Ryedale District Council

Internal Audit Annual Report 2019/20

Assistant Director – Audit Assurance: Stuart Cutts
Head of Internal Audit: Max Thomas

Date: 22 October 2020

Background

1   The work of internal audit is governed by the Accounts and Audit Regulations 2015, relevant professional standards and the District Council's Internal Audit Charter. The applicable standards for local government are the Public Sector Internal Audit Standards (PSIAS). These comply with the international standards issued by the global Institute of Internal Auditors (IIA).

2   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.

Internal audit carried out in 2019/20

3   During 2019/20, 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 work helps to provides assurance to the Authority that the risk of financial loss and error is minimised.

- **Operational Systems and Risk Management** – providing assurance on operational systems and systems to manage risks to the achievement of corporate objectives.

- **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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[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 of previous findings** – it is important that agreed actions are followed up to ensure that they have been implemented. Veritau follows up agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. Good progress has continued to be made by management to address control issues identified through audit work. In May 2019, we highlighted some areas for improvement to ensure compliance with the Transparency Code. This was included as an action in the 2018/19 Annual Governance Statement. It is expected that the findings from this audit will be fully addressed during 2020/21. A Corporate Governance Team has now been established and an officer from this team will be appointed to oversee compliance with the Code. Progress will also be monitored by the Head of Corporate Governance and the s151 Officer.

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 ratings used by Veritau during 2019/20 are detailed in **Appendix 3**.

Compliance with Professional Standards

5   Veritau maintains a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. As well as undertaking an annual survey of senior management in each client organisation and completing a detailed self-assessment to evaluate performance against the Standards, the service is also subject to a periodic external assessment. As previously reported to the Committee, an external assessment of Veritau internal audit working practices was undertaken in November 2018 by the South West Audit Partnership (SWAP). SWAP is a not for profit public services company operating primarily in the southwest of England. The assessment concluded that Veritau's internal audit activity generally conforms to the PSIAS[3] and, overall, the findings were very positive.

6   The outcome of the QAIP demonstrates that the service conforms to Public Sector Internal Audit Standards, including the *Code of Ethics* and the *Standards*. Further details of the QAIP and an Improvement Action Plan prepared by Veritau are given in **Appendix 4**.

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[3] PSIAS guidance suggests a scale of three ratings, 'generally conforms, 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

2019/20 Audit Opinion and Assurance Statement

7   The overall opinion of the Head of Internal Audit on the framework of governance, risk management, and control operating in the Council is that it provides **Reasonable Assurance**. In giving this opinion we recognise that the Council has made good progress in the last few years to improve its overall governance arrangements. This has included:

- agreeing a new Council Plan
- improving budget management and medium term financial planning processes with quarterly reporting to all members
- implementing a new Corporate Governance service structure
- improving service planning and monitoring
- adopting a new risk management strategy and updated corporate risk register
- introducing new or updated policy frameworks in key areas
- developing a new corporate programme and project management structure
- developing a new ICT strategy
- addressing issues related to historic allegations of bullying
- improving the approach to organisational development, including a new People and Culture Plan, internal communications and engagement and the roll out of a comprehensive approach to training, learning, development and individual performance management
- completing a root and branch review of pay, terms and conditions, job evaluation and concluding a new collective agreement
- increasing capacity to deliver statutory and policy obligations including in legal, finance, HR, procurement, and health and safety.

We will review these areas as part of future audit work, and provide assurance to management that the changes are fully embedded and operating effectively.

8   No reliance was placed on the work of other assurance bodies in reaching this opinion. This opinion is, however, qualified in light of the current coronavirus pandemic and its impact on the Council. The opinion is based on internal audit work undertaken, and substantially completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short term measures or the overall impact on the framework of governance, risk management and control.

9   There are no significant control issues to recommend for possible inclusion in the 2019/20 Annual Governance Statement.

Other Matters

Supporting on Covid-19 risks

10   Veritau set up a Covid-19 Response Team to provide timely advice and support to our member councils to help manage the fraud risks and other challenges caused by the pandemic. A specific Covid-19 fraud risk assessment was completed for the

Council with targeted actions to reduce the emerging fraud risks. We are working closely with officers during 2020/21 and providing guidance and support (including individual case review) to help manage the emerging risks linked to the pandemic.

Max Thomas
Director and Head of Internal Audit
Veritau Ltd

22 October 2020

Area	Status	Assurance Level	Audit Committee
Strategic Risks			
Human Resources	Final report	Reasonable Assurance	October 2020
Data Quality – Health and Safety	Cancelled	-	-
Revenue and Capital Budgeting	Final report	Substantial Assurance	October 2020
Data Protection and Information Security visit	Final report	Substantial Assurance	January 2020
ICT – contract management	Final report	Substantial Assurance	October 2020
Contract Management and Procurement	Final report	Substantial Assurance	October 2020
Financial System Audits			
Payroll and Personnel	Final report	Reasonable Assurance	July 2020
Creditors	Final report	Reasonable Assurance	October 2020
Sundry Debtors	Final report	Substantial Assurance	October 2020
Operational Audits			
Risk Management	Final report	Reasonable Assurance	October 2020
Policy Framework	In progress	-	-
Relationships and agreements with other bodies	In progress	-	-
Projects / other work			
Assurance Mapping	Completed		
2018/19 audits			
Safeguarding	Final report	Limited Assurance	October 2020

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

System/Area	Opinion	Area Reviewed	Date Final Report Issued	Comments	Management Actions Agreed & Follow-Up
Human Resources (HR)	Reasonable Assurance	Since August 2018, Ryedale District Council's (RDC) Payroll & Human Resources (HR) services have been provided by North Yorkshire County Council (NYCC) as part of collaborative working arrangements. We reviewed the procedures and controls in place which ensure that: • HR policies and procedures are being reviewed and updated appropriately • managers are using suitable records management techniques • there is an appropriate, timely and secure flow of information between NYCC and RDC.	July 2020	**Strengths** All HR policies are now in the process of being reviewed. HR policy will become a standing item on the forward plan with a view to presenting revised policies to Policy and Resources Committee on a regular basis. For all updated policies and procedures a document control has been introduced to track revisions. All policies and procedures are due to be placed on a rolling review basis, to ensure all have a set review date. There are appropriate, timely and secure flows of information between NYCC and RDC. **Key areas for improvement** Key HR tasks such as sickness, annual leave and appraisals are recorded, monitored and managed using inconsistent and manual methods. Managers are still not storing HR documentation in a consistent and secure manner. This may result in HR documentation not being able to be traced and the Council may not be compliant with GDPR legislation. The current organisational structure is not reflected in the HR system and this prevents functionality within the system being used effectively by managers.	A new performance management system is due to be launched Autumn 2020 called Immerse Works. This has been purchased and is currently at the trialling stage. The system can do more than appraisals. However the contract is only for 12 months so current HR and document management practices will not be changed until a wider corporate decision is taken on this system. More managers are now using MyView (the HR system) to record sickness absence but it is still not fully utilised. Training for managers on many HR processes will be covered in a programme of events due to take place in Quarter 3 & Quarter 4 of 2020. Annual leave is now booked through MyView. This commenced in April 2020 when new pay and allowances were introduced.
Revenue and Capital Budgeting	Substantial Assurance	A review of procedures and controls to ensure that:	August 2020	**Strengths** Since the introduction of the joint finance working arrangements with NYCC there has been an improvement in the quality and relevance of	Budget manager finance training has been delayed for a number of reasons, but the requirements will

System/Area	Opinion	Area Reviewed	Date Final Report Issued	Comments	Management Actions Agreed & Follow-Up
		• improvements to address the 2018/19 audit findings had been made and are embedded into Council processes and controls, resulting in the revenue budget setting, monitoring and reporting being robust • there was an approved capital programme which was being regularly monitored and progress was being reported to members in accordance with the financial strategy.		budget monitoring information. Accurate monitoring reports are now being issued every month to budget managers, who are expected to review them and provide explanations for actual or expected budget variances to finance on a quarterly basis. The monitoring reports are used to provide information to members in reports presented to P&R. The capital programme is approved by Full Council as part of the Financial Strategy and there is a named officer responsible for each scheme. **Key areas for improvement** Finance are not always kept informed about proposed staffing and structural changes, so are unable to calculate any cost implications. Budget managers have not received financial training and some do not feel competent using the financial system to oversee their areas of budgetary responsibility.	be reviewed and the training delivered during 2020/21.
ICT Contract Management	Substantial Assurance	A review of procedures and controls to ensure that: • there are clear roles and responsibilities in place for managing ICT systems and service contracts • contract management processes and procedures deliver value for money • the performance of ICT contracts are monitored	September 2019	**Strengths** Overall, there was no concern with supplier performance for the contracts reviewed. Contract managers formally discuss performance issues with the suppliers on an annual basis. Sufficient and appropriate levels of licenses were being purchased, and monitored. **Key areas for improvement** Some contracts for systems we reviewed had been rolled forward for a number of years without going through a re-tender process. When these were extended, contracts were not fully and appropriately updated so now have some omissions when compared to best practice. For	All ICT systems and services that are delivered by third party organisations will have a contract in place clearly setting out the roles of the supplier and will facilitate performance management of the supplier. The contract will be updated if there are changes to the service provided by the supplier. The performance of third party suppliers will be formally reviewed each year and the review will be documented. Input from the service department and ICT team

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				example where sensitive data is stored the contracts need to be updated to ensure data protection contract variations are included. Contract managers formally discuss performance issues with the suppliers on an annual basis. However, these conversations are not documented. It is recommended that formal records of the discussions be kept so that any arising issues with the performance of suppliers are recorded.	will be included in the review and it will be signed off by appropriate members of the senior management team.
Contract Management – Contracts Register	Substantial Assurance	A review of procedures and controls to ensure that: • the contracts register accurately records details of all services which should be provided using a formal contract • the agreed actions from our audit of RDC's contract register in 2016 have been implemented, and the action plan presented to RDC's Strategic Management Board (SMB) in March 2019 is being implemented in accordance with the agreed timescales.	July 2020	**Strengths** Ryedale DC has documented procedures to ensure all relevant procurements have been included within the contracts register, which include details of how and when the contracts register should be updated. The vast majority of expenditure reviewed had been included in the register. **Key areas for improvement** A small number of contracts (three) had not been included in the register that should have been. We found two actions had not been implemented from our previous work. These were included, amongst others, in a procurement and contract management action plan presented to RDC's SMB in March 2019. At the time of our audit seven recommendations within that contract management action plan had yet to be implemented.	The new procurement service, led by NYCC but overseen by the Head of Corporate Governance, will draw up a revised contracts register which will also link to a forward procurement plan. Guidance will be agreed to ensure that all relevant entries are made to these two documents. The new service will also look at the lessons arising from this audit and any outstanding actions from previous audits and will ensure that any relevant remedial actions are taken. These will feed through into the corporate governance service plan as appropriate.
Payroll and personnel	Reasonable Assurance	The Council's payroll services have been provided by NYCC since August 2018.	July 2020	**Strengths** The majority of findings raised in the previous audit have either been fully addressed or work is	Once the establishment is confirmed by SMB the pay run can be established and

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		Our work reviewed the adequacy of procedures and the strength and controls in place for managing the Council's payroll. Specifically, it sought to ensure that: • actions raised in the 2018/19 audit have been appropriately addressed • current Payroll procedures and controls are robust and reliable • processes are in place to ensure the new pay structure is implemented accurately.		ongoing to progress the necessary actions. A pay and allowances restructure has been completed and appropriate checks for the implementation of the new structure were found to be in place. Contracts have been addressed as part of the pay review and a revised template for RDC contracts is in place. Sufficient checks on pay run data were found to be carried out by ESS each month via a number of error and exception reports. Any unusual cases highlighted on these reports are reviewed and checked using evidence of changes processed by ESS. Appropriate segregation of duties in the payroll process was found to be in place. **Key areas for improvement** Improvements to address control weaknesses in the monthly pay run process have not yet been completed. The process for checking the monthly pay run internally at RDC cannot effectively identify errors or issues in payroll data. A number of reports are sent to RDC finance staff for review but no exception reports are received. RDC officers do not have access to HR information to confirm the validity of changes made. Only a sense check can be completed to identify any significant variances which are then queried with ESS. Therefore, there is minimal benefit to these checks as issues cannot be effectively identified or checked adequately. Authorisation of the pay run from RDC is required before the pay run can be processed but as minimal checks are carried out at RDC this authorisation cannot provide adequate assurance that the pay run is valid and correct.	appropriate exception reporting developed. Any queries on exceptions will be discussed with NYCC HR and ESS. Overall responsibility for authorisation will remain with the Programme Director for Economic Development as the officer with overall responsibility for the payroll.

System/Area	Opinion	Area Reviewed	Date Final Report Issued	Comments	Management Actions Agreed & Follow-Up
Creditors	Reasonable Assurance	A review of procedures and controls to ensure that: • effective checks are in place to prevent duplicate payments being processed • invoices are only paid if supported by an official purchase order • credit cards are used in accordance with policy • actions from the 2018-19 audit have been addressed.	July 2020	**Strengths** The 2018/19 Creditors audit report included two agreed actions relating to the verification of changes to suppliers details and a delay in goods receipting, leading to late payments. These actions have been implemented in accordance with the timescales included within the previous audit report. **Key areas for improvement** We highlighted four duplicate invoice payments totalling £24,238 which had not been prevented by Council controls. The creditors system automatically highlights the potential of a duplicate payment but in each case this control had been manually overridden. Monies are being recovered via credit notes with suppliers. There is an agreement signed by each senior officer and a representative of the Council which states the terms of credit card use. However, this is a single sided document, which lacks the detail of a formal policy. Our review of a sample of 20 credit card transactions saw 6 were not supported by receipts. Of the 14 that were, only 4 of these transactions were in line with the terms and conditions of use that spend should relate to travel and subsistence only.	Additional support and training will be provided to staff who are overriding the control and a procedure document will be drawn up outlining actions required when the system flags up a potential duplicate payment. Management will continue with current procurement and purchasing training to ensure that managers are aware of how the process should operate and will also consider the practicalities of whether a contract reference would be useful. Current guidance will be reviewed as to whether a more detailed policy on credit card use is required.
Sundry Debtors	Substantial Assurance	A review of procedures and controls to ensure that: • debt recovery arrangements are appropriate and applied consistently	July 2020	**Strengths** Debt recovery processes were found to be appropriate and applied consistently. Accounts can only be put on hold if requested by the service contact, and for a maximum of 30 days, after which the normal recovery process resumes.	The sundry income and debt guidance will be reviewed and updated as appropriate. As part of the new Council Plan and/or Joint Finance Team Service Plan, effective and

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		• appropriate actions are taken when accounts are not paid within specific time scales • issues raised in the previous Sundry Debtors audit from 2018 had been addressed.		Customers are encouraged to pay for services in advance and supporting processes are in place to encourage timely payments for services. **Key areas for improvement** Sundry income and debt guidance has not been updated since May 2014 and includes a process for referring debts to legal services which no longer takes place (aged debts are now sent to a collection agency). Statistics are not currently being calculated or monitored in respect of debt collection targets. There is no Key Performance Indicator (KPI) in place to monitor compliance with collection rates. There is inconsistency across service areas in chasing debts, partly because of the nature of the services but also partly due to staffing issues.	meaningful performance indicators will be established.
Risk Management	Reasonable Assurance	A review of procedures and controls to ensure that: • service risk registers are up to date • effective mitigating actions are included in the service risk registers • risk reduction and mitigation is evident within the service risk registers • actions are up to date and monitored.	July 2020	**Strengths** Risk management guidance has been developed and improved since the previous audit to reflect new ways of working and updated reporting arrangements. Service risk registers are reported to senior management on a quarterly basis. The Council is in the process of embedding a new approach to risk management, including the way risks are scored and treated. **Key areas for improvement** There are areas of the risk management guidance that could be developed to further improve service level risk management. There was a lack of understanding of risk scoring and the framework itself when service managers were interviewed.	SMB will review the detailed risk management guidance and reissue it. This states where and when information is reported and respective responsibilities. The issues set out in this audit will form part of a review paper to take to SMB by September and SMB will consider ways to ensure that service managers understand it and that communication works. The corporate risk Register has been updated but service risk registers will be checked initially and then reviewed on an ongoing

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				Not all risk registers were complete and up to date. In addition, some action plans do not contain timescales and identification of responsible officers is incomplete. Service managers were not always confident in risk reduction methods or when scoring their risks. A consequence of this is that risk managers have not been amending risk scores through time or as a result of the completion of effective mitigating actions. Managers felt there was limited guidance available to them.	basis. As part of the review of service risk registers, assurance will be sought about action plans and progress. Further training and assistance from Veritau is planned for 2020/21.
Safeguarding	Limited Assurance	A review of procedures and controls to ensure the following. • Responsibilities are clearly defined within the Council. Accessible and up to date safeguarding policies and procedures exist and these are supported by other key policies such as the whistleblowing policy. • All employees, elected members and others associated with the delivery of Council services are aware of the safeguarding policy and procedure and receive appropriate training. • Safeguarding controls are included within recruitment and human resources	October 2020	**Strengths** The Safeguarding Policy, available via the intranet, is extensive and, on the whole, responsibilities for safeguarding within the Council are clearly defined. There is useful guidance on the intranet available to managers to help ensure safeguarding is included within the induction process. All except one from a sample of recent new starters had been made aware of the safeguarding policy and had undertaken eLearning training or attended an in-house safeguarding training session. **Key areas for improvement** Procedures in place and records kept are not adequate to provide assurance that all members of staff and elected members have attended safeguarding training.	Since the fieldwork for this audit was completed, responsibility for safeguarding has been assigned to the Head of Customer Services and Communities. A range of actions, aimed at addressing the key risks, have been undertaken in response to the audit. Work is still underway in some areas and the related actions will be followed up in December 2020 when these become due.

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		procedures. These controls include appropriate DBS checking, codes of conduct, contracts of employment and the induction process. • Access to unauthorised websites in the workplace is monitored and prevented. • Policies and procedures are applied to ensure the Council is fulfilling its responsibilities. Also discussions were held with a sample of recent new starters to establish the awareness of, and the extent to which, safeguarding had been covered during the induction process. Some additional work was also undertaken in relation to Ryecare.		The safeguarding policy requires that services contracted from third party organisations have appropriate safeguarding policies and procedures in place commensurate with their level of contact with children, young people and adults at risk. These requirements are not currently built into contracts. The policy itself needs to be updated as two contacts named within it left the Council in 2018. There is not an approved DBS policy, nor is there an agreed list of posts for which a DBS check is required. The officer code of conduct, dated 2010, needs updating. It does not require employees to report arrest, charges, convictions or other misdemeanours immediately to the Council. There is an area in the staff handbook which instructs staff of the need to inform business improvement of changes to personal information which includes criminal charge, caution or conviction but business improvement ceased to exist at the April 2017 restructure. Other related areas of the staff handbook need to be more widely reviewed as various links no longer work. The Whistleblowing Policy, last updated in 2005, contains references which are out of date. Those who access the Council's systems are not regularly reminded about the requirements of the Council's internet usage policy. There is a lack of formal standby arrangements in Ryecare for dealing with equipment failures that occur outside of office hours, a lack of formal guidance about prioritising equipment repairs and	

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				an issue with equipment testing and battery replacement not being completed within the prescribed timescales.	

Audit Opinions and Priorities for Actions 2019/20

Audit Opinions	
Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.	
Our overall audit opinion is based on 5 grades of opinion, as set out below.	
Opinion	**Assessment of internal control**
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

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

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

- attendance on relevant courses and access to e-learning material

- the maintenance of training records and training evaluation procedures

- membership of professional networks

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

- the results of all audit testing and other associated work documented using the company's automated working paper system (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

- regular client liaison meetings to discuss progress, share information and evaluate performance

On an ongoing basis, samples of completed audit files are also subject to internal peer review by a Quality Assurance group. The review process is designed to ensure audit work is completed consistently and to the required quality standards. The work of the Quality Assurance group is overseen by a senior audit manager. 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[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 – 2020

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2020.   Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 136 surveys (2019 – 171) were issued to senior managers in client organisations. 15 completed surveys were returned representing a response rate of 11% (2019 - 12%).

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[4] As defined by the relevant audit charter.

The surveys were sent using Survey Monkey and the respondents were required to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:

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

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

## Quality of audit planning / overall coverage

Excellent 27%
Good 53%
Satisfactory 6%
Poor 7%
Not answered 7%
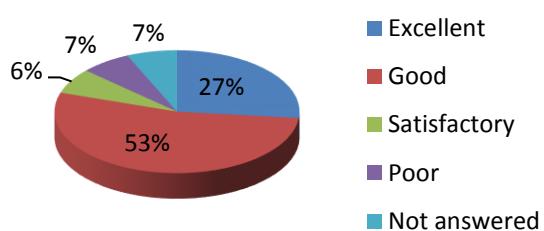
Provision of advice / guidance

Excellent 13%
Good 73%
Satisfactory 7%
Poor 0%
Not answered 7%
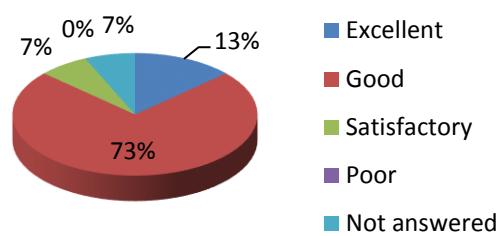
Staff - conduct / professionalism

Excellent 67%
Good 20%
Satisfactory 13%
Poor 0%
Not answered 0%
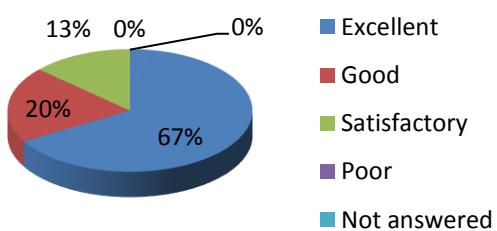
Ability to establish positive rapport with customers

Excellent 53%
Good 33%
Satisfactory 7%
Poor 7%
Not answered 0%
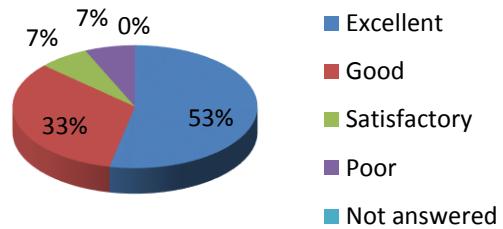
Knowledge of system / service being audited

7% 0%
6%
20%
67%

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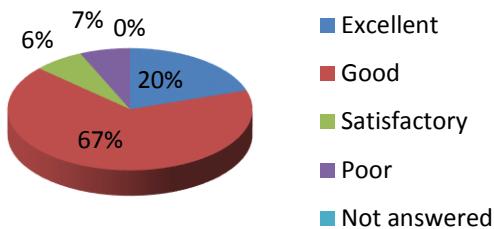
Minimising disruption to the service being audited

0% 13%
7%
33%
47%

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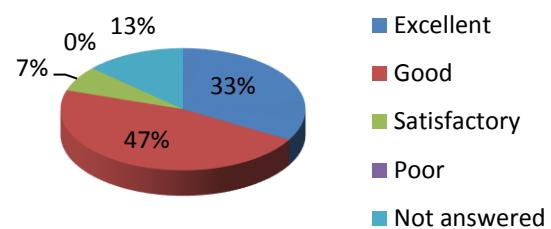
Communicating issues during the audit

13% 0% 0%
27%
60%

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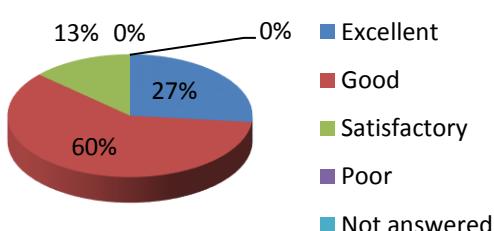
Quality of feedback at end of audit

0% 13%
7%
33%
47%

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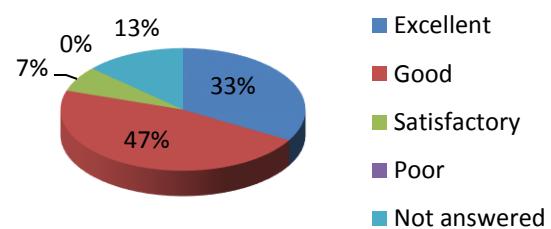
Accuracy / format / length / style of audit report

0% 7%
20%
27%
46%

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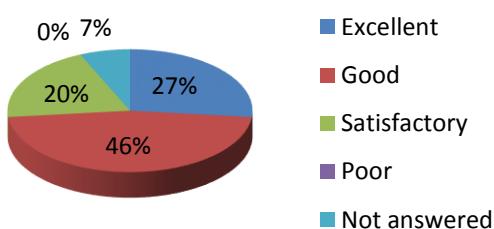
Relevance of audit opinions / conclusions

0% 13%
13%
20%
54%

- Excellent
- Good
- Satisfactory
- Poor
- Not answered
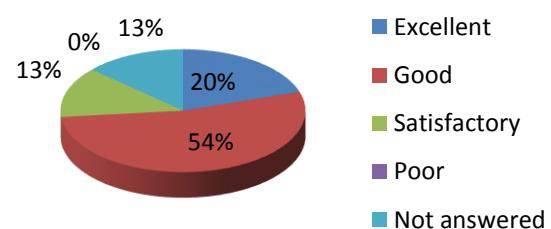
Overall rating for Internal Audit service
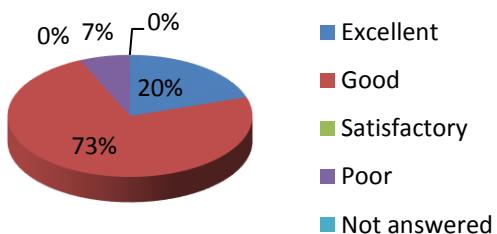
The overall ratings in 2020 were:

	2020		**2019**	
Excellent	3	20%	11	55%
Good	11	73%	6	30%
Satisfactory	0	0%	3	15%
Poor	1	7%	0	0%

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

3.0   Self-Assessment Checklist – 2020

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 and has since been reviewed and updated annually. Documentary evidence is provided where current working practices are considered to fully or partially conform to the standards. In April 2019, CIPFA published a modified version of the checklist and this has been used to complete the latest self-assessment. The revised checklist includes some additional guidance on what constitutes compliance, and amalgamates a number of relevant checklist areas.

The current working practices are 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 table below showing areas of non-compliance has been updated to reflect the new checklist.

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

Conformance with Standard	Current Position
the engagement was accepted?	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 respective priorities 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?	An approach to using other sources of assurance, where appropriate is currently being developed (see below).

4.0 External Assessment

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

An external assessment of Veritau internal audit working practices was undertaken in November 2018 by the South West Audit Partnership (SWAP). SWAP is a not for profit public services company operating primarily in the South West of England. As a large shared service internal audit provider it has the relevant knowledge and expertise to undertake external inspections of other shared services and is independent of Veritau.

The assessment consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed audit committee chairs.

A copy the external assessment report was reported to this committee in March 2019.

The report concluded that Veritau internal audit activity generally conforms to the PSIAS[5] and, overall, the findings were very positive. The feedback included comments that the internal audit service was highly valued by its member councils and other clients, and that services had continued to improve since the last external assessment in 2014.

5.0 Improvement Action Plan

The external assessment identified a number of areas for further consideration and possible improvement. An action plan was developed to address these areas. One action remains to be completed, as follows:

Recommendation	Current Position
Whilst reliance may be placed on other sources of assurance, the self-assessment brought attention to the fact that there has not been an assurance mapping exercise to determine the approach to using other sources of assurance. Completion of such an exercise would ensure that work is coordinated with other assurance bodies and limited resources are not duplicating effort. (Attribute Standard 2050).	This work is ongoing. Other potential sources of assurance have been identified for each client. This information is now being used to develop more detailed assurance mapping. A standard methodology and approach is also being developed.

In 2019/20, the Quality Assurance group reviewed internal processes for undertaking and recording testing of internal controls. The review identified that testing methodologies were generally good, were relevant to the controls being tested and that appropriate conclusions were being reached. However, improvements were needed to the documentation of testing in some areas. The review also found some cases where the use of data analytics should have been considered, rather than relying on sample testing. This could have improved the level of assurance obtained and provided more useful data for the client. Further training will be delivered to the internal audit teams, covering these areas, in 2020/21.

The following areas will also continue to be a priority in 2020/21:

- Further development of in-house technical IT audit expertise
- Investment in new data analytics capabilities

We also plan to review the audit opinions used for reporting to ensure they remain aligned with best practice.

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[5] PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

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.