



**Ryedale District Council**  
**Internal Audit Progress Report**  
**Period to 31 December 2018**

**Audit Manager:** Stuart Cutts  
**Head of Internal Audit:** Max Thomas

**Circulation List:** Members of the Overview and Scrutiny Committee  
Chief Executive  
Chief Finance Officer (s151)

**Date:** January 2019

## **Background**

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Head of Internal Audit is required to report progress against the internal audit plan agreed by the Committee and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members of this Committee approved the Internal Audit Plan for 2018/19 at their meeting on the 19 April 2018. This report summarises the progress made to date in delivering the agreed programme of work.
- 3 This is the second Internal Audit progress report to be received by the Overview and Scrutiny Committee in 2018/19. This report therefore updates the Committee on the work completed between 1 April 2018 and 31 December 2018.

## **Internal Audit work completed**

- 4 In the period between 1 April and 31 December 2018 three pieces of audit work have been completed to final stage. The three reports have been finalised since the last committee and a summary of findings is included in appendix B. These include a Data Protection and Security visit; work on the Community Infrastructure Levy, and Development Management. Two draft reports on Revenue Budgeting and Licensing have also been issued. Further information on overall progress against the audit plan is included in appendix A.
- 5 Timings for audit work have been agreed with management. Some changes to the internal audit plan were highlighted and discussed with management in November and December 2018. Details are included from paragraph 7 below.

## **Audit opinions**

- 6 For most reports we provide an overall opinion on the adequacy and effectiveness of the controls under review. The opinion given is based on an assessment of the risks associated with any weaknesses in controls identified. We also apply a priority to all actions agreed with management. Details of the definitions used are included in Appendix C.

## **Changes to the 2018/19 internal audit plan**

- 7 Audit planning is an ongoing process. PSIAS (ref 2010 – planning) requires that the Head of Internal Audit must 'review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls'.
- 8 The table below summarises the changes which have been discussed and subsequently finalised by the Head of Internal Audit in January 2019.

	<b>Original Plan</b>	<b>Updated Plan</b>	<b>Change</b>
Health and Safety	15	0	-15
HR Performance Management and Training	15	0	-15
Data Quality and Performance Management framework	15	0	-15
Safeguarding	0	10	10
Payroll (and Personnel)	10	15	5
Risk Management	10	20	10
Revenue Budgeting	10	15	5
Corporate arrangements 'Health-check reviews and LGA review	0	10	10
NYCC Collaboration	0	5	5
<b>Total</b>			<b>0</b>

- 9 In the second half of 2018 the new Chief Executive has planned a series of corporate reviews ('Health-checks'). These reviews cover Health and Safety, Performance Management and areas of Human Resources. On that basis, the work originally planned in these areas is no longer appropriate (although a separate allocation of time has been added to review the outcomes of these health checks - see paragraph 10, below).
- 10 An allocation of time has been added in the following areas.
- Safeguarding: Time to consider emerging potential risk areas.
  - Payroll and Personnel: These are key Council systems with historic weaknesses and where significant changes to the systems have taken place this year. There continue to be emerging risks such as the payroll system not interfacing with the General Ledger. There is therefore a greater requirement for audit time in this area. The work will include appraisal of processes and controls in both systems and a detailed review to assess whether key controls are operating effectively.
  - Risk Management: To support roll out of the new arrangements.
  - Revenue Budgeting: To complete the review due to the number and nature of the issues identified.
  - Corporate Arrangements ('Health-checks'): For each Healthcheck (and the LGA follow up) we will read and review the scope, content and findings of the work to assess the impact on the control environment, assess the management of risks and potential for future work and provide support and advice to management on control issues.
  - NYCC Collaboration: The work is aimed at understanding the new arrangements and risks. It will consider how these risks are being managed through the governance framework and internal controls.

## Wider Internal Audit work

- 11 In addition to undertaking assurance reviews, Veritau are involved in a number of other areas relevant to corporate matters:
- **Support to the Overview and Scrutiny Committee;** this is mainly ongoing through our attendance at meetings of the Committee and the provision of advice, guidance and training to members as required.
  - **Ongoing support to management and officers;** we meet regularly with management to identify emerging issues and provide advice on a range of specific business and internal control issues. These relationships help to provide real time feedback on areas of importance to the Council. We have been working with senior management as part of the ongoing 'Towards 2020 Programme', providing support, advice and challenge.
  - **Risk Management;** Veritau provides support and advice on the Council's risk management arrangements and processes.
  - **Investigations;** We perform special or ad-hoc reviews or investigations into specific issues.
  - **Follow up of previous audit recommendations;** it is important agreed actions are regularly and formally followed up. This helps to provide assurance to management and Members that control weaknesses have been properly addressed. We have followed up agreed actions either as part of our ongoing audit work, or by separate review. We currently have no matters to report to members as a result of our follow up work.

## External Assessment

- 12 To comply with Public Sector Internal Audit Standards (PSIAS), internal auditors working in local government are required to maintain a quality assurance and improvement programme (QAIP). As part of this programme, providers are required to have an external assessment of their working practices at least once every five years. An external assessment of Veritau Limited and VNY Limited internal audit practices was undertaken in November 2018 by the South West Audit Partnership (SWAP). A copy of the assessors report is included at appendix D.
- 13 The report concludes that internal audit activity generally conforms to the PSIAS<sup>1</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. However, the report does include some areas for further development. These areas, and initial draft proposed actions, are summarised in figure 1 below. Further comment on the proposed actions would be welcomed.

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

Figure 1: external assessment - action plan

Matter for Consideration	Response	Responsibility	Action by
<p>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 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>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 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>NA</p>	<p>NA</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 assessing the HoIA’s performance. (Attribute Standard 1100).</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>

<b>Matter for Consideration</b>	<b>Response</b>	<b>Responsibility</b>	<b>Action by</b>
<p>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>	<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>	<p>Deputy Head of Internal Audit and Audit Managers</p>	<p>April 2019</p>
<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>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.</p>	<p>Deputy Head of Internal Audit and Audit Managers</p>	<p>April 2020</p>
<p>It is clear that the actions from the last review have been completed; however, the resulting Quality 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).</p>	<p>Actions included in 2018/19 annual reports will be SMART.</p> <p>Progress against actions will be reported to the Veritau and VNY boards during the course of the year.</p>	<p>Head of Internal Audit</p>	<p>June 2019 (annual report)</p>

Stuart Cutts  
Audit Manager  
Veritau Ltd

11 January 2019

## Appendix A

### Table of 2018/19 audit assignments to 31 December 2018

Audit	Status	Assurance Level	Audit Committee
<b>Strategic Risk Register</b>			
Data Quality	cancelled		
HR Performance Management and Training	cancelled		
Health and Safety	cancelled		
Data Protection and Security – visit 1	<b>final report</b>	<b>Substantial Assurance</b>	<b>January 2019</b>
Data Protection and Security – visit 2	planning commenced		
<b>Fundamental/Material Systems</b>			
Payroll and Personnel	not started		
Creditors	in progress		
General Ledger	not started		
Revenue Budgeting	draft report		
Treasury Management	in progress		
<b>Projects / other</b>			
Maintaining internal control and fulfilling s151 responsibilities	in progress		
Risk Management	reporting to management team		
Corporate arrangements 'Health-check reviews and LGA review (addition)	in progress		
NYCC Collaboration (addition)	planning commenced		
<b>Operational / Regularity Audits</b>			
Information Technology	in progress		
Contract Management	not started		
Transparency Code	in progress		
Community Infra Structure Levy	<b>final report</b>	<b>Reasonable Assurance</b>	<b>January 2019</b>
Development Management	<b>final report</b>	<b>Substantial Assurance</b>	<b>January 2019</b>
Licensing	draft report		
Safeguarding	not started		
<b>Follow-Ups</b>	in progress		

Summary of Key Issues from audits completed to 31 December 2018; not previously reported to Committee

Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Data Protection and Security visit 1	Substantial Assurance	<p>The Council holds and processes large amounts of personal and sensitive data. Senior management recognise there are information governance risks with holding this information and appropriate practices need to be followed.</p> <p>We performed an unannounced visit and review of Ryedale House on 22 October 2018. The objective of the visit was to assess the extent to which data was being held securely in the Council's offices.</p> <p>We have undertaken previous visits with our last assessment being in February 2018.</p>	November 2018	<p><b>Strengths</b> We found improvements compared to previous visits. The number of adverse findings has decreased from 4 found in February 2018 to 2 on this visit. This is the lowest level of adverse findings observed in any previous internal audit security visit at Ryedale House.</p> <p>No documents of a sensitive nature were found on any desks.</p> <p><b>Areas for Improvement</b> We found an instance where sensitive information was locked away but was accessible as the key for the pedestal was within a nearby stationery tray. We also found paperwork containing some personal information which had fallen between a pedestal and the front window of the reception area.</p>	<p>The findings of this report were shared with the Senior Customer Service Officer (People), who was to discuss and address the findings with his team.</p> <p>We will undertake a second unannounced visit at some point during 2019.</p>
Community Infrastructure Levy (CIL)	Reasonable Assurance	<p>The Community Infrastructure Levy (CIL) allows local authorities in England and Wales to raise funds from developers undertaking new building projects in their area.</p> <p>We reviewed CIL procedures and controls to ensure that:</p> <ul style="list-style-type: none"> <li>Suitable policies and procedures were in place for CIL and consistently followed.</li> <li>CIL liability and demand notices were issued correctly.</li> </ul>	December 2018	<p><b>Strengths</b> CIL guidance is on the Ryedale Council and Ryedale Plan Websites. The content was found to be accurate and provided appropriate explanation to the public and those involved in potential CIL liable developments.</p> <p>The process for recording and monitoring CIL applications was robust. Appropriate controls were in place. In all cases reviewed, the Council was found to have issued demand and liability notices in a timely manner.</p> <p><b>Areas for Improvement</b> The timescales for submitting CIL</p>	<p>Details of the cases identified by audit as being liable for penalties and surcharges have been sent to officers and these outstanding debts will be pursued by the authority.</p> <p>Information regarding those outstanding payments to Parish/Town councils has been provided to officers for resolution.</p> <p>A Customer Service Officer (Place) has now been trained</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<ul style="list-style-type: none"> <li>Adequate monitoring and management arrangements are in place.</li> <li>Processes on collection of CIL income were robust.</li> </ul>		<p>documentation are not being followed consistently by some applicants/developers. Penalties for non-compliance are not being imposed by the authority as per the policy.</p> <p>There is currently no process in place for calculating, paying or recording payments to parish or town councils. Payments comprising of 15% of CIL income (totalling approximately £50,000) that should be allocated to parish or town councils have not been made.</p> <p>There is a lack of useful reporting from the Uniform System. For example a report cannot be generated which shows CIL liable developments or CIL exemption cases. Each development has to be manually assessed to determine its status. Generating relevant information in this way takes time and increases the risk monitoring will be ineffective.</p>	<p>on administrating and processing CIL cases.</p> <p>Additional access reports are being developed which will show commencement/ completion dates for developments and used to monitor ongoing cases.</p> <p>These actions are planned to be completed by end of April 2019.</p>
Development Management	Substantial Assurance	<p>The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:</p> <ul style="list-style-type: none"> <li>There was an efficient process in place to review, validate and scan planning applications.</li> <li>Planning applications were processed in accordance with legislation and Authority policies.</li> <li>Income due from planning fees is collected and properly accounted for.</li> </ul>	December 2018	<p><b>Strengths</b> Our testing noted that planning applications were processed in accordance with legislation and Authority policies.</p> <p>There is a process in place to ensure applications are not processed until the correct fee has been paid. Receipts were issued for all planning income received.</p> <p>The PS1 and PS2 returns submitted to the government show that for 2017/18 100% of major planning applications were decided within the 13 week target time.</p> <p><b>Areas for Improvement</b> Processes for scanning and indexing planning</p>	<p>Corporately the Council is seeking to make the existing Civica EDMS system work effectively and efficiently for the Planning section. The Specialist Services Lead is to push for the necessary improvements to systems to be prioritised and completed as soon as possible. The deadline for completion is by the end of June 2019.</p> <p>By the end of March 2019 the Customer Services Lead is to identify the appropriate team to complete the reconciliation going forward.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<ul style="list-style-type: none"> <li>Planning applications are being determined within statutory timescales.</li> </ul>		<p>documents are manual. All personal information has to be manually redacted. Technology has not been fully developed or used to automate this process. There is no timescale for this to be completed.</p> <p>A reconciliation of planning income received per the Icon cash receipting system, to the planning system and the general ledger has not been carried out since early March 2017.</p>	

### Audit Opinions and Priorities for Actions

#### Audit Opinions

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.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
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.

#### Priorities for Actions

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.

# FINAL REPORT

## SELF-ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION

VERITAU GROUP

NOVEMBER 2018

COMPLETED BY:  
SWAP INTERNAL AUDIT SERVICES



## INTRODUCTION

In accordance with the International Standards for the Professional Practice of Internal Auditing “The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity” (*Performance Standard 1300*). In order to achieve this, the Head of Internal Audit Partnership commissioned a Quality Review of Veritau.

There are two suggested approaches to conducting the review:

- ① External Quality Assessment
- ② Self-Assessment with Independent Validation

Due to the prohibitive costs of an External Quality Assessment, recognised as achieving the highest level of quality assurance, Veritau opted for the second option, with independent validation being carried out through peer review. For the process to pass the ‘independence’ test the Manual recommends that “at least three organisations come together to form a pool of professionals, all of whom are qualified to conduct external assessments”.

In order to achieve this Veritau worked together with the South West Audit Partnership (SWAP), the Devon Audit Partnership (DAP) and Hertfordshire’s Shared Internal Audit Service (SIAS), whereby each Audit Team would carry out a self-assessment and then SWAP would act as Validators for Veritau, Veritau for SIAS, SIAS for DAP and DAP for SWAP.

## SCOPE AND METHODOLOGY

As part of the preparation for the Quality Assurance Review (QAR), Veritau prepared a self-assessment document (utilising the Checklist for Assessing Conformance with the Public Sector Internal Auditing Standards (PSIAS) and the Local Government Application Note (LGAN)), providing links to necessary evidence to support their findings. The self-assessment team conducted a QAR of the internal audit (IA) activity undertaken by Veritau across its client organisations in preparation for validation by an independent assessor. The team also reviewed the IA activity’s risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes as well as the service Procedure Manuals for the delivery of Internal Audit reviews.

The principal objective of the QAR was to assess the IA activity’s conformance to the International Standards for the Professional Practice of Internal Auditing (Standards), incorporating the PSIAS and LGAN.

The QAR Team from SWAP was made up of their Company Chief Executive – Gerry Cox who is a Chartered Auditor and Certified Auditor with c.30 years management experience in Internal Auditing. The second member of the team was SWAP’s Director of Quality - Ian Baker, a Chartered Auditor and Fellow Member of the Institute of Management Services with over 15 years management experience in Internal Auditing.

In addition to reviewing the evidence supplied by the Self-Assessment Team the Review Team were on site for three days meeting with Veritau staff, client officers and Committee Members. In addition to interviewing the Head of Internal Audit and his Deputy a further twenty-two interviews were held, with eighteen of these representing client organisations and the other five being staff members.

## **OPINION AS TO CONFORMITY TO THE STANDARDS**

**It is our overall opinion that the Veritau IA activity ‘Generally Conforms’ to the *Standards* and Code of Ethics.**

For a detailed list of conformances to individual standards, please see Attachment A. The Self-Assessment and QAR team identified opportunities for further improvement, details of which are provided in this report.

The IIA’s *Quality Assessment Manual for the Internal Audit Activity* suggests a scale of three rankings when opining on the internal audit activity:

- ① “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” The ranking of “Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics.
- ② “Partially Conforms” means that deficiencies in practice are noted that are judged to deviate from the *Standards* and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- ③ “Does Not Conform” means that deficiencies in practice are judged to deviate from the *Standards* and the Code of Ethics, and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

A detailed description of conformance criteria can be found at the end of Appendix B.

## **SUMMARY OF POSITIVE OBSERVATIONS**

It is our view that the IA activity environment provided by Veritau is well-structured and continues in its progression. The Standards are clearly understood, and management is taking a number of initiatives to ensure the service continues to provide added value to its clients. The vast majority of those interviewed spoke about the significant improvements they have seen in the service provided over recent years; providing evidence that the service is staying ‘relevant’ in ever changing times. A key contributor to this is that the Head of Internal Audit continues to be highly valued and respected by both client officers and staff; the Audit Managers and staff are also clearly valued with clients mentioning how quickly junior members of the IA team are brought up to speed.

To demonstrate how the service is viewed we have captured a flavour of some of the comments made to us:

- ④ *Very professional..... the Head of IA is exceptional” - s.151 Officer*
- ④ *“I have a good relationship with the Audit Manager, interaction is good, and we have an open door” – Audit Committee Chair*
- ④ *“They tell me what I need to hear, not what I want to hear” – s.151 Officer*
- ④ *“The Head of IA is the personification of professionalism” – s.151 Officer*
- ④ *“Their reports are valuable, never trivia and never lacking in substance” – Audit Committee Chair*

Other positive observations include:

- ④ The Head of Internal Audit is highly respected by both staff and client representatives.
- ④ We received exceptionally positive feedback about Audit Managers and staff working on audits.
- ④ Feedback indicates that the service is trusted and maintains a good organisational profile.
- ④ We asked each of the eighteen client representatives to rate the internal audit service provided by Veritau, out of 10. The service received an average score of 8.2 which indicates it is highly valued by its clients.
- ④ Veritau offer good internal training and development for new auditors.
- ④ We identified in the last QAR that IT audit in Annual Plans was low. This has been addressed and Veritau have a pragmatic approach for developing and maintaining skills in this area of expertise.
- ④ Other issues raised in the last QAR have been addressed.

Consequently, the observations and recommendations by the QAR Team captured below are intended to build on the foundations already in place in the IA activity.

## **OBSERVATIONS AND RECOMMENDATIONS**

### **PART I – MATTERS FOR CONSIDERATION OF VERITAU MANAGEMENT**

1. The IA Charter states that “The Head of Internal Audit will informally meet in private with members of the Audit and Governance Committee, or the committee as a whole as required. Meetings may be requested by committee members or the HoIA.”

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 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*).

2. 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 assessing the HoIA's performance. (*Attribute Standard 1100*).
3. 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*).
4. 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*).
5. It is clear that the actions from the last review have been completed, however, the resulting Quality 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*).

The following two matters are not related necessarily to Conformance with the Standards but are matters we picked up during our three-day visit that should be on the radar of the Veritau Board and be highlighted as part of the Company's risk exposure:

- ④ **SUCCESSION PLANNING** – there is no doubt that the HoIA is highly respected and valued by clients. Whilst other audit managers are respected as well, it became clear to us that a lot of emphasis was placed on the existing HoIA, with one client asking, “*what will happen post Max*”. Clearly this could be a matter for serious concern, having all eggs in one basket, so to speak. The Veritau Board should satisfy themselves that there is a clear succession plan in place in the event of the current HoIA not being available to the Company for any reason.
- ④ **STAFF RETENTION** – a number of clients raised concerns around the retention of staff. They were, as reflected in our discussions, very complimentary about the quality of the more junior staff being introduced to the Company, which is a credit to IA Managers and their induction of these individuals. However, it should be recognised that whilst some good initiatives have been taken in the recruitment and development of these staff, for example in the area of IT Audit, in a highly competitive market for Internal Auditors, and in particular those with specialist skills, the Company may become a ‘nursery’ for other providers paying higher salaries for experienced audit staff. The Veritau Board should consider whether their retention policies are robust and that the organisation structure allows sufficient progression to occur in order to retain staff as their experience and knowledge grows.

## **PART II – ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY OF VERITAU**

1. As identified earlier, the service provided by Veritau is highly rated (8.2 out of 10). Of course, we know with any service there will be results above or below this perception and it is the same for some audit reviews. For those who said why such reviews would be considered for a lower score, feedback generally related to reporting, as follows:
  - ④ Audit assessments could be more robust or more forceful. This came from a number of individuals who felt that sometimes the reporting may ‘placate’ the service too much. There is a difficult balance to find between not alienating people from the audit process, but robustly ‘telling it as it is’.
  - ④ Closely aligned to this was the some felt reports could do with more ‘context’ rather than just straight in to the findings.
  - ④ Finally, one minor ‘irritation’ was when auditors report “we have found”, when often it is the service that brought this to their attention.
2. All the staff interviewed were very happy with their role within the Company. We did, however, agree to feedback any points raised during these interviews for suggested improvement; some of which may already be on management’s radar and recognising that in each suggestion there is a balance to be reached:
  - ④ Ensure the Auditor who completed the review completes the follow up. The individual who raised this was doing so from an efficiency point of view.
  - ④ Allow more time to learn about the clients and become more organisationally aware.
  - ④ Better sharing of findings and information across clients.

## **RECOMMENDATIONS**

We recommend that:

- ④ the Head of Internal Audit presents this report to the Veritau Board and each of its client organisations Audit Committees;
- ④ the Head of Internal Audit incorporates the Observations and Recommendations from this report into the Quality Assessment Improvement Programme (QAIP) and that the QAIP is maintained as a live document;
- ④ the Head of Internal Audit presents the QAIP to the Veritau Board and each of its client organisations Audit Committees and thereafter reported periodically to monitor progress and to demonstrate the continuous improvement of the service.

**ATTACHMENT A  
STANDARDS CONFORMANCE  
EVALUATION SUMMARY**

**SWAP INTERNAL AUDIT SERVICES**

Standards Conformance Evaluation Summary		("X" Evaluator's Decision)		
		GC	PC	DNC
<b>OVERALL EVALUATION</b>				
<b>ATTRIBUTE STANDARDS</b>				
<b>Definition of Internal Auditing</b>		X		
<b>IIA Code of Ethics</b>		X		
<b>1000</b>	<b>Purpose, Authority, and Responsibility</b>	X		
<b>1100</b>	<b>Independence and Objectivity</b>	X		
1110	Organisational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
<b>1200</b>	<b>Proficiency and Due Professional Care</b>			
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
<b>1300</b>	<b>Quality Assurance and Improvement Program</b>			
1310	Requirements of the Quality Assurance and Improvement Program	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement	X		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
1322	Disclosure of Non-conformance	X		
<b>PERFORMANCE STANDARDS</b>				
<b>2000</b>	<b>Managing the Internal Audit Activity</b>			
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination		X	
2060	Reporting to Senior Management and the Board	X		

## Standards Conformance Evaluation Summary

		("X" Evaluator's Decision)		
		GC	PC	DNC
<b>2100</b>	<b>Nature of Work</b>			
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
<b>2200</b>	<b>Engagement Planning</b>			
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
<b>2300</b>	<b>Performing the Engagement</b>			
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
<b>2400</b>	<b>Communicating Results</b>			
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
2431	Engagement Disclosure of Non-conformance	X		
2440	Disseminating Results	X		
<b>2500</b>	<b>Monitoring Progress</b>	X		
<b>2600</b>	<b>Communicating the Acceptance of Risks</b>	X		

## Definitions

**GC – “Generally Conforms”** means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

**PC – “Partially Conforms”** means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organisation.

**DNC – “Does Not Conform”** means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

## **ATTACHMENT B INDEPENDENT VALIDATOR STATEMENT**

The validator was engaged to conduct an independent validation of the Veritau self-assessment. The primary objective of the validation was to verify the assertions made by the self-assessment team concerning adequate fulfilment of the organisation's basic expectations of the IA activity and its conformity to the International Standards for the Professional Practice of Internal Auditing (Standards) with reference to the Public Sector Internal Auditing Standards (PSIAS) and incorporating the Local Government Application Notes (LGAN).

In acting as validator, I am fully independent of the organisation and have the necessary knowledge and skills to undertake this engagement. The validation started on 12<sup>th</sup> October 2018 and culminated with a three-day site visit between the 5<sup>th</sup> and 7<sup>th</sup> November 2018. The validation consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with twenty-four individuals, including the Head of Internal Audit and his Deputy. These individuals are considered key stakeholders and included Audit Committee Chairs, Chief Executives, Section 151 Officers, Senior Service Managers and Veritau staff at various levels in the Company.

I concur fully with the IA activity's conclusions in the self-assessment from where some of the observations were identified.

Consideration of the matters raised, and implementation of the recommendations contained in this report will serve only to improve the effectiveness and enhance the value of the IA activity, which is already highly regarded, and ensure its full conformity to the *Standards*.

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Gerry Cox CMIIA

Chief Executive – SWAP Internal Audit Services

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Date      26<sup>th</sup> November 2018