

FINAL REPORT

SELF-ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION

VERITAU GROUP

NOVEMBER 2018

**COMPLETED BY:
SWAP INTERNAL AUDIT SERVICES**



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:

- ① External Quality Assessment
- ② 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 (LGAN)), 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 QAR was to assess the IA activity’s conformance to the International Standards for the Professional Practice of Internal Auditing (Standards), incorporating the PSIAS and LGAN.

The QAR Team from SWAP was made up of their Company Chief Executive – Gerry Cox who is a Chartered Auditor and Certified Auditor with c.30 years management experience in Internal Auditing. The second member of the team was SWAP’s Director of Quality - Ian Baker, a Chartered Auditor and Fellow Member of the Institute of Management Services with over 15 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 and his Deputy a further twenty-two interviews were held, with eighteen 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 conformances to individual standards, please see Attachment A. The Self-Assessment and QAR team identified opportunities for further improvement, details of which are provided in this report.

The IIA’s *Quality Assessment Manual for the Internal Audit Activity* suggests a scale of three rankings when opining on the internal audit activity:

- ① “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” The ranking of “Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics.
- ② “Partially Conforms” means that deficiencies in practice are noted that are judged to deviate from the *Standards* and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- ③ “Does Not Conform” means that deficiencies in practice are judged to deviate from the *Standards* and the Code of Ethics, and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

A detailed description of conformance criteria can be found at the end of Appendix B.

SUMMARY OF POSITIVE OBSERVATIONS

It is our view that the IA activity environment provided by Veritau is well-structured and continues in its progression. The Standards are clearly understood, and management is taking a number of initiatives to ensure the service continues to provide added value to its clients. The vast majority of those interviewed spoke about the significant improvements they have seen in the service provided over recent years; providing evidence that the service is staying ‘relevant’ in ever changing times. A key contributor to this is that the Head of Internal Audit continues to be highly valued and respected by both client officers and staff; the Audit Managers and staff are also clearly valued with clients mentioning how quickly junior members of the IA team are brought up to speed.

To demonstrate how the service is viewed we have captured a flavour of some of the comments made to us:

- ④ *Very professional..... the Head of IA is exceptional” - s.151 Officer*
- ④ *“I have a good relationship with the Audit Manager, interaction is good, and we have an open door” – Audit Committee Chair*
- ④ *“They tell me what I need to hear, not what I want to hear” – s.151 Officer*
- ④ *“The Head of IA is the personification of professionalism” – s.151 Officer*
- ④ *“Their reports are valuable, never trivia and never lacking in substance” – Audit Committee Chair*

Other positive observations include:

- ④ The Head of Internal Audit is highly respected by both staff and client representatives.
- ④ We received exceptionally positive feedback about Audit Managers and staff working on audits.
- ④ Feedback indicates that the service is trusted and maintains a good organisational profile.
- ④ We asked each of the eighteen client representatives to rate the internal audit service provided by Veritau, out of 10. The service received an average score of 8.2 which indicates it is highly valued by its clients.
- ④ Veritau offer good internal training and development for new auditors.
- ④ We identified in the last QAR that IT audit in Annual Plans was low. This has been addressed and Veritau have a pragmatic approach for developing and maintaining skills in this area of expertise.
- ④ Other issues raised in the last QAR have been addressed.

Consequently, the observations and recommendations by the QAR 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 IA Charter states that “The Head of Internal Audit will informally meet in private with members of the Audit and Governance Committee, or the committee as a whole as required. Meetings may be requested by committee members or the HoIA.”

Guidance from the IIA recommends that the Audit Committee (Board) “Meets with the Head of Internal Audit at least once a year without the presence of management.” This does not happen as a matter of course with all clients of Veritau, however, the Charter allows this to happen and all Chairs of Audit Committees feel that if they wanted such a meeting, it would happen. Some teams have taken a ‘purest’ approach and hold at least one meeting a year with the Audit Committee or Chair without management being present. The HoIA audit should consider if Veritau should adopt a similar approach or be satisfied that such meeting

will take place should it become necessary to do so. (*Attribute Standard 1111*).

2. The self-assessment identified that Council CEO's or Audit Committee Chairmen do not contribute to the performance appraisal of the HoIA. The responsibility for this rests with the Board of Directors, many of whom are Section 151 Officers for the representative Councils. In addition, reliance is placed on Customer Satisfaction results. To ensure that this is reflective of the key clients, the Chairman of the Board may want to consider the introduction of a 360-degree feedback process when assessing the HoIA's performance. (*Attribute Standard 1100*).
3. While the annual planning process is well documented, the self-assessment acknowledged that each piece of audit work is not prioritised. Doing so assists when decisions need to be taken on bringing in new pieces of work due to new and emerging risks. Consideration should be given to priority ranking audit work. (*LGAN requirement*).
4. 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*).
5. It is clear that the actions from the last review have been completed, however, the resulting Quality Assessment Improvement Programme (QAIP) should remain a live document to demonstrate continuous improvement. While the process of the QAIP is reported to the Audit Committee annually, the report does not outline the detailed actions with SMART targets for completion. (*Attribute Standard 1320*).

The following two matters are not related necessarily to Conformance with the Standards but are matters we picked up during our three-day visit that should be on the radar of the Veritau Board and be highlighted as part of the Company's risk exposure:

- ④ **SUCCESSION PLANNING** – there is no doubt that the HoIA is highly respected and valued by clients. Whilst other audit managers are respected as well, it became clear to us that a lot of emphasis was placed on the existing HoIA, with one client asking, “*what will happen post Max*”. Clearly this could be a matter for serious concern, having all eggs in one basket, so to speak. The Veritau Board should satisfy themselves that there is a clear succession plan in place in the event of the current HoIA not being available to the Company for any reason.
- ④ **STAFF RETENTION** – a number of clients raised concerns around the retention of staff. They were, as reflected in our discussions, very complimentary about the quality of the more junior staff being introduced to the Company, which is a credit to IA Managers and their induction of these individuals. However, it should be recognised that whilst some good initiatives have been taken in the recruitment and development of these staff, for example in the area of IT Audit, in a highly competitive market for Internal Auditors, and in particular those with specialist skills, the Company may become a ‘nursery’ for other providers paying higher salaries for experienced audit staff. The Veritau Board should consider whether their retention policies are robust and that the organisation structure allows sufficient progression to occur in order to retain staff as their experience and knowledge grows.

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

1. As identified earlier, the service provided by Veritau is highly rated (8.2 out of 10). Of course, we know with any service there will be results above or below this perception and it is the same for some audit reviews. For those who said why such reviews would be considered for a lower score, feedback generally related to reporting, as follows:
 - ④ Audit assessments could be more robust or more forceful. This came from a number of individuals who felt that sometimes the reporting may ‘placate’ the service too much. There is a difficult balance to find between not alienating people from the audit process, but robustly ‘telling it as it is’.
 - ④ Closely aligned to this was the some felt reports could do with more ‘context’ rather than just straight in to the findings.
 - ④ Finally, one minor ‘irritation’ was when auditors report “we have found”, when often it is the service that brought this to their attention.
2. All the staff interviewed were very happy with their role within the Company. We did, however, agree to feedback any points raised during these interviews for suggested improvement; some of which may already be on management’s radar and recognising that in each suggestion there is a balance to be reached:
 - ④ Ensure the Auditor who completed the review completes the follow up. The individual who raised this was doing so from an efficiency point of view.
 - ④ Allow more time to learn about the clients and become more organisationally aware.
 - ④ Better sharing of findings and information across clients.

RECOMMENDATIONS

We recommend that:

- ④ the Head of Internal Audit presents this report to the Veritau Board and each of its client organisations Audit Committees;
- ④ the Head of Internal Audit incorporates the Observations and Recommendations from this report into the Quality Assessment Improvement Programme (QAIP) and that the QAIP is maintained as a live document;
- ④ 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 to demonstrate the continuous improvement of the service.

ATTACHMENT A STANDARDS CONFORMANCE EVALUATION SUMMARY

SWAP INTERNAL AUDIT SERVICES

Standards Conformance Evaluation Summary		("X" Evaluator's Decision)		
		GC	PC	DNC
OVERALL EVALUATION				
ATTRIBUTE STANDARDS				
Definition of Internal Auditing		X		
IIA Code of Ethics		X		
1000	Purpose, Authority, and Responsibility	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 Program	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement	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		
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		

Standards Conformance Evaluation Summary

		("X" Evaluator's Decision)		
		GC	PC	DNC
2050	Coordination		X	
2060	Reporting to Senior Management and the Board	X		
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 <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
2431	Engagement Disclosure of Non-conformance	X		
2440	Disseminating Results	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		

Definitions

GC – “Generally Conforms” means that the assessor or the assessment team 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 elements 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 standard or element 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 and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a 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 the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organisation.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit 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) with reference to the Public Sector Internal Auditing Standards (PSIAS) and incorporating the Local Government Application Notes (LGAN).

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 on 12th October 2018 and culminated with a three-day site visit between the 5th and 7th November 2018. The validation consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with twenty-four individuals, including the Head of Internal Audit and his Deputy. These individuals are considered key stakeholders and included Audit Committee Chairs, Chief Executives, Section 151 Officers, Senior Service Managers and Veritau staff at various levels in the Company.

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

Consideration of the matters raised, and implementation of 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 – SWAP Internal Audit Services

Date 26th November 2018