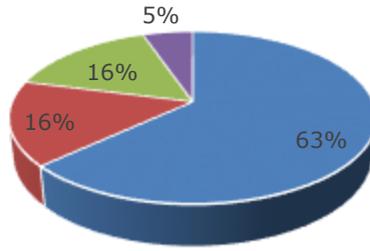


**Knowledge of system / service being audited**



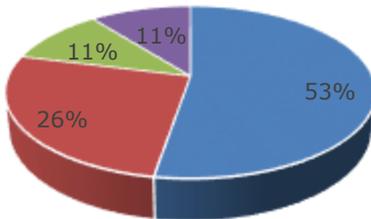
■ Excellent ■ Good ■ Satisfactory ■ Poor

**Minimising disruption to the service being audited**



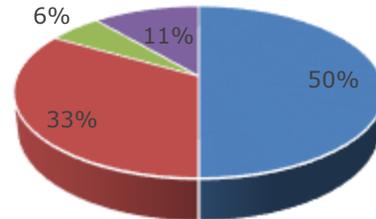
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**Communicating issues during the audit**



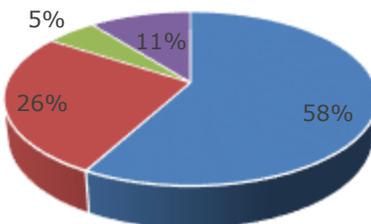
■ Excellent ■ Good ■ Satisfactory ■ Poor

**Quality of feedback at end of audit**



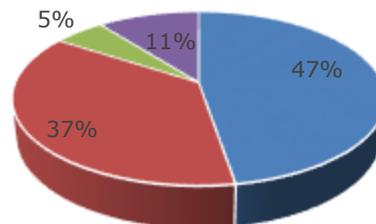
■ Excellent ■ Good ■ Satisfactory ■ Poor

**Accuracy, format, length & style of audit report**

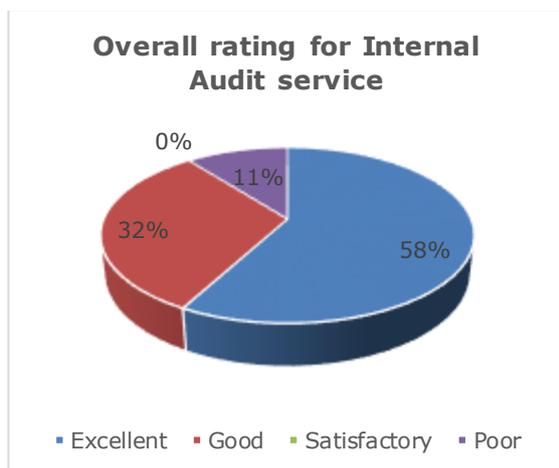


■ Excellent ■ Good ■ Satisfactory ■ Poor

**Relevance of audit opinions & conclusions**



■ Excellent ■ Good ■ Satisfactory ■ Poor



The overall ratings in 2021 were:

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

Conformance with Standard	Current Position
	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 06/02/2019.

The report concluded that Veritau internal audit activity generally conforms to the PSIAS<sup>2</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.

<b>Recommendation</b>	<b>Current Position</b>
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).	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).

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 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

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<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.

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.