

Ryedale District Council

Annual Internal Audit Report

2013/14

Audits Completed	
High Assurance	8
Substantial Assurance	2
Moderate Assurance	2
Limited Assurance	4
No Assurance	0

Audit Opinion

Substantial Assurance

Audit Manager: John Barnett
Client Relationship Manager: Roman Pronyszyn
Head of Internal Audit: Max Thomas

Circulation List: Members of the Overview & Scrutiny Committee
Finance Manager (s151 Officer)

Date: 31 July 2014

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the Public Sector Internal Audit Standards (PSIAS). In accordance with these standards, the Head of Internal Audit is required to report to those charged with governance the findings of audit work, provide an annual opinion on the effectiveness of the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
- 2 During the financial year the Council's internal audit service was provided by Veritau North Yorkshire Ltd, which is part of the Veritau Group.

Internal Audit Work Carried Out 2013/14

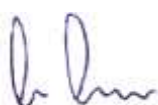
- 3 During the 2013/14 year, internal audit work was carried out across the full range of activities of the Authority. The main areas of internal audit activity included:
 - **Fundamental/Material Systems;** work in this area provides both assurance to Ryedale DC and helps support the work of external audit in providing assurance that the 'key' systems within the Council have a sound control environment. During the year three audits fell below Substantial Assurance in their rating. The Payroll – TIC's system was rated as 'limited assurance' (risks around the recording, calculation and payments to officers). The Debtors system was rated as 'moderate assurance' (risks around authorisation under delegated authority) and the Benefits system which was rated as 'limited assurance' (risks around claim processing times and quality assurance checks).
 - **Regularity;** During the year three audits fell below Substantial Assurance in their rating. Human Resources – Recruitment was rated as 'limited assurance' (risks around compliance with legislation and retention of records). Performance Management/Data Quality was rated as 'moderate assurance' (risks around the lack of up to date information on the intranet and the dissemination of information). Planning/Development Control was rated as 'limited assurance' (risks around use of the IT systems and incomplete information).
 - **Technical/Projects;** to consult and advise on the control and risk environment on various projects the Council is involved in.
 - **Follow Up;** this work covers those audits where significant risk has been identified and is intended to provide assurance that the agreed recommendations are being properly implemented. The areas reviewed are highlighted in Appendix 2.
- 4 **Appendix 1** shows the final table of audit work carried out, and the audit opinion associated with the audits completed. **Appendix 2** provides a summary of the findings of our audit work, and **Appendix 3** an explanation of our assurance levels and finding priorities.

Compliance with Standards

- 5 Veritau has developed a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. As well as undertaking a survey of senior management in each client organisation and completing a detailed self assessment to evaluate performance against the Standards, the decision was taken to arrange for an external assessment to be carried out. The assessment was conducted by the South West Audit Partnership (SWAP) and completed in April 2014. The results of the assessment provide evidence to support the QAIP as well as helping to inform the Improvement Action Plan for 2014/15.
- 6 The outcome of the QAIP demonstrates that the service conforms to *International Standards for the Professional Practice of Internal Auditing*. Further details of the QAIP and Improvement Action Plan prepared by Veritau are given in **Appendix 4**.

Audit Opinion and Assurance Statement

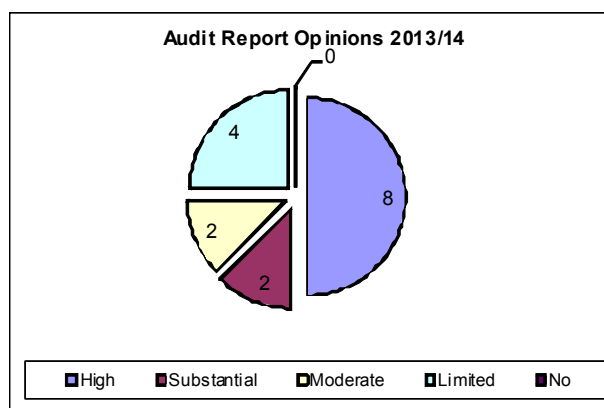
- 7 The overall opinion of the Head of Internal Audit on the risk management, governance and controls operated in Ryedale District Council is that they provide **Substantial Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.
- 8 Although a substantial assurance opinion can be given, we are aware of some weaknesses in the control environment which have been identified around Payroll (TIC's), Debtors, Benefits, HR Recruitment, Performance Management/Data Quality and Planning/Development Control. We have recommended that Payroll (TIC's), Benefits, HR Recruitment and Planning/Development Control be considered for inclusion in the report on the Annual Governance Statement, prepared by the S151 Officer.



Max Thomas
Director and Head of Internal Audit
Veritau Ltd

31 July 2014

Table of 2013/14 audit assignments completed



Audit	Status	Audit Committee
Fundamental/Material Systems		
General Ledger	Completed ~ High Assurance	July 2014
Payroll – TIC's	Completed ~ Limited Assurance	July 2014
Debtors	Completed ~ Moderate Assurance	July 2014
Creditors	Completed ~ Substantial Assurance	July 2014
Treasury Management	Completed ~ High Assurance	December 2013
Benefits	Completed ~ Limited Assurance	July 2014
Council Tax/NNDR	Completed ~ High Assurance	July 2014
Income/Cash Receipting	Completed ~ High Assurance	July 2014
Regularity Audits		
Human Resources – Recruitment	Completed ~ Limited Assurance	July 2014
Elections	Completed ~ High Assurance	October 2013
Performance Management/Data Quality	Completed ~ Moderate Assurance	February 2014
Partnerships	Completed ~ High Assurance	December 2013
Health and Safety	Completed ~ Substantial Assurance	October 2013
Fleet Management	Completed ~ High Assurance	October 2013
Planning/Development Control	Completed ~ Limited Assurance	February 2014
Tax Management	Completed ~ High Assurance	February 2014
Technical/Project Audits		
ICT – Policy Review (advise)	N/A	
Follow Ups:	Completed – see below for follow up action against 'key weaknesses'.	

Appendix 2

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

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
General Ledger	Substantial Assurance	A limited review to provide assurance that the key controls around budget setting, monitoring processes and reconciliations are working as intended and that adequate budgetary control is exercised.	9 May 2014	<p>Strengths It was found that the arrangements for managing risk were very good and that an effective control environment appears to be in operation.</p> <p>Key Weaknesses It was found that the budget monitoring reports are unclear as to what is included in the end column "Left to spend Full Year Budget".</p>	A note will be applied to the budget monitoring sheets, and Managers advised/reminded about what is included in the "Left to spend" figure. <i>Due 30/6/14</i>
Payroll - TIC	Limited Assurance	Payments to TIC staff were accurate and that the system and processes for paying TIC officers was robust.	21 May 2014	<p>Strengths There has been an established system in place for a number of years for paying TIC officers.</p> <p>Key Weaknesses Timesheets are confusing and difficult to interpret.</p>	A review of the way that the TIC staff are being paid has now been undertaken. Staff are now paid the same weekly fixed hours, with any overtime or additional hours being paid in

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>One of the employees was absent for more than three days and therefore SSP became payable. This was paid on top of (i.e. in addition to) their full gross pay which was paid during their sickness absence, which lasted for several weeks.</p> <p>Hours worked under 37 per week are being paid at enhanced rates.</p> <p>It appears that a large amount of annual leave is</p>	<p>arrears the following month. <i>Immediate</i></p> <p>Checks are made of other staff who have incurred sickness absences of more than three days since 1 April 2013 to ascertain how SSP has been paid, with particular attention being paid to those employees who are paid by timesheets. Contact is made with the payroll provider to correct the SSP payment for the individual employee concerned and any others that may have arisen as part of the above checking. Steps are taken to correct the process with the payroll provider so that it does not recur. <i>Due 30/6/14</i></p> <p>A review of the way that TIC staff are remunerated is currently being undertaken, with consideration being given to paying all hours worked between Monday and Friday at plain time rates until more than 37 hours have been work. The necessary consultations will be undertaken. <i>Due 31/12/14</i></p> <p>Annual leave is more tightly controlled. Staff actually take the</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				being paid to employees rather than it being taken as annual leave.	days as leave and are not paid for it unless there are exceptional circumstances <i>Immediate</i>
Debtors	Moderate Assurance	A limited review around the key risks to the system.	12 May 2014	<p>Strengths The system(s) and processes are managed by experienced officers.</p> <p>Key Weaknesses The current delegated authority limits are out of line with the current financial standing orders and financial regulations.</p>	<p>We are currently reviewing the delegated authority system and specific limits will be given to all financial tasks undertaken by officers. The format of the form has been reviewed to ensure that it can be easily reviewed for routine checking.</p> <p>A review of the constitution will be carried out and the financial standing orders and financial regulations will be revised accordingly. All delegated authority levels will be checked, and evidence to support officers delegated from the s151 officer will be revised and an updated memo (if appropriate) completed. <i>Due 31/7/14</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Creditors	Substantial Assurance	A limited review around the key risks to the system of paying the Council's creditors.	9 May 2014	<p>Strengths Arrangements for managing the system are efficiently managed.</p> <p>Key Weaknesses Purchase orders are not always being raised when expenditure is committed.</p>	Officers should be reminded that purchase orders should be raised for all goods and services at the time the expenditure is committed, excluding permitted exceptions. <i>Due 30/6/14</i>
Benefits	Limited Assurance	A limited review of the key risks/controls involved in awarding and paying benefits.	19 May 2014	<p>Strengths Arrangements for managing the system are efficiently managed.</p> <p>Key Weaknesses The average days taken to process a new claim is currently 61.5 days and for a change in circs it is 8.7 days (March 2014). Although the number of days to process a new claim is still well above the current target of 25 days, it has reduced significantly from 79 days (which is was in October 2013). The target number of days for a change of circs is 12 days so the</p>	The department has been identified by the DWP that they are currently in the top 10 authorities in the country for the highest new claims processing times. The department has received approval from the Chief Executive to employ the services of a consultant to undertake a review of the current processes to identify ways to improve new claims

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>service is currently meeting this target.</p> <p>There is little quality assurance on claims where the payment value is less than £500.</p>	<p>processing times. New Claims processing times have improved but are still above the national average. <i>Due 30/11/14</i></p> <p>Following the consultants visit it is hoped that Quality Assurance and Management checks of the department can be developed and used more effectively. Management checks are required to help identify any training needs from within the assessment team. The department has changed the way in which it works by moving from an alpha split to a drip feed caseload. This change has developed informal 'Peer Reviews' as the staff can work on any claim from across the caseload and not just a particular alpha split. <i>Due 30/11/14</i></p>
Council Tax/NNDR	High Assurance	A review of the key risks/controls for the setting and collection of local tax.	21 May 2014	<p>Strengths The controls and processes are effectively managed.</p> <p>Key Weaknesses There were no key weaknesses identified.</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Income/Cash Receipting	High Assurance	To ensure that monies received are accounted for and allocated correctly within the accounts of the Authority.	20 May 2014	<p>Strengths The controls and processes are effectively managed.</p> <p>Key Weaknesses Lack of guidance to staff on precautions against money laundering.</p>	Anti-money laundering documentation will be drawn up <i>Due 31/8/14</i>
Human Resources – Recruitment	Limited Assurance	To ensure that the key controls it has put in place to manage key risks relating to Human Resources and Recruitment are effective.	20 May 2014	<p>Strengths</p> <p>Key Weaknesses The Council does not have an implemented Agency Workers Policy, in compliance with the Agency Workers Regulations Act 2010.</p> <p>Medical clearance is not obtained prior to commencement of employment for all appointments.</p> <p>Disclosure and Baring Service (DBS) information is not kept up to date. Staff in the Bureau might not have the necessary DBS</p>	<p>An Agency Workers Policy needs to be formulated and agreed, with a procedure implemented to monitor the use of Agency workers and ensure that the Regulations are being complied with. <i>Due 30/9/14</i></p> <p>A reminder to be issued to managers to stress that, for all appointments, employment does not commence until medical clearance has been received. <i>Due 31/5/14</i></p> <p>A system needs to be introduced to ensure that DBS clearances are received and checked prior to employment commencing. The current list of posts requiring</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>clearance.</p> <p>The Immigration, Asylum and Nationality Act 2006 states that employers must check and keep copies of the original documents before employment commences, and that this should be kept for a minimum duration of the employment plus 2 years. This does not always happen.</p> <p>The Recruitment and Selection policy states that a short listing matrix should be completed to assess which candidates fulfil most of the essential and desirable criteria to produce a shortlist for interview, and that these matrices should be returned to HR where they are retained for six months. This does not always happen.</p> <p>The policy states that 'the same questions are to be</p>	<p>DBS clearance should be reviewed and updated. All posts requiring DBS clearance to be checked to confirm that clearance has actually been received. Immediate</p> <p>Ensure that the necessary documentation is checked and retained before employment commences. Immediate</p> <p>Issue a reminder to Managers that evidence of short listing candidates for interview should be compiled and sent to HR for retention for six months. <i>Due 30/9/14</i></p> <p>A reminder to be issued to Managers that interview</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				posed to candidates and copies of selection notes are retained for six months. This does not always happen.	questions should be recorded, and, together with completed interview selection evidence, sent to HR where they will be retained for six months. <i>Due 30/9/14</i>

Summary of Key Issues from audits previously reported to Committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Performance Management/Data Quality	Moderate Assurance	The purpose of the audit was to provide assurance to management that the controls it has put in place to manage key risks relating to Performance Management are effective and that service delivery continues to be unaffected.	20 January 2014	<p>Strengths The system(s) and processes are managed by experienced officers.</p> <p>Key Weaknesses The Council's performance management system is based around the 'golden thread' whereby the community strategy (Imagine Ryedale) and the corporate plan objectives are cascaded down into service plans and individual employee work plans. The key document, the Performance Management Framework which outlines these principles was last revised in June 2007. In 2013 the new Council Plan for 2013-17 was</p>	The performance management pages of the intranet will be refreshed to include revisions of the performance management framework. <i>Due 30/4/14</i>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>approved by Members. The performance management framework should reflect the actions and priorities for the core objectives in the new Council plan.</p> <p>This is the first year that all service planning has been carried out on Covalent. Feedback on this process is important to ensure that a consistent approach is followed by officers. There is clear evidence that performance reporting is being carried out across the Council, however examples of effective performance management were not so clear.</p> <p>There is currently no joint performance and financial monitoring report presented to Members.</p>	<p>Feedback from performance review boards (PRB's) will be shared by the Head of Service with relevant Service Unit Manager's and officers. Notes will be added to the PRB reports on Covalent and this will provide feedback from the meetings but also provide evidence of performance management (decisions, actions etc). <i>Due 30/1/14</i></p> <p>It has already been agreed with Members that the quarterly reports on delivering the Council's priorities will be taken to the Overview and Scrutiny committee. <i>Next meeting 20/2/14</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Planning/Development Control	Limited Assurance	The purpose of the audit was to provide assurance to management that the controls it has put in place to manage key risks relating to Development Control – Section 106 Agreements, are effective and to ensure that the processes in place are fit for purpose.	15 January 2014	<p>Strengths S106 agreements are monitored on an ongoing basis.</p> <p>Key Weaknesses The Development Management team does not currently use the section 106 module on their main Uniform System. The Finance team maintain a spreadsheet of section 106 agreements and information can also be obtained from Legal Services. However, the information is incomplete to enable effective monitoring. Relevant trigger points are also not systematically monitored.</p>	<p>Management will aim to implement the section 106 module. A timetable will then be prepared for the completion of all outstanding Section 106 agreements to be input into the system (all agreements with a financial obligation will be a priority). The Uniform system will then form the central register of all section 106 agreements which will be reconciled to financial records on a quarterly basis. <i>Due 30/11/14</i></p> <p>The reporting function on the section 106 module of Uniform (once implemented) will be reviewed to ensure that the correct reports are run at the appropriate times and distributed to the correct officers. Local arrangements will be made to ensure that the information is input onto the system on a regular basis to ensure that the reports produced are based on accurate up to date information. <i>Due 30/11/14</i></p> <p>All information will be recorded centrally through the section 106 module (when implemented).</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
					This will allow for proactive monitoring of all trigger and repayment dates (when entered into the system). In the short term we are aware of the agreements where monies need to be spent and the timescales involved. <i>Due 30/11/14</i>
Tax Management	High Assurance	The purpose of the audit was to provide assurance to management that the controls it has put in place to manage key risks relating to the Construction Industry Scheme are effective and to ensure processes in place are fit for purpose.	17 January 2014	<p>Strengths The management of tax through CIS has been efficiently managed with only a few minor issues raised. Since the completion of the audit the Council has 'de-registered' from the Construction Industry Scheme – having CIS expenditure less than £1m per annum. Therefore no further action is required with regard to these matters.</p> <p>Key Weaknesses There were no key weaknesses identified.</p>	
Treasury Management	High Assurance	A review of the systems and processes involved in the operation of the Council's Treasury Management function.	24 October 2013	<p>Strengths Treasury Management duties are undertaken effectively by an experienced officer within Finance under the guidance of the Finance Manager.</p> <p>Key Weaknesses</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				There were no key weaknesses identified.	
Elections	High Assurance	The purpose of the audit was to provide assurance that recouping of election costs is maximised and thus any cost to Ryedale minimised. The 2012 canvass for the Register of Electors was also reviewed.	16 July 2013	<p>Strengths The controls and processes are effectively managed.</p> <p>Key Weaknesses There were no key weaknesses identified.</p>	
Partnerships	High Assurance	A review of the governance arrangements in place for partnerships.	5 November 2013	<p>Strengths The management of partnership arrangements are carried out effectively by experienced officers.</p> <p>Key Weaknesses There were no key weaknesses identified.</p>	
Health and Safety	Substantial Assurance	A review of the arrangements in place for the facilitation and co-ordinating of all aspects of Health and Safety.	2 July 2013	<p>Strengths Arrangements for complying with health and safety requirements are efficiently managed.</p> <p>Key Weaknesses The Corporate Health, Safety & Wellbeing Policy posted on the Health & Safety home page of the Council's intranet is identified as having been revised in November 2008.</p>	When the Health & Safety Officer has new or revised policies or guidance she will send them to the Business Support Manager for posting on the intranet. <i>Immediate</i>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>There is a version that was revised in May 2012, but it has yet to be published on the intranet.</p>	<p><i>21/1/14 Completed - The current version of the Corporate Health, Safety & Wellbeing Policy (reviewed August 2013) has been posted on the Health & Safety home page of the Council's intranet.</i></p>
Fleet Management	High Assurance	An audit to test the soundness of systems associated with Fleet Management.	8 August 2013	<p>Strengths The management of the Council's vehicle fleet is effectively carried out.</p> <p>Key Weaknesses There were no key weaknesses identified.</p>	

Audit Opinions and Priorities for Actions

Audit Opinions	
<p><i>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.</i></p> <p><i>Our overall audit opinion is based on 5 grades of opinion, as set out below.</i></p>	
Opinion	Assessment of internal control
<i>High Assurance</i>	<i>Overall, very good management of risk. An effective control environment appears to be in operation.</i>
<i>Substantial Assurance</i>	<i>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.</i>
<i>Moderate assurance</i>	<i>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.</i>
<i>Limited Assurance</i>	<i>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.</i>
<i>No Assurance</i>	<i>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.</i>

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

VERITAU GROUP

INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME – 2014

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
- 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
- training plans and associated training activities
- the maintenance of training records and training evaluation procedures
- the objectives, scope and expected timescales for each audit engagement subject to agreement with the client before detailed work commences (audit specification)
- the results of all audit testing work documented using the company's automated working paper system (Galileo)
- file review by an audit manager and sign-off of each stage of the audit process
- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- performance against agreed quality targets reported to each client on a regular basis.

On an ongoing basis, a sample of completed audit files is also subject to internal peer review by a second audit manager to confirm quality standards are being maintained. The results of this peer review are documented and any key learning points shared with the internal auditors (and the relevant audit manager) concerned.

The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken (for example, increased supervision of individual internal auditors or further training).

Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self assessment checklist and obtain evidence to demonstrate conformance with the standards. To support this process, each internal auditor is required to assess their current skills and knowledge against the competency profile relevant for their role.

The results of the annual client survey and PSIAS 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.

The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board¹ as part of the annual report of the Head of Internal Audit.

The process followed is also intended to enable council clients to discharge their responsibilities for evaluating the effectiveness of internal audit each year as set out in the Accounts and Audit (England) Regulations 2011 section 6(3).

External assessment

At least once every five years, internal audit working practices are subject to external assessment to ensure the continued application of professional standards. The assessment is conducted by an independent and suitably qualified person or organisation and the results are 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 – 2014

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2014. Where relevant, the survey also asked questions about the counter fraud and information services provided by Veritau. A total of 96 surveys were issued to senior managers in client organisations. 21 surveys were returned (a response rate of 22%). 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.

¹ As defined by the relevant audit charter.

The results of the survey are set out in the table below:

	1	2	3	4	N/A
1 The quality of planning and the overall coverage of the audit plan	2	10	7	1	1
2 The provision of advice and guidance	5	13	3		
3 The conduct and professionalism of audit staff	10	11			
4 The ability of audit staff to provide unbiased and objective opinions	7	13	1		
5 The ability of audit staff to establish a positive rapport with customers	7	11	3		
6 The auditors' overall knowledge of the system / service being audited	4	7	8	1	1
7 The auditors' ability to focus on the areas of greatest risk	2	15	3		1
8 Agreeing the scope and objectives of the audit	4	11	5		1
9 The auditors' ability to minimise disruption to the service being audited	7	9	4		1
10 The communication of issues found by the auditors during their work	4	13	3		1
11 The quality of feedback at the end of the audit	4	14	2		1
12 The accuracy, format, length and style of audit reports	6	12	1	1	1
13 The time taken to issue audit reports	3	12	5		1
14 The relevance of audit opinions and conclusions	2	14	4		1
15 The extent to which agreed actions are constructive and practical	3	13	4		1
Overall rating for the Internal Audit services provided by Veritau	2	17	1		1

The ratings were broadly in line with the previous year and suggest that the service is well regarded by clients. However, there is a need to focus on some of the areas where the ratings are lower. In particular, auditors need to demonstrate a better understanding of the systems and services being audited. There is also scope to improve the quality of planning and the overall coverage of audit plans.

3.0 Self Assessment Checklist – 2014

The checklist prepared by CIPFA to enable conformance with the PSIAS and the Local Government Application Note to be assessed was completed in March 2014. Documentary evidence was provided where current working practices were considered to fully or partially conform to the standards.

In most areas the current working practices were considered to be a standard. However, the following areas of non-conformance were identified. None of the issues identified are considered to be significant. In addition, in some cases, the existing arrangements are considered appropriate for the circumstances and hence require no further action.

<u>Conformance with Standard</u>	<u>Current Position</u>
Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Internal Audit?	The Head of Internal Audit's performance appraisal is the responsibility of the board of directors. The results of the annual customer satisfaction survey exercise are however used to inform the appraisal.
Is feedback sought from the chair of the audit committee for the Head of Internal Audit's performance appraisal?	See above
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific engagement will be agreed by the Head of Internal Audit and the relevant client officer. Engagements will not be accepted if there is any actual or perceived conflict of interest, or which might otherwise be detrimental to the reputation of Veritau.
Has the Head of Internal Audit reported the results of the QAIP to senior management and the audit committee?	As this is the first full year of the PSIAS, the results of the QAIP still need to be reported to senior management and the board of each respective client. The expectation is that this stage will be completed by 30 June 2014 (and each subsequent year).
Has the Head of Internal Audit included	See above – still to be done for this year.

<u>Conformance with Standard</u>	<u>Current Position</u>
the results of the QAIP and progress against any improvement plans in the annual report?	The outcomes of the QAIP and details of any specific development needs (as set out in the annual Improvement Action Plan) will be included in the annual report.
Has the Head of Internal Audit stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	See above – still to be done for this year.
Has the Head of Internal Audit reported any instances of non-conformance with the PSIAS to the audit committee?	See above – still to be done for this year.
Has the Head of Internal Audit considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	See above – still to be done for this year.
Does the risk-based plan set out the - (b) respective priorities of those pieces of audit work?	Audit plans detail the work to be carried out and the estimated time requirement. The relative priority of each assignment will be considered before any subsequent changes are made to plans. Any significant changes to the plan will need to be discussed and agreed with the respective client officers (and reported to the audit committee).
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Whilst reliance may be placed on other sources of assurance there is no formal process to identify and assess other sources of assurances. <i>Action: the use of assurance mapping will be further developed and, where appropriate, future audit plans will highlight where other sources of assurance are being relied upon.</i>
Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the	In future, specifications will set out the expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care

<u>Conformance with Standard</u>	<u>Current Position</u>
following – (c) the respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?	provided to third parties). <i>Action: the audit manual and standard working papers will be changed to reflect this requirement</i>
For consulting engagements, have internal auditors established an understanding with the engagement clients about the following – (c) the respective responsibilities of the internal auditors and the client and other client expectations?	In future, specifications (and reports) will set out the expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties). <i>Action: the audit manual and standard working papers will be changed to reflect this requirement</i>
When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	This has not been done previously. In future, specifications and reports will set out the expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties). The Audit manual has already been amended to reflect this requirement. <i>Action: the audit manual and standard working papers will be changed to reflect this requirement</i>

4.0 External Assessment

As noted above, the PSIAS require the Head of Internal Audit to arrange for an external assessment to be conducted at least once every five years to ensure the continued application of professional standards. The assessment is intended to provide an independent and objective opinion on the quality of internal audit practices.

Whilst the new Standards were only adopted in April 2013, the decision was taken to request an assessment at the earliest opportunity in order to provide assurance to our clients.

The assessment was conducted by Gerry Cox and Ian Baker from the South West Audit Partnership (SWAP). Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to over 12 local authorities (including county, unitary and district councils across

Somerset, Wiltshire and Dorset). The Partnership was established in 2005 and currently employs over 60 members of staff.

The assessment consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed an audit committee chair. The fieldwork was completed in early April 2014.

A copy of the assessment report is attached at **Annex A**.

The conclusion from the external assessment was that the current working practices conform to the required professional standards. The assessors made a number of observations and recommendations which will now be taken forward in the Improvement Action Plan (see below).

5.0 Improvement Action Plan

The following changes and improvements to working practices will be made:

Change / improvement	Target completion date
The use of assurance mapping will be further developed and, where appropriate, future audit plans will highlight where other sources of assurance are being relied upon.	31 March 2015
The audit manual and standard working papers will be changed to ensure that the expectations on Veritau and the relevant client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties) are fully understood. The standard templates for audit specifications and reports will be amended to reflect this change. Where appropriate, information sharing agreements will also be established with client organisations.	30 September 2014
Further comparative benchmarking information will be sought from other internal auditor providers in order to help demonstrate that the current internal audit service provides value for money.	31 March 2015
Whilst the current outsourced arrangement with Audit North is working well further efforts will be made to develop the capacity of the 'in-house' IT audit provision in order to be able to offer a more cost effective option to client organisations.	31 March 2015
The standard Audit Charter will be amended to make it clear that auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months.	30 September 2014

Current internal audit working practices will continue to be reviewed to ensure that there is consistency in service delivery across the different teams.

31 March 2015