

# North York Moors National Park Authority Finance, Risk, Audit and Standards Committee

1 September 2014

## Internal Audit Annual Report 2013/14

### 1. Purpose of the Report

- 1.1 To inform Members of the Internal Audit work undertaken in 2013/14.
- 1.2 To inform Members of the Audit Opinion for 2013/14.

### 2. Purpose and Background

- 2.1 The purpose of the report is to provide a statement of assurance regarding the adequacy and effectiveness of the internal control system from Veritau Ltd (Internal Audit Services) on behalf of North Yorkshire County Council. The Statement of Assurance will support the Annual Governance Statement (AGS) which forms part of the Authority's Financial Statements.
- 2.2 The Annual report includes a summary of the findings of the audit including Management responses where appropriate. These findings are used to formulate the overall opinion.
- 2.4 Veritau carried out its work in accordance with the Cipfa Code of Practice for Internal Audit in Local Government.
- 2.5 There is no direct linkage to any of the Authority's Priorities as internal audit is a support service, which provides internal control and activity assurance to Directors on the operation of their services, and specifically to the Authority's S151 Officer on financial systems.
- 2.6 The report also includes details of an external validation that has been completed by the South West Audit Partnership on the way in which Veritau Ltd conducts audit work to evidence compliance with Public Sector Internal Audit Standards.

### 3 Conclusion

- 3.1 The overall opinion of the Head of Internal Audit on the controls operated at the NYMNP is that they provide **High Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.

### 4. Recommendation

- 4.1 That Members note the content of this report.

Contact Officer:  
Irene Brannon  
Director of Corporate Services  
01439 772700

**Background documents to this report**

None

**File Ref**



# North York Moors National Park

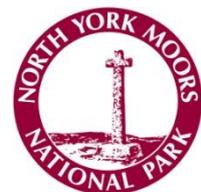
## Internal Audit Annual Report

### 2013-14

**Audit Manager:** Ian Morton  
**Head of Internal Audit:** Max Thomas

**Circulation List:** Members of the Finance, Risk, Audit and Standards Committee  
Management Team (including the S151 Officer)

**Date:** 1 September 2014



## Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Chief Audit Executive (Head of Internal Audit) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 2 During the year April 2013 to March 2014, the Authority's internal audit service was provided by Veritau Limited.

## Internal Audit Work Carried Out 2013/14

- 3 During the 2013/14 year, internal audit work was carried out across the full range of activities of the Authority. The main areas of internal audit activity included:
  - **Strategic Risk Register;** to provide assurance on the action taken, or to be taken, in managing the key risks to the Authority.
  - **Fundamental/Material Systems;** to provide assurance on the key areas of financial risk. This helps support the work of the external auditors and provides assurance to the Authority that risks of loss are minimised.
  - **Technical/Projects;** to provide assurance on those areas of a technical nature and where project management is involved. These areas are key to the Authority as the risks involved could detrimentally affect the delivery of services.
  - **Follow Up;** work was carried out to provide assurance that the agreed actions from previous years' reports are being properly implemented.
  - **Investigations;** No special investigations were carried out during the year.
- 4 **Appendix A** shows the final table of audit work carried out, and the audit opinion associated with the audits. All audits included in the audit plan have been completed during the year. **Appendix B** provides a summary of the findings of our audit work, and **Appendix C** an explanation of our assurance levels and finding priorities

## Compliance with Standards

- 5 The work of internal audit is governed by the Accounts and Audit Regulations 2011, the Internal Audit Terms of Reference and relevant professional standards. From 1 April 2013, the Chartered Institute of Public Finance and Accountancy (CIPFA), together with other standard setters across the public sector, adopted new standards for internal audit. These new Public Sector Internal Audit Standards (PSIAS) comply with the international standards issued by the Institute of Internal Auditors (IIA). As well as providing a definition of internal auditing, the PSIAS detail the Code of Ethics for internal auditors and provide quality criteria against which performance can be evaluated. Since the standards were adopted CIPFA has also issued further guidance in the form of an application note. The application note includes a checklist to assist internal audit practitioners to review and update working practices.
- 6 To comply with the new Standards, the Head of Internal Audit is also required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The

objective of the QAIP is to ensure that working practices continue to conform to the required professional standards.

## Quality Assurance and Improvement Programme (QAIP)

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

## Audit Opinion and Assurance Statement

- 9 Veritau performs its work in accordance with the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant 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 (ie 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
- 10 The overall opinion of the Head of Internal Audit on the controls operated in the North York Moors National Park Authority is that they represent a **High Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion. There are no significant control related issues which, in the opinion of the Head of Internal Audit need to be considered for inclusion in the Authority's Annual Governance Statement.

---

<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 Finance, Risk, Audit and Standards Committee.

## Appendix A

### Table of 2013/14 audit assignments

Audit	Status	Assurance Level
<b><i>Fundamental/Material Systems</i></b>		
Key Financial Systems	Completed	High Assurance
<b><i>Technical/Project Audits</i></b>		
ICT	Completed	No Opinion Provided
<b><i>Strategic Risk Register</i></b>		
Income Generation	Completed	High Assurance
Information Governance and Data Protection	Completed	High Assurance

Summary of Key Issues arising from audits completed to 31 March 2014

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Financial Systems	High Assurance	The audit included a high level review of the key controls for income & debtors, creditors & purchasing, payroll and the authority's main accounting systems. A follow up review of the agreed actions from the previous audit was also completed.	16 May 2014	<p><b>Strengths</b> Recommendations have been implemented. Aged debt analysis is now taking place on a monthly basis within the finance function, with around £10k of income already recovered.</p> <p><b>Key Weaknesses</b> No issues identified</p>	
ICT	No Opinion Provided	A review of the ICT policies operated by the National Park. The audit provided assurance over the currency and validity of the policy framework, with a particular focus on the flexibility required for modern working practices and expectations.	13 May 2014	It was found that the policies need to be updated. The audit therefore concentrated on providing support to the IT Manager to amend the policies to comply with current best practice	New or amended policies to be formally adopted by the Authority
Income Generation	High Assurance	A review of the Authority's current income streams to ensure that they are robust. The audit also reviewed the arrangements to ensure income generation is maximised.	24 March 2014	<p><b>Strengths</b> All income is monitored in a robust manner and reported to members on a quarterly basis as performance against targets.</p> <p><b>Key Weaknesses</b> No issues identified</p>	
Information Governance and Data Protection	High Assurance	A review to ensure information is securely	13 March 2014	<p><b>Strengths</b> Up to date policies and</p>	The training will be refreshed on an annual basis

	System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
			managed in line with policy and legislation		procedures are in place, and responsibility for freedom of information is appropriately allocated to a senior officer  <b>Key Weaknesses</b> Training for staff on data protection and Freedom of Information legislation was last delivered in 2010/2011.	

### 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.*

<b>Opinion</b>	<b>Assessment of internal control</b>
<i>High Assurance</i>	<i>Overall, very good management of risk. An effective control environment appears to be in operation.</i>
<i>Substantial Assurance</i>	<i>Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.</i>
<i>Moderate assurance</i>	<i>Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.</i>
<i>Limited Assurance</i>	<i>Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.</i>
<i>No Assurance</i>	<i>Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.</i>

#### Priorities for Actions

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

## **VERITAU GROUP**

### **INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME – 2014**

#### **1.0 Background**

##### Ongoing quality assurance arrangements

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

- the maintenance of a detailed audit procedures manual
- detailed job descriptions and competency profiles for each internal audit post
- regular performance appraisals
- regular 1:2:1 meetings to monitor progress with audit engagements
- training plans and associated training activities
- the maintenance of training records and training evaluation procedures
- the objectives, scope and expected timescales for each audit engagement subject to agreement with the client before detailed work commences (audit specification)
- the results of all audit testing work documented using the company's automated working paper system (Galileo)
- file review by an audit manager and sign-off of each stage of the audit process
- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- performance against agreed quality targets reported to each client on a regular basis.

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

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

##### Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self assessment checklist and obtain evidence to demonstrate

conformance with the standards. To support this process, each internal auditor is required to assess their current skills and knowledge against the competency profile relevant for their role.

The results of the annual client survey and PSIAS self-assessment are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans.

The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board<sup>1</sup> as part of the annual report of the Head of Internal Audit.

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

#### External assessment

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

## **2.0 Customer Satisfaction Survey – 2014**

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

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

Respondents were also asked to provide an overall rating for the service.

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

---

<sup>1</sup> As defined by the relevant audit charter.

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

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

### 3.0 Self Assessment Checklist – 2014

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

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

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

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

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

#### 4.0 External Assessment

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

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

The assessment was conducted by Gerry Cox and Ian Baker from the South West Audit Partnership (SWAP). Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to over 12 local authorities (including county, unitary and district councils across Somerset, Wiltshire and Dorset). The Partnership was established in 2005 and currently employs over 60 members of staff.

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

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

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

## 5.0 Improvement Action Plan

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

<b>Change / improvement</b>	<b>Target completion date</b>
The use of assurance mapping will be further developed and, where appropriate, future audit plans will highlight where other sources of assurance are being relied upon.	31 March 2015
The audit manual and standard working papers will be changed to ensure that the expectations on Veritau and the relevant client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties) are fully understood. The standard templates for audit specifications and reports will be amended to reflect this change. Where appropriate, information sharing agreements will also be established with client organisations.	30 September 2014
Further comparative benchmarking information will be sought from other internal auditor providers in order to help demonstrate that the current internal audit service provides value for money.	31 March 2015
Whilst the current outsourced arrangement with Audit	31 March 2015

North is working well further efforts will be made to develop the capacity of the 'in-house' IT audit provision in order to be able to offer a more cost effective option to client organisations.	
The standard Audit Charter will be amended to make it clear that auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months.	30 September 2014
Current internal audit working practices will continue to be reviewed to ensure that there is consistency in service delivery across the different teams.	31 March 2015

# **SELF-ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION**

**VERITAU GROUP**

**MAY 2014**

**COMPLETED BY:  
THE SOUTHWEST AUDIT PARTNERSHIP**



## INTRODUCTION

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

There are two suggested approaches to conducting the review:

- External Quality Assessment
- Self-Assessment with Independent Validation

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

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

## SCOPE AND METHODOLOGY

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

The principal objective of the QA was to assess the IA activity’s conformance to the International Standards for the Professional Practice of Internal Auditing (Standards).

The QA Review Team from SWAP was made up of their Company Chief Executive – Gerry Cox who is a Chartered Auditor and Certified Auditor with over 25 years management experience in Internal Auditing. The second member of the team was SWAP’s Director of Quality - Ian Baker, a Fellow Member of the Institute of Management Services with over 10 years management experience in Internal Auditing.

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

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

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

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

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 an IA activity has a charter, policies, and processes that are judged to be in conformance with 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 IA activity from performing its responsibilities in an acceptable manner. “Does Not Conform” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

## **SUMMARY OF POSITIVE OBSERVATIONS**

The IA activity environment is well-structured and progressive, where the Standards are clearly understood and management is endeavouring to provide useful audit tools and implement appropriate practices to ensure the service remains current and provides added value to its clients; summarised by one client officer as a “*modern internal audit service focussing on what’s important*”. Other positive observations include:

- The Head of Internal Audit is highly respected by both staff and client representatives.
- Interviews indicate that the service has a good organisational profile.
- We asked each of the eight client representatives to rate the internal audit service provided by Veritau, out of 10. The service received an average score of 8.4 which indicates it is highly valued by its clients.
- Annual feedback from the client survey indicates a positive view on the conduct, professionalism and approach of Veritau staff.
- The service receives a high level of satisfaction from individual audit review feedback forms.
- Veritau offer good internal training and development for new auditors.
- The service has a comprehensive procedure manual to guide its staff.

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

## OBSERVATIONS AND RECOMMENDATIONS

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

1. The self-assessment identified the need for specifications to set out expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties). It would be beneficial to have an agreed Audit Charter (or some form of engagement agreement) with all client organisations engaged with and other related documents such as Information Sharing Protocols (*Attribute Standard 1000*).
2. Whilst guidance exists on a Quality Assurance Improvement Programme, we were not provided evidence of a maintained Action Plan. The matters arising from this Assessment should be used as a basis for starting such a plan which should be maintained as a live document and periodically reported to the Board for progress (*Attribute Standard 1300*).
3. With the financial pressures faced by Local Authority clients it is essential for all service providers to demonstrate value for money. Where possible, management should try to obtain comparative benchmarking data that demonstrates to its owners that Veritau represents VFM (*Performance Standard 2000*).

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

1. In our opinion the coverage of IT Audit in annual plans is low. Reliance on ICT and related risks will only increase and it is essential that a balanced proportion of the Annual Plan should reflect this (*Performance Standard 2010*).
2. The Audit Charter states that the service is “ensuring staff are not involved in auditing areas where they have recently been involved in operational management, or in providing consultancy and advice”. This is good practice, however, the term ‘recently’ can be seen to be ambiguous and should be specified i.e. 12 months (*Attribute Standard 1130*).
3. Internal audit plans and activities are coordinated with the external auditors of each client organisation. However, it is recognised that there is further scope for coordination of other internal providers of assurance (*Performance Standard 2050*).
4. Some staff raised concerns over consistency across the Company; an example cited was the follow up processes. This is a challenge for any growing organisation. Veritau has a comprehensive Procedure Manual and utilises Galileo to perform reviews and so should expect consistency. The production of management reports which are regularly monitored to ensure Company practice is enforced should help to address this perceived issue.

## RECOMMENDATIONS

We recommend that:

- the Head of Internal Audit presents this report to the Veritau Board and each of its client organisations Audit Committees;
- the Head of Internal Audit uses the Observations and Recommendations from this report to develop a Quality Assessment Improvement Programme (QAIP) that is maintained as a live document;
- the Head of Internal Audit presents the QAIP to the Veritau Board and each of its client organisations Audit Committees and thereafter reported periodically to monitor progress and on-going development of the service.

## ATTACHMENT A

### STANDARDS CONFORMANCE EVALUATION SUMMARY

#### SOUTH WEST AUDIT PARTNERSHIP

Standards Conformance Evaluation Summary		("X" Evaluator's Decision)		
		GC	PC	DNC
<b>OVERALL EVALUATION</b>				
<b>ATTRIBUTE STANDARDS</b>				
<b>1000</b>	<b>Purpose, Authority, and Responsibility</b>	X		
1010	Recognition of the Definition of Internal Auditing	X		
<b>1100</b>	<b>Independence and Objectivity</b>	X		
1110	Organisational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
<b>1200</b>	<b>Proficiency and Due Professional Care</b>			
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
<b>1300</b>	<b>Quality Assurance and Improvement Program</b>			
1310	Requirements of the Quality Assurance and Improvement	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
1322	Disclosure of Non-conformance	X		
<b>PERFORMANCE STANDARDS</b>				
<b>2000</b>	<b>Managing the Internal Audit Activity</b>			
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination		X	
2060	Reporting to Senior Management and the Board	X		

## Standards Conformance Evaluation Summary

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

## Definitions

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

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

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

## ATTACHMENT B INDEPENDENT VALIDATOR STATEMENT

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

In acting as validator, I am fully independent of the organisation and have the necessary knowledge and skills to undertake this engagement. The validation, started in February 2014 and culminated with a three day site visit on 11<sup>th</sup> April. The validation consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with fourteen individuals, including the Head of Internal Audit. Apart from five members of Veritau staff, we met with four Section 151 Officers, two Assistant Directors, a Chief Executive and an Audit Committee Chairman.

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

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



---

Gerry Cox CMIIA

Chief Executive – South West Audit Partnership

---

Date 3<sup>rd</sup> June 2014