

RYEDALE  
DISTRICT  
COUNCIL



**Ryedale District Council**  
**Internal Audit Annual Report**  
**2017/18**

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

**Circulation List:** Members of the Overview and Scrutiny Committee  
Section 151 Officer

**Date:** 25 July 2018

  
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)<sup>1</sup> should provide an annual report to the board<sup>2</sup>. 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 2018 the council's internal audit service was provided by Veritau Limited.

## Internal audit carried out in 2017/18

- 3 During 2017/18, 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 provides assurance to the council 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.
  - **Technical / projects** – review of specific areas to help the council improve, covering procurement, information security and the transformation programme.
  - **General Advice and Support** – We provide regular advice and support to officers on a range of specific business and internal control issues. This work helps to provide 'real time' feedback on areas of importance to the Council.

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<sup>1</sup> The PSIAS refers to the Chief Audit Executive. This is taken to be the Head of Internal Audit.

<sup>2</sup> The PSIAS refers to the board. This is taken to be the Audit and Performance Review Committee.

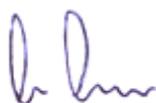
- **Follow up** - it is important that agreed actions are followed up to ensure that they have been implemented. Veritau follow up agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. Our work during the year included a review of progress made by management to address previously identified control weaknesses. In some areas (referred to in appendix 2) on risk management, creditors and payroll then some progress is still required to be made.
- 4 Appendix 1 provides a summary of the audit work carried out in the year, and the opinions given for each completed audit. 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 At the time of writing this report the Payroll report (issued in draft in April 2018) had not yet been finalised. Given the importance of the one finding we have included a summary of the work in Appendix 2. We agreed with officers to start/complete work on development management in 2018/19. That work is currently in progress.

## **Compliance with Professional Standards**

- 6 The work of internal audit has been undertaken in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 7 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 4.

## **Audit Opinion and Assurance Statement**

- 8 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.
- 9 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 Creditors (duplicate payments) Payroll (IR 35) and Risk Management. The council should consider whether it feels these three areas are required for inclusion in the council's Annual Governance Statement.



Max Thomas  
Director and Head of Internal Audit  
Veritau Ltd

25 July 2018

## Appendix 1

Audit	Status	Assurance Level	Audit Committee
<b>Strategic Risk Register</b>			
Business Continuity and Disaster Recovery	Final Report	Substantial Assurance	July 2018
HR Performance Management and Training	Cancelled	-	
Data Protection and Security – visit 1	Final Report	Reasonable Assurance	January 2018
Data Protection and Security – visit 2	Final Report	Substantial Assurance	April 2018
IT Information Security	Final Report	Reasonable Assurance	July 2018
Partnership Arrangements	Cancelled	-	
<b>Fundamental/Material Systems</b>			
Housing Benefits	Final Report	High Assurance	January 2018
Payroll	Draft Report	Reasonable Assurance	July 2018
Council Tax and NNDR	Final Report	High Assurance	January 2018
Sundry Debtors	Final Report	Limited Assurance	July 2018
Creditors	Final Report	Reasonable Assurance	July 2018
Strategic Income	Final Report	Reasonable Assurance	July 2018
General Ledger	Final Report	Substantial Assurance	July 2018
<b>Regularity Audits</b>			
Risk Management	Final Report	Limited Assurance	July 2018
Lettings Income	Final Report	High Assurance	April 2018
Taxi Licensing	Final Report	Reasonable Assurance	April 2018
Development Management	In progress		
<b>Technical/Project Audits</b>			
Transformation Programme	Completed	N/A	
Project and Programme Management	Cancelled	-	
Procurement/ Contract Management	Completed	N/A	
<b>Follow-Ups</b>	Completed	N/A	

## 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
Business Continuity and Disaster Recovery	Substantial Assurance	<p>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'.</p> <p>Business Continuity and Disaster Recovery was first covered in 2015/16. That work found no Business Continuity plans or Disaster Recovery plans in place. Work carried out in 2016/17 found some progress had been made</p> <p>Our work in 2017/18 reviewed the progress the Council has made in improving Business Continuity and Disaster Recovery arrangements in the last year.</p>	June 2018	<p><b>Strengths</b> Service business continuity plans are now in place. A draft corporate business continuity plan had been produced. These plans have been reviewed and approved by NYCC's Senior Resilience &amp; Emergencies Officer who works with the Council on Business Continuity.</p> <p>A Business Impact Analysis (BIA) and Incident Management Plan (IMP) have been carried out for each service area. They will be updated annually.</p> <p><b>Areas for improvement</b> The council has not carried out a full Disaster Recovery (DR) test since the Disaster Recovery arrangements with NYCC have been put in place.</p> <p>There are some discrepancies between recovery time objectives in the Business Impact Analysis and the Corporate Business Continuity Plan.</p> <p>If the Principal ICT officer is unavailable then per the DR Plan there are no assigned alternative officers who would carry out DR arrangements. This could potentially lead to delays in recovering the Council's network.</p>	<p>Work is ongoing to carry out full testing of the DR plan. This is depending on the availability of third party and NYCC support. The testing of the plan will then be regularly scheduled.</p> <p>Discrepancies in respect of recovery time will be amended.</p> <p>Discussions are due to take place on deputising within the IT team and overall resilience of the team.</p> <p>All actions are planned to be completed by the end of August 2018.</p>
IT Information Security	Reasonable Assurance	<p>The Council is becoming ever more reliant on ICT and there is a high level of inherent risk around network security.</p> <p>We reviewed arrangements on IT information security to ensure</p>	June 2018	<p><b>Strengths</b> Up-to-date policies and procedures are in place.</p> <p>Logical access controls exist to help ensure only authorised users have access to the network.</p>	<p>Notification of leavers will be sent from HR to the ICT team to enable the ICT team to update the active directory.</p> <p>Access controls to Civica will be updated when users no</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<p>that:</p> <ul style="list-style-type: none"> <li>network and application access controls ensure only authorised individuals have access to authority data</li> <li>Performance of the ICT provider (RazorBlue) is monitored to ensure the conditions set out in the contract are met.</li> <li>ICT assets are effectively managed.</li> </ul>		<p>We reviewed the access controls for four key Council systems. For three of the four systems we found no inappropriate access. No user still had access to a system that was no longer required following a change of roles.</p> <p>All service requests to RazorBlue had been completed.</p> <p><b>Areas for improvement</b> Three people who had left the authority in the last two years still had access to the network. Leaver notification paperwork had not been received by the ICT team to confirm those people had left and no longer required network access.</p> <p>Five people that had left the authority still had access to the Civica application. Access controls to Civica Financials were not being reviewed on a regular basis.</p> <p>The authority does not carry out regular stock checks of ICT assets.</p>	<p>longer need access to the system. There will also be periodic access control reviews of the system that will be documented.</p> <p>Stock checks will be carried out on an annual basis.</p> <p>All of these actions are planned to be completed by the end of August 2018.</p>
Payroll	Reasonable Assurance	<p>The work reviewed the arrangements in place to ensure the following.</p> <ul style="list-style-type: none"> <li>Payments are only made to valid employees at agreed rates of pay.</li> <li>The Council complied with their role and responsibilities under IR35 legislation. IR35 puts the onus on public sector bodies engaging with individuals who work through their own</li> </ul>	Draft Report April 2018	<p><b>Strengths</b> We reviewed a sample of officers whose salaries had changed following the transformation programme. All new salaries were accurate.</p> <p>13 officers left the authority between September 2017 and January 2018. In all cases pay was ended at the correct time and no overpayments were made.</p> <p>We reviewed the processes for approving and monitoring training. Appropriate paperwork and authorisation were in place for the most recent case.</p>	<p>At the time of preparing this committee report the improvement points resulting from the work on IR35 had not been finalised. We will continue to work with relevant officers to finalise these as soon as possible and will provide a verbal update to the committee.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<p>intermediary company to determine whether 'off payroll rules' apply.</p> <ul style="list-style-type: none"> <li>Processes for approving and monitoring in post training are fit for purpose.</li> </ul> <p>In previous years we have highlighted areas of weakness which were going to be addressed with employee self service. We did not follow these findings up as part of this work as we were aware the Council was planning to address these through changing the provision of payroll services in 2018/19.</p>		<p><b>Areas for improvement</b> The audit found one area of significant weakness which related to IR35. A formal process was not in place for assessing officer eligibility under IR35. There were no processes that would help highlight or identify future cases that could fall within the scope of IR35 rules.</p> <p>In 2017/18 three cases were identified that could potentially come within the scope of the new rules. However at the time of the audit in April 2018 only one case had been successfully resolved.</p>	
Sundry Debt Recovery Process	Limited Assurance	<p>We reviewed procedures and controls within the Debt recovery system to ensure that:</p> <ul style="list-style-type: none"> <li>Appropriate recovery action was taken when accounts are not paid within specific time scales</li> <li>Recovery guidelines are in place and being followed</li> <li>Performance data is being calculated and used to manage outstanding debts.</li> </ul>	May 2018	<p><b>Strengths</b> The "Sundry Income &amp; Debt Guidance Document" sets out procedures and responsibilities and had been updated to reflect the transformation changes.</p> <p>Aged debt reports are being produced and emailed directly each month to the service contact by the Civica system. We saw some services are being proactive in trying to collect the debts. Payment plans are sometimes made and as a last resort the service will be withdrawn.</p> <p><b>Areas for improvement</b> There is currently no procedure in place to deal with debts which are still outstanding after 60 days. No legal recovery action has taken place since October 2017.</p>	<p>Debt recovery is to be included in the legal services agreement currently being discussed with NYCC.</p> <p>Debts will be actively managed to comply with the 30 day policy. A report of accounts on hold will be produced quarterly and reviewed by the Senior Customer Service Officer (Business &amp; Democracy)</p> <p>Collection of monies due to the Council statistics will be monitored once the options for producing meaningful information within the resources available have been evaluated.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>Council policy is that accounts can only be put on hold for a maximum of 30 days, during which time the service must attempt to resolve the matter. However accounts put on hold are not monitored and are not being reviewed by an independent officer.</p> <p>Statistics are not currently being collected or monitored in respect of debt collection targets.</p> <p>The "Sundry Income &amp; Debt Guidance Document" needs to be updated again once a procedure for legal recovery has been agreed.</p>	<p>Once the new process has been determined following the shared service negotiations with NYCC then all relevant guidance will be updated.</p> <p>Timescales for these actions vary but all are expected to be completed by the end of 2018.</p>
Creditors	Reasonable Assurance	<p>We reviewed the creditor payments system procedures and controls to ensure that:</p> <ul style="list-style-type: none"> <li>• Suitable checks are in place to mitigate the risk of duplicate payments being processed and financial losses being incurred.</li> <li>• Goods and services have been procured in line with financial regulations thresholds</li> <li>• the contracts register has been improved.</li> </ul>	May 2018	<p><b>Strengths</b> The Contract Register is now held on a single working spreadsheet which is held in a shared location for ease of access. Responsible officers and leads have been assigned to each Contract and training has been provided to enable officers to update the register accurately.</p> <p><b>Areas for improvement</b> Controls on duplicate invoices were being overridden and duplicate payments have been made. We identified 10 duplicate payments made between April 2017 and February 2018 that had not been previously identified. The total value for these duplicate payments was £25,115.62.</p> <p>Some expenditure over Council financial regulation thresholds appears not to have been subject to the necessary tendering processes.</p> <p>Some creditors with an annual spend over £5,000 and £50,000 was not recorded on the authority's Contract Register.</p>	<p>Various steps were identified to address the serious issue of duplicate payments. Several have already been carried out. One requires Civica to update the finance system so an alert is sent if anyone overrides the control that is in place.</p> <p>All but £5.94 of the duplicate payments have been recovered.</p> <p>Work is ongoing to identify contracts and Service Level Agreements at the authority. Data from this audit is being used to facilitate this.</p> <p>Notifications of changes to supplier bank account details will be retained electronically.</p> <p>Customer Service Officers will advise staff a new supplier form needs to be completed in</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>Requests to amend supplier details received by the Customer Service Team are not retained once the change has been processed.</p> <p>New Suppliers Forms are not being utilised in all instances of suppliers being set up on the Creditors system.</p>	<p>all cases. Forms will be retained electronically and monitored to ensure they are completed to a high standard.</p> <p>Those actions currently outstanding are expected to be completed by the end of 2018.</p>
Strategic Income and Charging	Reasonable Assurance	<p>We reviewed the procedures in respects of the strategic management of income and charges to ascertain whether the Council:</p> <ul style="list-style-type: none"> <li>• undertakes regular reviews of their approaches to charging, both within service areas and across the whole council, and</li> <li>• has an effective strategy in place, clearly outlining the Councils objectives for income for the present and future.</li> </ul>	June 2018	<p><b>Strengths</b></p> <p>Fees &amp; Charges raised by service areas are reviewed annually as part of the budget process.</p> <p>The Council's Financial Strategy and the Commercialisation and Income Generation Policy highlight the need to review and improve income generation.</p> <p>The financial strategy states the council will need to use income through charging to support the delivery of its agreed priorities.</p> <p>There ongoing projects planning to use the review framework developed from the Ryecare review.</p> <p><b>Areas for improvement</b></p> <p>The Commercialisation and Income Generation Policy is high-level and does not include any objectives or timescales.</p> <p>The policy mainly consists of the eight key ways the council should look to develop business opportunities and optimise income. It is not supported by any other guidance so little support is available to officers to carry out these tasks in a consistent way.</p> <p>We found that whilst officers could discuss ongoing projects and new income ventures, there was limited evidence to support these discussions.</p>	<p>There will be a supporting strategy/ guidance document for the Commercialisation and Income Generation Policy. This extra information will aim to support officers in applying the policy.</p> <p>The document will outline when each service area will be reviewed. Quantifiable objectives by service area will be identified as part of that review process. It is planned to be completed by the end of October 2018.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
General Ledger	Substantial Assurance	<p>At the time of planning the audit then the consolidated bank reconciliation had a small discrepancy. There have also been some concerns with completion of control and suspense accounts.</p> <p>This audit reviewed each of these three areas.</p>	July 2018	<p><b>Strengths</b> The Drawings account has been satisfactorily reconciled at least monthly. The only minor weakness was the first reconciliation of 2017/18 being done 6 weeks into the year.</p> <p>The Creditors and Debtors Control accounts are each reviewed and balanced on a daily basis. Any discrepancies, usually as a result of timing differences were being resolved and reconciled.</p> <p>The VAT account is reconciled monthly on a cumulative basis in order to produce the data for the VAT return. The suspense account is well-managed. Entries are regularly investigated and cleared.</p> <p><b>Areas for improvement</b> Following the T2020 reorganisation new people had responsibility for completing bank reconciliations. Officers in the Business and Democracy team completing the Consolidated Bank Reconciliation (CBR) were relatively inexperienced. Consequently at the time of the audit they had not been able to fully reconcile the general ledger to the bank in 2017/18.</p> <p>We understand this is in part due to a lack of understanding and training. The current layout of the CBR is also felt to be complicated and confusing.</p> <p>The position at the time of audit review was that the difference is now relatively small (at £30). Whilst not ideal, the position is an improvement from earlier on in the 2017/18 year.</p>	<p>As part of completing the 2017/18 financial accounts (and after the audit fieldwork was completed) then the bank account for year end was fully reconciled. So there is no longer a £30 difference.</p> <p>We recognise there has been a learning curve for new officers during the year, and as necessary further training will be undertaken.</p> <p>Consideration will also be given to revising the layout of the reconciliation sheet which has been causing some confusion.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Risk Management	Limited Assurance	<p>The management of risk is a key part of the Council's governance framework. Our work reviewed whether:</p> <ul style="list-style-type: none"> <li>• risk management is embedded within the authority</li> <li>• a consistent risk management methodology is being applied authority wide</li> <li>• there is an effective system for recording, monitoring and reporting of the authority's risks at corporate and service level</li> <li>• risk management processes facilitate the effective management of identified risks.</li> </ul>	July 2018	<p><b>Strengths</b> Over the last 12 months a significant amount of work has been undertaken corporately to embed risk management. The corporate risk register has been reviewed and rationalised. Corporate risks are now considered each month by Management Team.</p> <p>The Risk Management Strategy updated in July 2017 expresses a commitment to aligning risk management arrangements with its core processes. The risk appetite statement has also been strengthened.</p> <p>Leadership Team officers are knowledgeable on risk management and understand responsibilities within the risk management framework.</p> <p><b>Areas for Improvement</b> Responsibility for risk management training has been omitted from the Risk Management Strategy. Officer risk management awareness training has not been delivered (and at the time of the audit was not planned).</p> <p>The Risk Management Strategy does not specify a review frequency for its corporate risks; only that they will be reviewed 'periodically' by Leadership Team. The Strategy also does not specify how this review is to be undertaken and evidenced.</p> <p>Not all the Council's corporate risks scored as medium or high had an associated action plan as required by the Strategy. For those risks that had an action plan it was not possible to determine the progress made or the extent to which actions had been kept under review as there was a lack of information on the risk management system.</p>	<p>Management have agreed a comprehensive action plan for all eight recommendations and put in place arrangements to ensure these are fully addressed.</p> <p>Veritau's qualified Risk Management specialists are supporting the Council in making the necessary improvements. Detailed work is already underway</p> <p>The majority of these findings are planned to be completed by September 2018.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>At the service level risk registers have not been aligned to the current service structure and have not been updated for 24 months on average.</p> <p>The evidence of Management Team review of corporate risks needs to be better recorded on the risk management system.</p> <p>There is not adequate guidance on implementation of the risk management process.</p> <p>Overall, there is an absence of evidence that risks arising from the Council's significant partnerships are being managed effectively.</p>	

### Audit Opinions and Priorities for Actions

#### Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

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

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable (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.

## 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 and other associated 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, samples of completed audit files are also subject to internal peer review by a senior audit manager to confirm quality standards are being maintained. Any key learning points are shared with the relevant internal auditors and audit managers. The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken (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<sup>3</sup> as part of the annual report of the Head of Internal Audit.

## External assessment

At least once every five years, arrangements must be made to subject internal audit working practices to external assessment to ensure the continued application of professional standards. The assessment should be conducted by an independent and suitably qualified person or organisation and the results reported to the Head of Internal Audit. The outcome of the external assessment also forms part of the overall reporting process to each client (as set out above). Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year.

## **2.0 Customer Satisfaction Survey – 2018**

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2018. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 159 surveys (2017 – 149) were issued to senior managers in client organisations. 22 surveys were returned representing a response rate of 14% (2017 - 21%). 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:

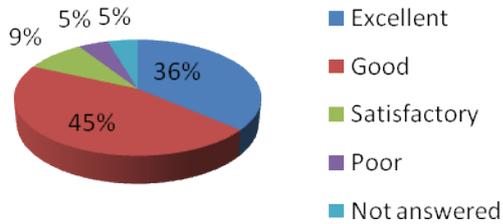
- Excellent (1)
- Good (2)
- Satisfactory (3)
- Poor (4)

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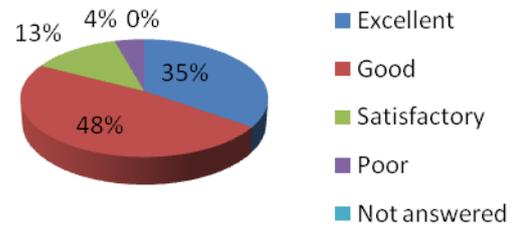
<sup>3</sup> As defined by the relevant audit charter.

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

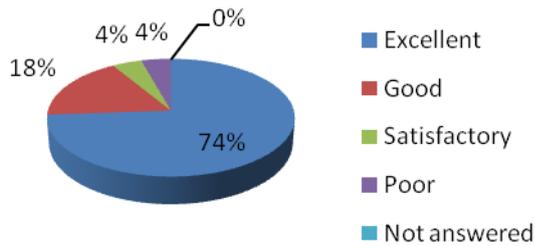
### Quality of audit planning / overall coverage



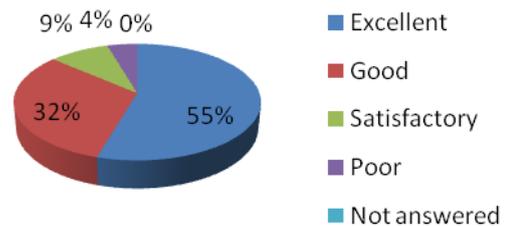
### Provision of advice / guidance



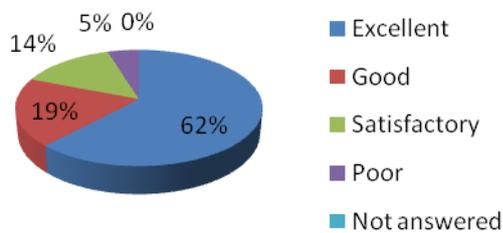
### Staff - conduct / professionalism



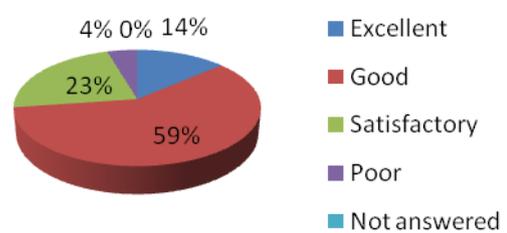
### Ability to provide unbiased / objective opinions



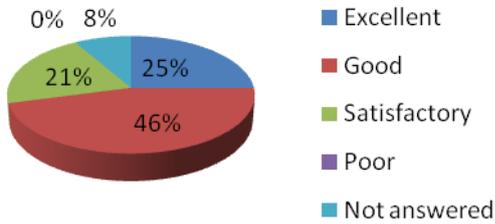
### Ability to establish positive rapport with customers



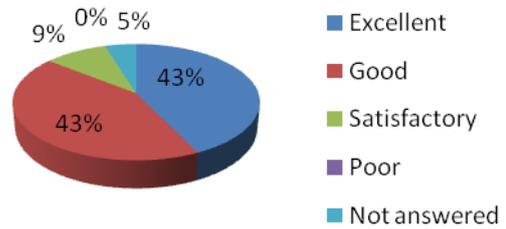
### Knowledge of system / service being audited



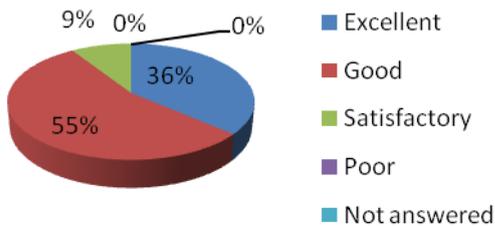
### Ability to focus on areas of greatest risk



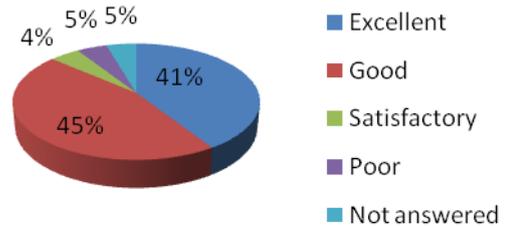
### Agreeing scope / objectives of the audit



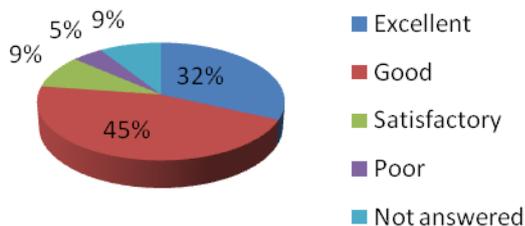
### Minimising disruption to the service being audited



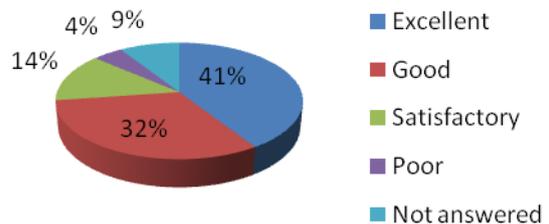
### Communicating issues during the audit



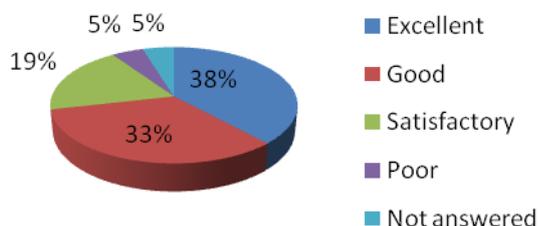
### Quality of feedback at end of audit



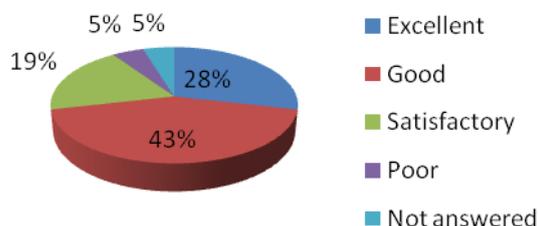
### Accuracy / format / length / style of audit report



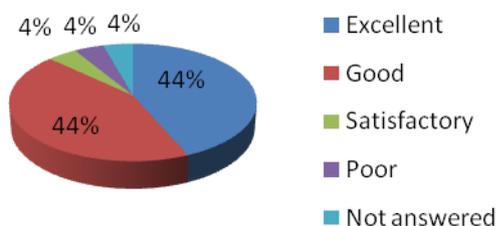
## Relevance of audit opinions / conclusions



## Agreed actions are constructive / practical



## Overall rating for Internal Audit service



The overall ratings in 2018 were:

	2018		2017	
Excellent	10	45%	11	27%
Good	10	45%	19	63%
Satisfactory	1	5%	2	10%
Poor	1	5%	0	0%

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

### 3.0 Self Assessment Checklist – 2018

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.

The current working practices are generally considered to be at standard. However, a few areas of non-conformance have been identified. These areas are mostly as a result of Veritau being a shared service delivering internal audit to a number of clients as well as providing other related governance services. None of the issues identified are considered to be significant and 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:

<b><u>Conformance with Standard</u></b>	<b><u>Current Position</u></b>
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**

No specific changes to working practices have been identified in 2018. However, to enhance the overall effectiveness of the service, the following areas continue to be a priority in 2018/19:

- 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 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.