

REVIEW OF INTERNAL AUDIT EFFECTIVENESS – 2012/13

- 1 This report sets out the results of the review of internal audit effectiveness for 2012/13 in terms of the service provided by Veritau. As this is a shared service and to avoid unnecessary duplication a single review has been carried out encompassing all of the company's client councils (ie North Yorkshire County Council, the City of York Council, Hambleton District Council, Richmondshire District Council, Ryedale District Council, Scarborough Borough Council and Selby District Council). It should be noted that Veritau's audit systems and working practices are applied consistently across each of the client councils and so there should not be any significant difference in the standard or quality of the service.
- 2 The review of effectiveness should however include consideration of other factors which are likely to be specific to individual councils, for example the status of internal audit within the organisation, the relationship between the external and internal auditors and the effectiveness of the audit committee (to the extent that its work relates to internal audit). These issues will be addressed separately, where applicable.
- 3 The review of internal audit effectiveness has considered the following sources of information:

Update of Code of Practice Self Assessment Checklist

- 4 For 2012/13, the proper practices for internal audit were those contained within the CIPFA Code of Practice for Internal Audit in Local Government (the Code of Practice)¹. The Code of Practice sets out eleven standards (or principles) for the establishment of a professional service. Each principle is supported by detailed guidance. The principles covered the following areas:
 - (a) Scope of Internal Audit (Terms of Reference and scope of work)
 - (b) Independence
 - (c) Ethics for Internal Auditors

¹ The CIPFA Code of Practice for Internal Audit in Local Government was replaced on 1 April 2013 by the Public Sector Internal Audit Standards.

- (d) Audit Committees (including Internal Audit's relationship with the Audit Committee)
 - (e) Relationships (with management, elected Members and other auditors, regulators and inspectors)
 - (f) Staffing, Training and Continuing Professional Development
 - (g) Audit Strategy and Planning
 - (h) Undertaking Audit Work
 - (i) Due Professional Care
 - (j) Reporting
 - (k) Performance, Quality and Effectiveness
- 5 A detailed self assessment exercise to assess compliance against the CIPFA Code of Practice for Internal Audit was undertaken in 2010/11. The self assessment has been reviewed and updated on an annual basis since that date. With the exception of the areas identified in paragraph 8 below, the service is considered to be fully compliant.
- 6 During 2012/13, the priority has been to establish a new company to deliver internal audit services to five of the North Yorkshire district councils. The new company, Veritau North Yorkshire (VNY) commenced trading on 1 April 2012. The existing audit systems, procedures and operating practices have been adopted by the new company so that there is now a consistent approach to audit work across all the member councils and other external clients.
- 7 With the exception of some minor changes to operational arrangements and the format of audit reports there have been no significant developments since the date of the last review. Adherence with the professional standards set out in the Code of Practice has therefore been maintained.
- 8 Those aspects of the current internal audit arrangements which have previously been identified as not fully complying with the Code of Practice are listed below:

Note: F indicates full compliance, P indicates partial compliance, and N indicates non compliance

Ref	Standard	P / N	Current Status
3	Ethics for Internal Auditors		
3.3	Objectivity		
3.3.4	Are staff rotated on regular / annually audited areas.	F	Operating arrangements were previously considered to be only partially compliant. However, staff rotation has increased significantly in the last few years. This process has continued through 2012/13 with the expansion in the number of client councils. Auditors are therefore increasingly working across different client councils and service areas. However, staff rotation still has to be balanced with the need to maintain a level of continuity and to ensure that the knowledge gained by auditors of each system or service area is used effectively. This balance will be kept under review in 2013/14.
5	Relationships		
5.3	Relationships with Other Internal Auditors		
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?	P	The method of obtaining assurance from partner organisations will vary depending on the relationship between the client council and the partner in question. Good working relationships exist between Veritau and the other principal audit providers in the area (for example – the NHS internal audit providers in North Yorkshire). Other arrangements tend to be limited and informal in nature.

Ref	Standard	P / N	Current Status
			However, the need for a formal joint working protocol has been recognised in these situations and is included in the company's 2013/16 Business Plan.
5.5	Relationships with Other Regulators and Inspectors		
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	P	This occurs on an ad-hoc basis but is not considered to be of significant importance.
10	Reporting		
10.3	Follow-up Audits and Reporting		
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	N	Veritau does not consider that it is appropriate to revise an opinion. However, account will be taken of the progress made by management to address control weaknesses and to complete agreed actions when providing the annual audit opinion.
10.4	Annual Reporting and Presentation of Audit Opinion		
10.4.2	Does the Head of Internal Audit's report:		
	Communicate the	P	Given Veritau's contractual

Ref	Standard	P / N	Current Status
	results of the internal audit quality assurance programme?		position, this information is considered to be more relevant to the individual client officers in each council. Such information is provided as necessary.

Customer Satisfaction Surveys

- 9 In accordance with the Code of Practice, Veritau carries out customer survey reviews as a normal part of the audit process. An annual survey of senior managers in each client council is also carried out to assess overall customer satisfaction with the quality of work being undertaken. These surveys are dealt with in turn below.
- 10 At the close of each audit, the responsible service manager of the area being audited is asked for feedback. The service manager is asked a series of questions about the conduct of the audit and about whether they were satisfied with the overall outcome. The level of satisfaction in 2012/13 (based on 119 surveys returned during the year) was 99.2%. This compares with 100% satisfaction in 2011/12.
- 11 In the annual survey, senior managers were asked to rank the individual elements of the service provided by Veritau (including internal audit, counter fraud and information governance). A total of 35 surveys were returned. The results were generally consistent between the client councils and with the results of similar surveys conducted in previous years.
- 12 For the purposes of this review, the scores for internal audit and counter fraud have been summarised as follows:

	1	2	3	4	N/A
Internal Audit Services					
1.1 The quality of planning and the overall coverage of the audit plan	3	24	3		5
1.2 The provision of advice and	6	23	5		1

	1	2	3	4	N/A
guidance					
1.3 The conduct and professionalism of audit staff	21	11	2		1
1.4 The ability of audit staff to provide unbiased and objective opinions	16	16	2		1
1.5 The ability of audit staff to establish a positive rapport with customers	14	19			2
1.6 The auditors' overall knowledge of the system / service being audited	1	25	6		3
1.7 The auditors' ability to focus on the areas of greatest risk	5	23	3	1	3
1.8 The arrangements made to agree the scope and objectives of the audit	9	19	3	1	3
1.9 The auditors' ability to minimise disruption to the service being audited	11	17	3		4
1.10 The communication of issues found by the auditors during their work	8	22	1		4
1.11 The quality of feedback at the end of the audit	6	22	3		4
1.12 The auditors' ability to	7	21	4		3

	1	2	3	4	N/A
communicate their findings in the audit report					
1.13 The accuracy, format, length and style of audit reports	5	18	8	1	3
1.14 The time taken to issue audit reports	5	18	9		3
1.15 The relevance of audit opinions and conclusions	5	22	4	1	4
1.16 The extent to which agreed actions are constructive and practical	5	22	5		3
1.17 The quality of IT audit (provided on behalf of Veritau by PWC)	2	10	1	1	21
The overall rating for the Internal Audit services	5	24	3		3
Counter Fraud Services					
3.1 The preparation and maintenance of counter fraud policies and strategies	4		1		17
3.2 The communication of fraud risks to managers and other stakeholders	3		3		17
3.3 The provision of advice on measures to prevent fraud and corruption	3	1	3		16

	1	2	3	4	N/A
3.4 The identification of possible fraud and error	3	1	2		17
3.5 The receipt and handling of fraud referrals	2	2	3		16
3.6 The investigation of suspected fraud	4	1	2		16
3.7 The conduct and professionalism of counter fraud staff	4	3	1		15
3.8 The investigators' knowledge of legislation, policies and procedures	3	2	1		17
3.9 The quality of feedback during and at the end of fraud investigations	3	3		1	16
3.10 The time taken to complete fraud investigations	1	4		2	16
3.11 The outcomes from fraud investigations	3	2	1	1	16
3.12 The overall reporting of counter fraud activities and work done	3	2	1	1	16
The overall rating for the Counter Fraud services	3	1	1	1	17

Key:

1 = Excellent

2 = Good

3 = Satisfactory

4 = Poor

N/A = Not answered

Note – the number of surveys received is lower for counter fraud because not all the client councils receive this service.

- 13 For internal audit, the majority of the responses were either excellent or good. Whilst it is not considered to be a significant problem, the number of 'satisfactory' responses for questions 1.13 and 1.14 suggests that there is however further scope to improve the accuracy and timeliness of audit reporting. Where particular issues were highlighted or comments made then these will be addressed with the relevant audit team and/or client council. For counter fraud, the majority of respondents did not answer the questions. This reflects the fact that only certain managers generally have regular contact with this aspect of the service. Where responses were provided then there is however more of a divergence of opinions. It is recognised that further developmental work is therefore required in this area, particularly in respect of communications and turnaround times.

Client Liaison

- 14 As part of ongoing client liaison arrangements, Veritau audit managers will meet regularly with senior officers in each client council. Whilst the specific arrangements differ between the councils, the S151 officer is always a main point of contact. Other key contacts may include the chief executive, the monitoring officer and/or other members of the corporate management team in each council. As such, these senior managers are well placed to assess the overall effectiveness of the audit service, and also how Veritau deal with any issues which may arise during the course of work. No specific matters of concern have been raised about the standard or quality of audit work through these client arrangements during 2012/13.

External Audit

- 15 Similarly, no matters of concern have been raised with the S151 officer or the relevant audit committee by the external auditors, at any of the client councils. In some cases, the external auditors have provided specific comments on the work of internal audit and these are reported separately to the relevant council.