

## 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

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

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:

|   | 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 |
| 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   |

| <u>Conformance with Standard</u>   | <u>Current Position</u>  |
|--|--|
|  | (and each 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  | Consulting engagements are   |

| <u>Conformance with Standard</u>   | <u>Current Position</u>  |
|--|--|
| have been accepted included in the risk-based plan?  | 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>         |
| 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>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> |
| 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>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</i></p>                       |

| <u>Conformance with Standard</u>  | <u>Current Position</u>  |
|---|--|
|   | <i>changed to reflect this requirement</i>   |
| 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>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 **appendix 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   | 31 March 2015                 |

|  |                   |
|--|-------------------|
| <p>with Audit 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.</p> |                   |
| <p>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.</p>    | 30 September 2014 |
| <p>Current internal audit working practices will continue to be reviewed to ensure that there is consistency in service delivery across the different teams.</p>   | 31 March 2015     |