RYEDALE
DISTRICT
COUNCIL

Ryedale District Council

Internal Audit Annual Report

2016/17

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Head of Internal Audit: Max Thomas

Circulation List: Members of the Overview and Scrutiny Committee
                            Chief Executive
                            Resources & Enabling Services Lead (S151 Officer)

Date: 27 July 2017

Veritau
Assurance Services for
the Public Sector

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 connection with reporting, the relevant PSIAS standard (2450) states that the Chief Audit Executive (CAE)[1] should provide an annual report to the board[2]. The report should include:

(a)   details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)

(b)   a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)

(c)   an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)

(d)   disclosure of any qualifications to that opinion, together with the reasons for that qualification

(e)   details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement

(f)   a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme

2   During the year to 31 March 2017 the Authority's internal audit service was provided by Veritau Limited.

Internal audit and counter fraud work carried out in 2016/17

3   During 2016/17, internal audit work was carried out across the full range of the council's activities. The main areas of internal audit activity included:

- **Strategic risk register** – reviewing key risk areas as highlighted by the Council's risk register.

- **Financial systems** - Work in this area provides assurance to the council on the adequacy and effectiveness of financial system controls. This helps support the work of the external auditors and provides assurance to the Authority that the risk of loss is minimised.

- **Regularity audits** – providing assurance on governance and risk management arrangements and systems to manage risks to the achievement of corporate objectives. We have also reviewed areas of operational systems and processes which support service delivery.

- **Technical / projects** – we have reviewed specific areas to help the Council improve arrangements, covering information data protection and security and asset management.

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[1] The PSIAS refers to the Chief Audit Executive. This is taken to be the Head of Internal Audit.
[2] The PSIAS refers to the board. This is taken to be the Audit and Performance Review Committee.

- **Follow up** - it is important that agreed actions are followed up to ensure that they have been implemented. Veritau follow up agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. Our work shows that progress has been made by management during the year to address previously identified control weaknesses. However there are specific areas referred to in Appendix 2 (on Payroll and Creditors, plus our previous work on Risk Management) where agreed actions had not been completed and management are therefore planning to ensure these are addressed in 2016/17.

4   **Appendix 1** provides a summary of the audit work carried out in the year, and the opinions given for each completed audit. Work has been reported to this committee during the course of the year as part of regular monitoring reports. Details of work not previously reported to the committee are included in **appendix 2**. The opinions and priority rankings used by Veritau are detailed in **appendix 3**.

5   Counter fraud work was undertaken in accordance with the approved plan. The fraud team received 70 reports of potential fraud of which 55 were passed for investigation. The team completed 30 investigations in 2016/17 and produced £38,642 in savings. Three internal fraud investigations were completed last year. **Appendix 4** summarises counter fraud activity carried out during the year.

6   An annual review and update of counter fraud arrangements is being brought to the committee in a separate report.

Compliance with Public Sector Internal Audit Standards (PSIAS)

7   The work of internal audit has been undertaken in accordance with the PSIAS.

8   Veritau maintains a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. Quality assurance arrangements include ongoing operational procedures, annual internal self assessment against the PSIAS, and periodic external assessment. Further details on the QAIP and the outcomes of the quality assurance process are provided in **appendix 5**.

Audit Opinion and Assurance Statement

9   The overall opinion of the Head of Internal Audit on the governance, risk management, and control framework operating in the council is that it provides **Reasonable Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.

10   Although a reasonable assurance opinion can be given, we are aware of some specific weaknesses in the control environment which have been identified in respect of the systems for Payroll and Risk Management. The council arrangements for Payroll and Risk Management continue to have some significant weaknesses. The council should consider whether it feels these two areas are required for inclusion in the council's Annual Governance Statement.

Max Thomas
Director and Head of Internal Audit
Veritau Ltd

27 July 2017

Audit	Status	Assurance Level	Audit Committee
Strategic Risk Register			
Business Continuity and Disaster Recovery	**Completed**	**No opinion given**	**July 2017**
Training	**Deferred**	**Deferred to 2017/18**	**-**
Customer Expectations / Delivering Efficiencies	**Completed**	**No opinion given**	**April 2017**
Performance Management and Data Quality	**Completed**	**Reasonable Assurance**	**July 2017**
Financial Systems			
Housing Benefits	**Completed**	**Substantial Assurance**	**April 2017**
Payroll	**Completed**	**Limited Assurance**	**July 2017**
Council Tax / NNDR	**Completed**	**High Assurance**	**April 2017**
Sundry Debtors	**Completed**	**High Assurance**	**July 2017**
Creditors	**Completed**	**Reasonable Assurance**	**July 2017**
Income	**Completed**	**Substantial Assurance**	**July 2017**
General Ledger	**Completed**	**Substantial Assurance**	**January 2017**
Regularity Audits			
Contract Management – Contracts Register	**Completed**	**Reasonable Assurance**	**July 2017**
Risk Management	**Completed**	**No opinion given**	**April 2017**
Environmental Health	**Completed**	**Limited Assurance**	**July 2017**
Network Access Controls	**Completed**	**No opinion given**	**July 2017**
Technical/Project Audits			
Data Protection and Security (1)	**Completed**	**Reasonable Assurance**	**November 2016**
Data Protection and Security (2)	**Completed**	**Substantial Assurance**	**April 2017**
IDEA data analytics and data matching	**Completed**	**No opinion given**	**April 2017**
Strategic Asset Management – Landlord responsibilities for Industrial Units	**Completed**	**Reasonable Assurance**	**April 2017**
Follow-Ups	**Completed**	**N/A**	

Summary of Key Issues from audits completed and final reports issued/agreed; not previously reported to Committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Business Continuity and Disaster Recovery	Reasonable Assurance	The council's responsibilities for business continuity fall under the Civil Contingencies Act 2004 which states councils should ensure they can continue to deliver their functions in an emergency 'so far as is reasonably practicable'. We previously completed work which we reported in April 2016. The Council was in the process of developing Business Continuity and Disaster Recovery arrangements. No corporate or service plans had been finalised. Our work has reviewed the progress the Council has made in the last year.	July 2017	**Strengths** Draft service business continuity and incident management plans have been produced for all services. The plans followed best practice templates and are stored on external servers that can still be accessed during incidents which affect the Council's IT systems. The Council has trained two business continuity officers to help develop business continuity and disaster recovery expertise. **Areas for improvement** At the time of the audit both corporate and service business continuity plans had still not been finalised. The areas for improvement for disaster recovery plans had not been addressed. Service business continuity plans are not yet fully linked with disaster recovery plans. Given the current position of arrangements then both areas are not yet embedded into Council arrangements.	During 2016/17 the Council has moved towards a new operating model as part of the 2020 transformation programme. Business continuity and disaster recovery plans could not be finalised until this new structure had been implemented. Corporate and Service Business Continuity plans are planned to be finalised by 31 July 2017. Work will also be undertaken to help embed arrangements throughout the organisation.
Performance Management and Data Quality	Reasonable Assurance	Good quality data is essential for reliable performance and financial information. This audit focused on reviewing how performance information is managed, specifically whether:	June 2017	**Strengths** The Council uses Covalent to record and manage its performance information. We found this system was regularly updated by officers with the latest performance data available to them. Targets have been allocated to officers who are accountable for performance.	All performance indicator targets will be reviewed as part of a wider review of performance information to tie in with the new Business Plan. Existing data quality policies and the Procedure guidance will be

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		• Performance data is complete, accurate and up to date • Performance data and target setting is being appropriately and effectively used		Supporting data on performance was available on shared drives and where possible was taken directly from the system being used by the relevant service. **Areas for improvement** There are many areas of the Council's services not represented by any performance measures. Of the 140 indicators recorded, only 40 are currently linked to the Council Plan. Half of the 140 performance indicators on Covalent do not have a target. Many relate to areas managed by external bodies over which the Council has little or no direct influence. Of those indicators with targets some targets had not recently been reviewed. Some targets were greatly exceeded by performance (leading to little challenge or incentive for improvement). Some indicators were lower than statutory targets. One indicator had no target where one might have been expected. A number of key policies and documents need to be updated. The format of the "Delivering the Council Plan" report could be improved.	reviewed, updated and consolidated where possible. The performance report currently sent to members will be reviewed and aligned with the new Business Plan. All work will be completed by March 2018 so to tie into the new Business Plan.
Payroll	Limited Assurance	The council's payroll is processed by City of York Council (CYC) so the arrangements operated by the council involve some 'in-house' processes alongside the work undertaken by CYC. We specifically covered the in-house procedures and controls within the payroll system that ensure:	July 2017	**Strengths** The audit found that payroll changes were appropriately authorised and timely notification was given to City of York payroll. The review confirmed that mileage and other travel and subsistence expense claims are checked and authorised prior to being paid. **Areas for improvement** In previous payroll audits we have highlighted	We are continuing to work with CYC and aim to have a finalised SLA in place by the end of October 2017. We are reviewing the various forms used linked to the errors and the system of overtime enhancements and multipliers to help prevent future issues of the type highlighted in the audit.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		• Payments are made only to valid employees at agreed rates of pay and overtime • Mileage and expenses are accurate, supported and appropriately authorised prior to processing. • A fully completed Service Level Agreement (SLA) is in place with the City of York Council for carrying out the payroll service		the lack of a SLA with City of York Council (CYC) for provision of payroll services as an issue. In last years audit we saw that a draft SLA had been produced. However a final SLA has not yet been agreed. The audit highlighted payroll errors made when an individual has left the authority or changed roles. Payroll information had not been updated or only partly updated. In the cases where former employees continued to be paid the council had taken appropriate action and recovered the money. We also saw instances where Honorarium payments, multipliers and overtime have been incorrectly calculated. Improvements could be made to the arrangements for securely transmitting electronic information sent to the City of York payroll department.	We will provide training where required and also remind staff to check the payroll to ensure that the alterations have been made correctly. This work will be completed by the end of August 2017. Officers who are responsible for sending payroll data to City of York Council now use secure GCSX e-mail accounts.
Sundry Debtors	High Assurance	We reviewed sundry debtors processes and control to ensure: • The system was operated in accordance with Council Financial Regulations and other relevant legislation; • Invoices are raised accurately and promptly for goods and services provided; • Appropriate recovery action was taken • A consistent procedure has been established and applied	May 2017	**Strengths** Our work confirmed recovery actions were being undertaken in line with council policy. There was no debtor's account that had been placed on hold for more than 30 days. Procedures for writing off debts were applied consistently. This will help to ensure that only debts that are uneconomic to pursue are written off. **Areas for improvement** We found that for the majority of invoices there was not a date on the debtors system to show when the service was provided by the authority.	Users of the Debtors system were to be reminded of the importance of completing all relevant fields, including the date the services was provided. The Sundry Debtors and Income Procedure Manual will be reviewed and updated. These actions were planned to be completed by 30 June 2017.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		for debtor write-offs.		The debt guidance policy states that invoices must be raised within 5 days of service provision. In the majority of cases, where a service date was recorded, this date was exceeded. The authority has a Sundry Debtors and Income Procedure Manual. The current document dates from May 2014 and requires review. Whilst the manual appears to be substantially relevant some section names and job titles included no longer exist under the new structures.	
Creditors	Reasonable Assurance	We reviewed the processes and controls for ordering goods and services. We also examined payments, to ensure these were only made for valid invoices and within the required timescales. Finally we reviewed the quality, accuracy and usefulness of management information, to ensure expenditure is in line with financial regulations, policies and procedures.	July 2017	**Strengths** Invoices received are processed and paid via the official system, with the majority of payments complying with the requirements outlined in the Constitution. Payments appear to be for valid expenditure, for the correct amount and supported by invoices. The Accounts Payable Officer is aware of the potential for fraudulent requests to amend supplier bank details and performs relevant checks to confirm all requests for changes. **Areas for improvement** To comply with financial regulations, all invoices should be accompanied by a purchase order. However we found 36% of the payments made were not accompanied by a purchase order (a higher figure than 2015/16 when the same matter was raised). Regulations also require all invoices be paid within ten days of receipt. Our analysis highlighted 31% of payments exceeded ten	A 'no purchase order no pay' system will be considered in the medium/long term, once the Transformation changes are fully embedded in the Council. In the short term the s151 officer will stress the importance of using a purchase order for all expenditure, with the list of allowed exceptions also being provided to relevant staff. Some changes will be made to help improve awareness and management of payment times. The duplicate payments identified have been sent for resolution. An annual duplicates check will be performed. Communication will be sent to employees to remind them not to manually override the duplicate warning without first checking the invoice.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				days. Most of these (22%) were paid within thirty days. However 122 payments were found to have taken between six months and four years to be paid. We highlighted four duplicate invoice payments which had not been identified by officers or prevented by Council controls. These invoices totalled £1,715. A number of other duplicates were identified that had been picked up by the Accounts Payable Officer and dealt with accordingly. This indicates whilst there are duplicate checks being carried out, they are not failsafe. Improvements could be made to procedures to change supplier bank details made in the absence of the Accounts Payable Officer. During the audit getting relevant management information was not always possible as the Accounts Payable Officer was unsure how to run the required reports.	A new policy detailing procedures on supplier amendments and set ups is being written and will be provided to all relevant staff. The training needs of the creditors' team will be assessed and where in-house training can be provided, it will be. If it is considered appropriate, outsourced training will be provided. This will be completed by the end of 2017. We plan to ensure all actions (other than the training) have been fully addressed by the end of September 2017.
Income	Substantial Assurance	We reviewed procedures and controls within the system that ensure income is collected securely and is correctly accounted for.	May 2017	**Strengths** Since our last audit the Council has largely stopped taking cash payments which has significantly reduced the risks associated with cash. Payments received, whether electronically, through the post or over the counter, are recorded promptly. Income is promptly and accurately posted to the correct ledger code or debtor account. Income is banked promptly and securely and daily reconciliations are carried out between payments collected and deposits into the Council's bank account.	A full review of Covalent, including service risk registers, is being undertaken. Income risks will be considered as part of this exercise. We have now revised the daily reconciliation of Collections and Deposits. Updated Income administrative procedures have been documented.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				Areas for improvement Risks relating to income do not feature in risk registers. The daily reconciliations currently involve the manual recording of collections which are time-consuming and susceptible to potential error. The procedure guide for officers taking payments does not fully reflect the current working practices.	
Contract Management – Contracts Register	Reasonable Assurance	We reviewed the Council's arrangements for preparing and maintaining a contract register. We reviewed arrangements to ensure the register: • was complete and accurate • was an effective monitoring and management tool • proportionately reflects the risks of individual contracts.	April 2017	**Strengths** The Council is currently undergoing a major transformation and has set priorities for improved contract management going forward. The Council has been maintaining and publishing a contracts register to comply with transparency requirements (the Openness of Local Government Bodies Regulations 2014). **Areas for improvement** The Council has been preparing two separate registers; one for transparency and one on the performance management system (Covalent). There were inconsistencies between the two registers. Our analysis of the two contract registers showed each register had information missing. In accordance with the Council's Constitution, all purchases over £50,000 must have a contract in place. Our review of Council expenditure highlighted a number of suppliers with cumulative spend over £50,000 but there	We have decided to use one centralised Excel-based register for both management and transparency purposes. This will ensure information held is consistent and will reduce the work spent on consolidation. The new register will allow for more information than Covalent and will include sufficient detail to be useful as a management and monitoring tool. The Council's new Commissioning Officer will scrutinise the expenditure analysis provided by audit and determine whether or not a contract is or should be in place. Supplier spend analysis reporting will be undertaken in future on an annual basis. It is planned for all findings to have been fully considered and

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				was no contract listed on the contracts register. The Covalent based system had limited use as a tool to support effect contract management.	implemented by the end of September 2017.
Environmental Health	Limited Assurance	The Council has a number of statutory obligations with regard to private water supplies and air quality. The audit reviewed the Councils procedures and controls that ensure: • monitoring of supplies complies with statutory obligations • key risks are effectively monitored and managed • processes monitor performance of private water supplies and air quality.	July 2017	**Strengths** Where analysis of private water supplies has indicated they are harmful the Council has reacted quickly to help prevent harm to the user of the water supply. Results of work completed are routinely sent to DEFRA and the Drinking Water Inspectorate. Procedures for managing air quality were found to be working effectively. **Areas for improvement** The Council is failing to comply with the Drinking Water Regulations 2016 by not sampling and analysing the required number of private water supplies. The Council is not completing the mandated number of risk assessments on private water supplies. The Environmental Health risk register does not include all the relevant risks on private water supplies that face the service. For those risks included, the register does not show how the risk is being effectively managed. Current performance of the service is not reviewed by senior management. The Environmental Health service has no formal mechanism to monitor performance. There are	We are to develop the use of IT and the IDOX system to capture all private water supply data. This will help support planned improvements going forward. We have plans for additional training for relevant staff. Options for completing the risk assessments are being assessed. We plan to ensure these are up to date and developing IDOX will enable a planned programme for future risk assessments. A new more appropriate risk appetite is being developed and series of improvements are planned as part of the Councils planned improvements on risk management. New performance indicators and reports are being developed following the approval of the new Council Plan to ensure relevant information is received and reviewed by senior management.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				also no formal KPI's developed for monitoring of private water supplies.	We plan for all improvements to have been made by the end of 2017.
General Network System Controls	No opinion	We reviewed the procedures and controls over the council's Windows network that ensure that access to data is restricted to authorised users. This work included a review of user management processes, password and event logging policies and other access control features, along with remote access by users and also third parties such as suppliers.	June 2017	**Strengths** During the course of this audit a considerable amount of work was undertaken by the ICT team to ensure compliance with Public Sector Network (PSN) requirements as well as best practice standards. In many cases, weaknesses identified at the start of the audit were resolved before we completed the work. The processes in place that inform password policy, user access (including access by third parties) and user authentication appear to generally provide an acceptable and robust control environment. **Areas for improvement** Some minor issues were identified regarding the management of non-RDC users' network access.	-

Summary of Key Issues from Risk Management audit previously reported to Committee in April 2017

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Risk Management	No opinion	Risk management is a critical part of the strategic management of any organisation. Our work in 2015/16 highlighted a number of areas where the Council needed to improve risk management arrangements. This resulted in six actions being agreed with managers. The 2016/17 audit focussed on reviewing progress made towards implementing those actions. The work also considered 'the direction of travel' with regards risk management in light of the ongoing transformation and explored how this could be used as a vehicle for change and further improvement within the existing risk management process.	March 2017	**Strengths** Some progress has been made towards addressing the agreed actions from the 2015/16 report. A risk workshop was held in November 2016 at which senior managers reviewed the corporate risk register. Each corporate risk was assigned to a risk owner from within the Corporate Management Team. This was a significant step in the improvement of risk management arrangements as ownership of risks is vital in ensuring their effective management. **Areas for Improvement** A number of issues from the previous report have not been fully addressed and risk management arrangements are not fully effective. We saw that corporate risks were not subject to any regular, systematic monitoring and review on the Covalent system. Service risk registers do not always contain relevant information and are not being kept up to date. Medium and high category corporate risks are not being managed or monitored. The way risks are currently captured and structured on Covalent does not encourage effective management of those risks. In total, twelve areas for improvement were identified to help the Council make the necessary improvements in risk management arrangements.	Management have agreed a comprehensive action plan for all twelve recommendations. Six of the findings are planned to be completed by May 2017. The remaining six have a deadline of September 2017.

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 (was Moderate) 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.

COUNTER FRAUD ACTIVITY 2016/17

The table below shows the total numbers of fraud referrals received and summarises the outcomes of investigations completed during the year.

	2016/17
% of investigations completed which resulted in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked, management action taken).	53%
Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation.	£38,642

Caseload figures for the period are:

	As at 31/3/17
Referrals received	70
Referrals rejected[3]	15
Number of cases under investigation	22
Waiting to be assigned	25
Number of investigations completed	30

Summary of counter fraud activity:

Activity	**Work completed or in progress**
Data matching	Council data required by the Cabinet Office for the 2016/17 National Fraud Initiative was gathered in October 2016 and securely transmitted via the NFI web application. Results from the data matching exercise have now been returned. There are 90 recommended matches to investigate covering a range of council services. Work on these matches is now underway. The Council has joined City of York Council, Hambleton, Richmondshire and Selby district councils to undertake data matching exercises to detect cross boundary fraud. Results from a data match looking at single person discounts have been returned and matches are currently being reviewed.

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[3] All referrals received by Veritau are assessed based on information available, likely quality of evidence that can be obtained and the potential scale of fraud. Where a referral is rejected for investigation the service area is notified and other compliance action may be taken.

Activity	Work completed or in progress
Fraud detection and investigation	The service continues to promote the use of criminal investigation techniques and standards to respond to any fraud perpetrated against the Council. Activity to date includes the following: • **Council Tax/Non Domestic Rates fraud** – The team received 7 Council Tax referrals and 6 business rates referrals for potential fraud in this area over the course of 2016/17. Fraud losses of £19,000 were recorded during the year. There are currently 4 ongoing investigations into Council Tax and Non Domestic Rates fraud. All work in this area over the last financial year was funded through a grant from the Department for Communities and Local Government (DCLG). • **Council Tax Support fraud** – In 2016/17 the team received 53 referrals for possible fraud. Almost £10,000 of loss to the Council was detected due to fraud. There are currently 11 cases under investigation. • **Internal fraud** – Three internal fraud referrals were received in 2016/17.
Fraud liaison	On 1 March 2016 the council's remit to investigate and prosecute housing benefit fraud transferred to the Department for Work and Pensions (DWP). The counter fraud team now acts as a single point of contact for the DWP and is responsible for providing data to support their housing benefit investigations. The team dealt with 182 requests on behalf of the council during the last financial year. In addition housing benefit fraud concerns from within the council as well as from members of the public have been referred to the DWP for investigation. These referrals are tracked to ensure that the Council is aware of the results of any DWP investigations. Where financial penalties are recommended by the DWP the circumstances of each case is reviewed and advice is given to the Council to assist decision making.

Activity	Work completed or in progress
Fraud management	In 2016/17 a range of activity was undertaken to the support the Council's counter fraud framework. • A new counter fraud and corruption policy and associated counter fraud and corruption prosecution policy was introduced. The new policy covers all forms of fraud the Council encounters or may encounter in the future. • A counter fraud strategy covering 2017-19 was developed. The strategy confirms the Council's commitment to tackling fraud and corruption and sets out actions to strengthen the Council's arrangements, in line with recommended practice. • A new anti-money laundering policy was adopted which sets out the council's response to suspected money laundering offences. • A risk assessment considering the threat of fraud against the Council was completed in July. The assessment contained an action plan to help mitigate the risks identified. • As part of the National Fraud Initiative, Council forms were reviewed to ensure that residents and employees were notified of how their data might be used.

VERITAU

INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

1.0 Background

Ongoing quality assurance arrangements

Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards (specifically the Public Sector Internal Audit Standards). These arrangements include:

- the maintenance of a detailed audit procedures manual

- the requirement for all audit staff to conform to the Code of Ethics and Standards of Conduct Policy

- the requirement for all audit staff to complete annual declarations of interest

- detailed job descriptions and competency profiles for each internal audit post

- regular performance appraisals

- regular 1:2:1 meetings to monitor progress with audit engagements

- induction programmes, training plans and associated training activities

- the maintenance of training records and training evaluation procedures

- agreement of the objectives, scope and expected timescales for each audit engagement with the client before detailed work commences (audit specification)

- the results of all audit testing work documented using the company's automated working paper system (Galileo)

- file review by senior auditors and audit managers and sign-off of each stage of the audit process

- the ongoing investment in tools to support the effective performance of internal audit work (for example data interrogation software)

- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement

- performance against agreed quality targets monitored and reported to each client on a regular basis.

On an ongoing basis, a sample of completed audit files is also subject to internal peer review by a senior 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 audit managers).

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

Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self assessment checklist and obtain evidence to demonstrate conformance with the Code of Ethics and the Standards. As part of the annual appraisal process, each internal auditor is also required to assess their current skills and knowledge against the competency profile relevant for their role. Where necessary, further training or support will be provided to address any development needs.

The Head of Internal Audit is also a member of various professional networks and obtains information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes.

The results of the annual client survey, PSIAS self-assessment and professional networking are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans. The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board[4] 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 – 2017

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2017.   Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 149 surveys (2016 – 124) were issued to senior managers in client organisations. 32 surveys were returned representing a response rate of 21% (2016 - 33%). The surveys were sent using Survey Monkey and respondents were asked to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:
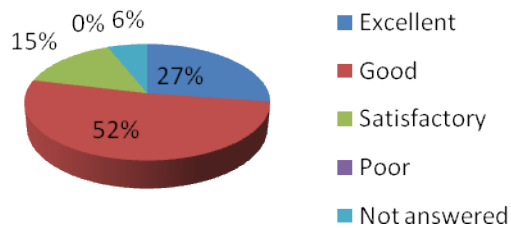-   Excellent (1)
-      Good (2)
-      Satisfactory (3)
-      Poor (4)

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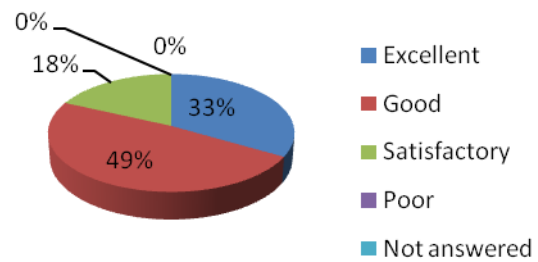

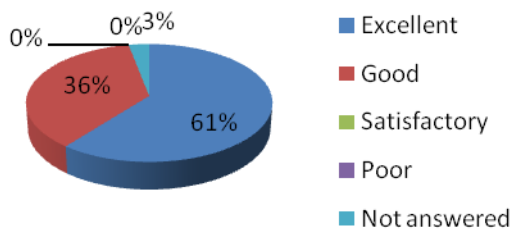[4] As defined by the relevant audit charter.
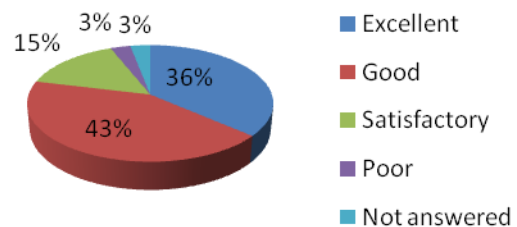
Quality of audit planning / overall coverage

- Excellent — 27%
- Good — 52%
- Satisfactory — 15%
- Poor — 0%
- Not answered — 6%

Provision of advice / guidance

- Excellent — 33%
- Good — 49%
- Satisfactory — 18%
- Poor — 0%
- Not answered — 0%

Staff - conduct / professionalism

- Excellent — 61%
- Good — 36%
- Satisfactory — 0%
- Poor — 0%
- Not answered — 3%

Ability to provide unbiased / objective opinions

- Excellent — 36%
- Good — 43%
- Satisfactory — 15%
- Poor — 3%
- Not answered — 3%

Ability to establish positive rapport with customers

- Excellent — 39%
- Good — 55%
- Satisfactory — 3%
- Poor — 0%
- Not answered — 3%
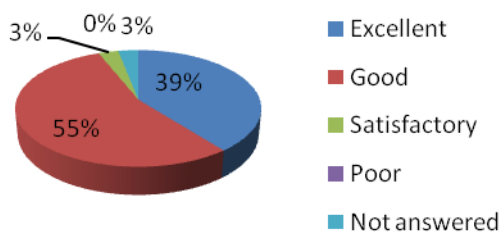
Knowledge of system / service being audited

- Excellent — 19%
- Good — 66%
- Satisfactory — 12%
- Poor — 3%
- Not answered — 0%
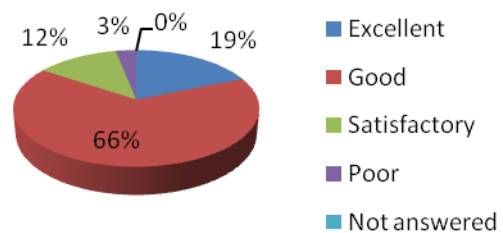
Ability to focus on areas of greatest risk

0% 6%
24%
21%
49%

- Excellent
- Good
- Satisfactory
- Poor
- Not answered
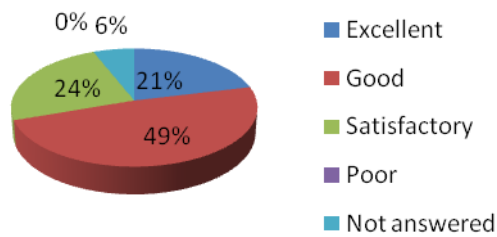
Agreeing scope / objectives of the audit

18% 0% 3%
33%
46%

- Excellent
- Good
- Satisfactory
- Poor
- Not answered
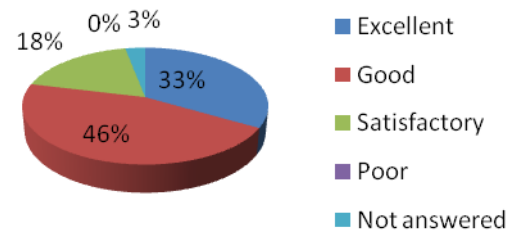
Minimising disruption to the service being audited

0%
18% 0%
39%
43%

- Excellent
- Good
- Satisfactory
- Poor
- Not answered
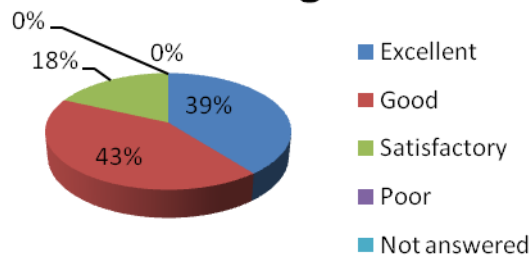
Communicating issues during the audit

3% 3%
30% 24%
40%

- Excellent
- Good
- Satisfactory
- Poor
- Not answered
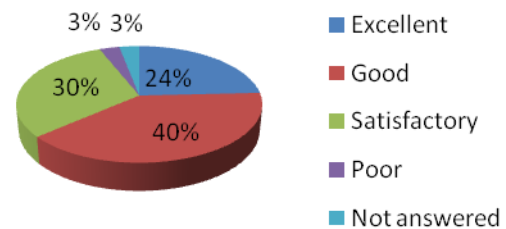
Quality of feedback at end of audit

18% 3% 3%
30%
46%

- Excellent
- Good
- Satisfactory
- Poor
- Not answered
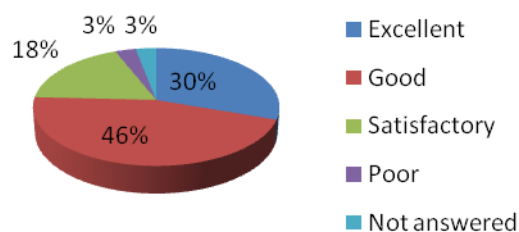
Accuracy / format / length / style of audit report

0% 6% 18%
27%
49%

- Excellent
- Good
- Satisfactory
- Poor
- Not answered
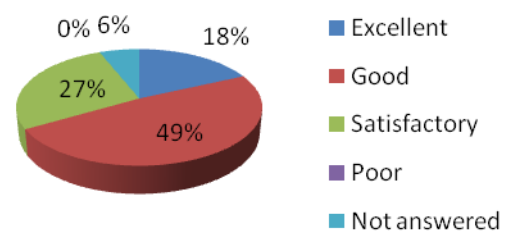
Relevance of audit opinions / conclusions

Excellent 27%
Good 49%
Satisfactory 18%
Poor 3%
Not answered 3%
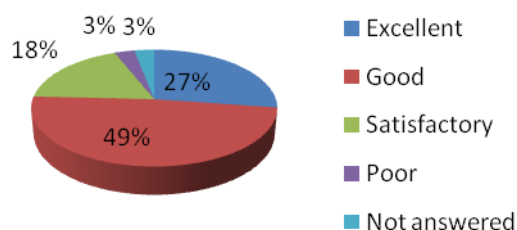
Agreed actions are constructive / practical

Excellent 21%
Good 58%
Satisfactory 18%
Poor 0%
Not answered 3%
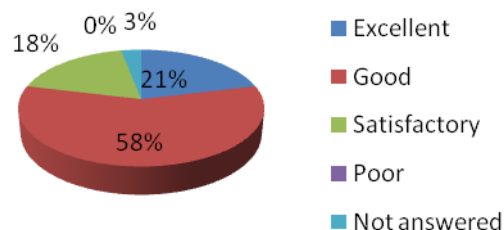
Overall rating for Internal Audit service

Excellent 33%
Good 58%
Satisfactory 6%
Poor 0%
Not answered 3%
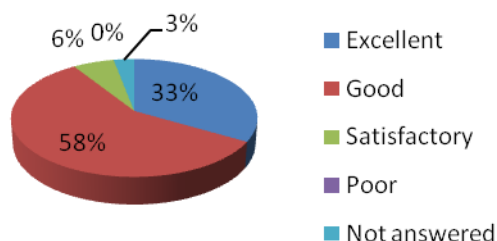
The overall ratings in 2017 were:

	2017		2016	
Excellent	11	34%	8	27%
Good	19	60%	19	63%
Satisfactory	2	6%	3	10%
Poor	0	0%	0	0%

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

3.0 Self Assessment Checklist – 2017

CIPFA prepared a detailed checklist to enable conformance with the PSIAS and the Local Government Application Note to be assessed. The checklist was originally completed in March 2014 but has since been reviewed and updated annually. Documentary evidence is provided where current working practices are considered to fully or partially conform to the standards.

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

The following areas of non-conformance remain unchanged from last year:

Conformance with Standard	Current Position
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.
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?	Reliance may be placed on other sources of assurances where this is considered relevant. However, the Head of Internal Audit will only rely on other sources of assurance if he/she is satisfied with the competency, objectivity and reliability of the assurance provider.

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) in April 2014. Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to a number of local authorities.

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 conclusion from the external assessment was that working practices conform to the required professional standards. Copies of the detailed assessment report were provided to client organisations and, where appropriate, reported to the relevant audit committee.

5.0 Improvement Action Plan

Last year's quality assurance process identified the following required improvements:

Change / improvement	Progress to date
The internal peer review highlighted the need for further training to be provided on sampling and testing.	Completed

No specific changes to working practices have been identified in 2017. However, to enhance the overall effectiveness of the service, the following areas are considered to be a priority in 2017/18:

- Further development of in-house technical IT audit expertise

- Implementation of the data analytics strategy (stage 1) and investment in new capabilities

- Improved work scheduling, clearer prioritisation of objectives for individual assignments to enable them to be managed within budget, and better communication and agreement with clients on timescales for completion of audit work.

6.0 Overall Conformance with PSIAS (Opinion of the Head of Internal Audit)

Based on the results of the quality assurance process I consider that the service generally conforms to the Public Sector Internal Audit Standards, including the *Code of Ethics* and the *Standards*.

The guidance suggests a scale of three ratings, 'generally conforms, 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. 'Partially conforms' means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit service from performing its responsibilities in an acceptable manner. 'Does not conform' means the deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit service from performing adequately in all or in significant areas of its responsibilities.