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
OVERALL EVALUATION			
ATTRIBUTE STANDARDS			
1000 **Purpose, Authority, and Responsibility**	X		
1010 Recognition of the Definition of Internal Auditing	X		
1100 **Independence and Objectivity**	X		
1110 Organisational Independence	X		
1111 Direct Interaction with the Board	X		
1120 Individual Objectivity	X		
1130 Impairments to Independence or Objectivity	X		
1200 **Proficiency and Due Professional Care**			
1210 Proficiency	X		
1220 Due Professional Care	X		
1230 Continuing Professional Development	X		
1300 **Quality Assurance and Improvement Program**			
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 *International Standards for the Professional Practice of Internal Auditing*"	X		
1322 Disclosure of Non-conformance	X		
PERFORMANCE STANDARDS			
2000 **Managing the Internal Audit Activity**			
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
2100 **Nature of Work**			
2110 Governance	X		
2120 Risk Management	X		
2130 Control	X		
2200 **Engagement Planning**			
2201 Planning Considerations	X		
2210 Engagement Objectives	X		
2220 Engagement Scope	X		
2230 Engagement Resource Allocation	X		
2240 Engagement Work Program	X		
2300 **Performing the Engagement**			
2310 Identifying Information	X		
2320 Analysis and Evaluation	X		
2330 Documenting Information	X		
2340 Engagement Supervision	X		
2400 **Communicating Results**			
2410 Criteria for Communicating	X		
2420 Quality of Communications	X		
2421 Errors and Omissions	X		
2430 Use of "Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*"	X		
2431 Engagement Disclosure of Non-conformance	X		
2440 Disseminating Results	X		
2500 **Monitoring Progress**	X		
2600 **Management's Acceptance of Risks**	X		
IIA Code of Ethics	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 <u>individual</u> *Standard* or element of the Code of Ethics in all material respects. For the <u>sections</u> and <u>major categories</u>, 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 <u>individual</u> *Standard* or element of the Code of Ethics, <u>section</u>, or <u>major category</u>, 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 <u>individual</u> *Standard* or element of the Code of Ethics, <u>section</u>, or <u>major category</u>. 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 11th 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   3rd June 2014