

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
- 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
- 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 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 senior 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. 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 board¹ 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 – 2016

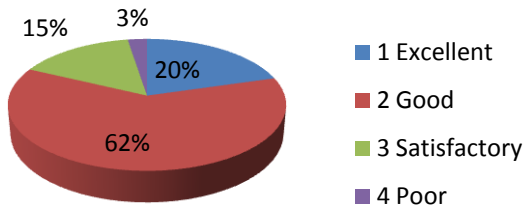
Feedback on the overall quality of the internal audit service provided to each client was obtained in May 2016. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 124 surveys (2015 – 103) were issued to senior managers in client organisations. 41 surveys were returned representing a response rate of 33% (2015 - 32%). The surveys were sent using Survey Monkey so the responses were anonymous. Respondents were asked to rate the different elements of the audit process, as follows:

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

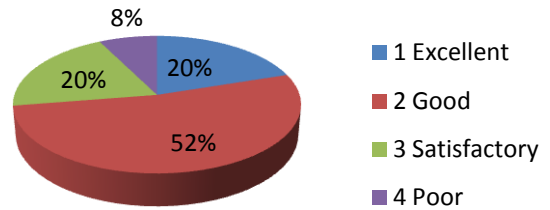
Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below:

¹ As defined by the relevant audit charter.

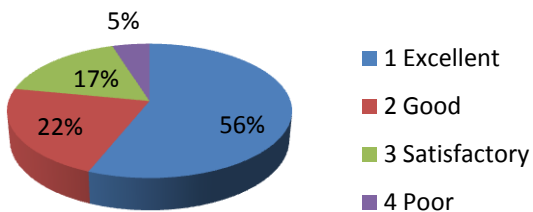
1 The quality of planning and the overall coverage of the audit plan



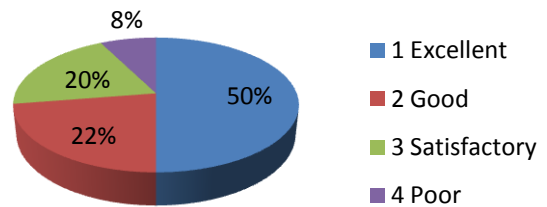
2 The provision of advice and guidance



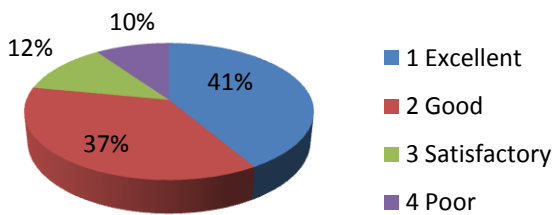
3 The conduct and professionalism of audit staff



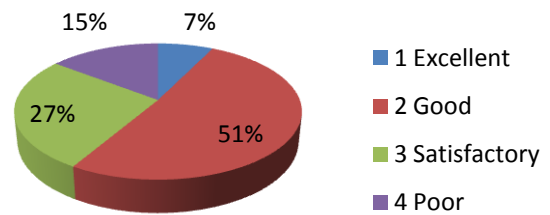
4 The ability of audit staff to provide unbiased and objective opinions



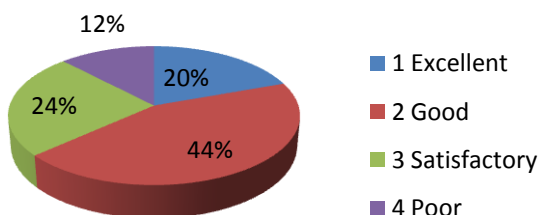
5 The ability of audit staff to establish a positive rapport with customers



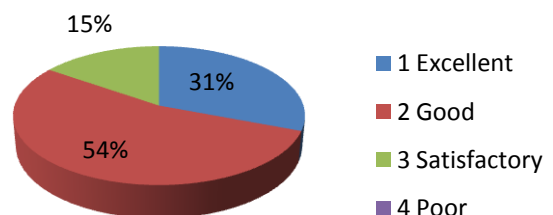
6 The auditors' overall knowledge of the system / service being audited



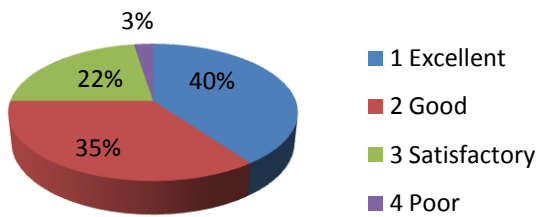
7 The auditors' ability to focus on the areas of greatest risk



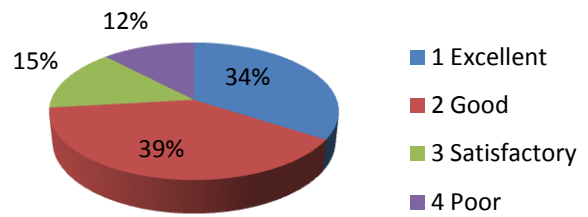
8 Agreeing the scope and objectives of the audit



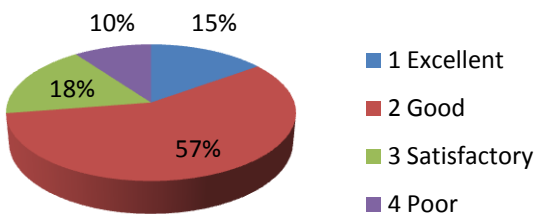
9 The auditors' ability to minimise disruption to the service being audited



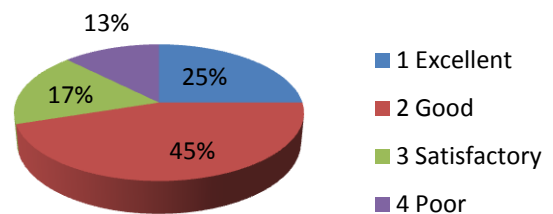
10 The communication of issues found by the auditors during their work



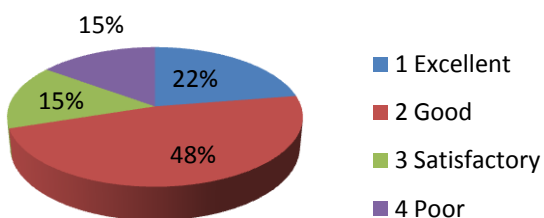
11 The quality of feedback at the end of the audit



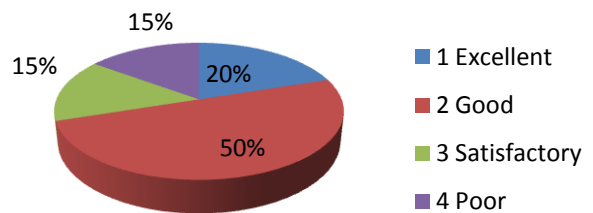
12 The accuracy, format, length and style of audit reports



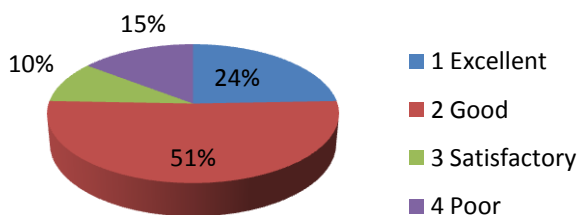
13 The relevance of audit opinions and conclusions



14 The extent to which agreed actions are constructive and practical



Overall rating for the Internal Audit services provided by Veritau



The overall ratings in 2015 were:

Excellent – 8 (27%)

Good – 19 (63%)

Satisfactory – 3 (10%)

Poor – 0 (0%)

The feedback shows that the majority of clients continue to value the service being delivered. A small number of respondents ranked the service as poor but did not provide any further comments or suggestions for improvement.

3.0 Self Assessment Checklist – 2016

The checklist prepared by CIPFA to enable conformance with the PSIAS and the Local Government Application Note to be assessed was originally 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 at standard. However, a few areas of non-conformance were identified. None of the issues identified were however considered to be significant. In addition, in some cases, the existing arrangements were considered appropriate for the circumstances and hence required no further action.

The checklist has been reviewed and updated in 2016. The following areas of non-conformance remain unchanged:

<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

<u>Conformance with Standard</u>	<u>Current Position</u>
	perceived conflict of interest, or which might otherwise be detrimental to the reputation of Veritau.
Does the risk-based plan set out the - (b) respective priorities of those pieces of audit work?	Audit plans detail the work to be carried out and the estimated time requirement. The relative priority of each assignment will be considered before any subsequent changes are made to plans. Any significant changes to the plan will need to be discussed and agreed with the respective client officers (and reported to the audit committee).
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Whilst reliance may be placed on other sources of assurances there is no formal process to identify and assess such sources. However, assurance mapping will be used where appropriate and audit plans will highlight where other sources of assurance are being relied upon.

4.0 External Assessment

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

Whilst the new Standards were only adopted in April 2013, the decision was taken to request an assessment at the earliest opportunity in order to provide assurance to our clients. The assessment was conducted by Gerry Cox and Ian Baker from the South West Audit Partnership (SWAP) in April 2014. Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to over 12 local authorities (including county, unitary and district councils across Somerset, Wiltshire and Dorset).

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

The conclusion from the external assessment was that working practices conform to the required professional standards. Copies of the detailed assessment report were provided to client organisations and, where appropriate, reported to the relevant audit committee.

5.0 Improvement Action Plan

Last year's quality assurance process identified the following required changes and improvements:

Change / improvement	Progress to date
The standard specification template will be updated 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. Where appropriate, information sharing agreements will also be established with client organisations.	Completed. A new specification template has been adopted. Veritau has also signed the multi agency information sharing protocol. As well as its member councils, other signatories include North Yorkshire Police, North Yorkshire Fire and Rescue Authority plus various NHS organisations and housing associations.
Checklists will be provided to assist auditors ensure all stages of the audit process are fully completed on Galileo.	Completed.
Templates for 'non-standard' reports (for example – consultancy, fraud and special assignments) will be developed.	Completed.

The internal peer review has highlighted the need for further training to be provided on sampling and testing. This will be completed by 30 September 2016. No other changes or improvements to working practices have been identified as a result of this year's quality assurance process. To further enhance the overall effectiveness of the service, the Veritau business plan also includes a number of areas for further development, including:

- Preparation of a data analytics strategy
- Further development of in-house technical IT audit expertise
- Increased use of data matching to identify savings / data quality issues
- Development of a fraud awareness e-learning course.

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 *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. 'Partially conforms' means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit service from performing its responsibilities in an acceptable manner. 'Does not conform' means the deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit service from performing adequately in all or in significant areas of its responsibilities.