

ANNUAL HEAD OF INTERNAL AUDIT REPORT 2021/22

Date: 27 July 2022

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Ed Martin
Audit Manager



Max Thomas
Head of Internal Audit

Circulation list: Members of the Audit and Governance Committee



BACKGROUND

- 1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the council's audit charter. These require the Head of Internal Audit to bring an annual report to the Audit and Governance Committee. The report must include an opinion on the adequacy and effectiveness of the council's framework of governance, risk management and control. The report should also include:
 - (a) any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
 - (b) any particular control weakness judged to be relevant to the preparation of the annual governance statement
 - (c) a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
 - (d) an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme, including a statement on conformance with the PSIAS.



INTERNAL AUDIT WORK CARRIED OUT IN 2021/22

- 2 At the beginning of 2021/22, the council was still recovering from the impact of the Covid-19 pandemic on its working practices and, in some areas, only starting to revert to business as usual. Since then significant (and increasing) resource has been redirected to the preparations for Local Government Reorganisation (LGR).
- 3 The 2021/22 audit work programme was formally agreed by the Audit and Governance Committee on 21 April 2021. Work in the early part of 2021/22 focussed on finalising audits relating to the previous year due to the continued impact of the Covid pandemic.
- 4 During the remainder of the year audit work has continued to be prioritised based on risk and the need to provide coverage of the council's framework of governance, risk management and control.
- 5 We have also continued to promote good governance, provide advice, and make recommendations to management to help improve controls. Auditors meet with the s151 Officer, Monitoring Officer and other senior officers on a regular basis to help identify and address key governance issues and concerns.
- 6 A summary of internal audit work undertaken during the year and relevant to the opinion is contained in appendix A. The results of completed audit work have been reported to the relevant managers, executive members and the Audit and Governance Committee throughout the year. At the time of writing one further audit report has been issued but remains in draft. Other work is continuing with six other audits close to draft report stage.

The results from these audits will be reported to the committee once work has been completed.

- 7 Appendix B provides details of the key findings arising from internal audit assignments completed, that we have not previously reported to the committee.
- 8 Appendix C provides an explanation of our assurance levels and priorities for management action.

FOLLOW UP OF AGREED ACTIONS

- 9 It is important that agreed actions are followed up to ensure they have been implemented. Veritau has followed up agreed actions during the year taking account of the timescales previously agreed with management for implementation. Our work shows that generally, good progress has been made by management during the year to address previously identified control weaknesses. Significant outstanding actions are detailed in this report at appendix D.
- 10 During 2021/22 issues were found from internal work on the ordering and creditor systems. The audit report gave a limited assurance opinion and was reported to the Audit and Governance committee. The issues found have been satisfactorily addressed by management during the year. In addition, a significant weakness relating to PCI DSS (payment card security) has been resolved during 2021/22.

PROFESSIONAL STANDARDS

- 11 In order to comply with Public Sector Internal Audit Standards (PSIAS) the Head of Internal Audit is required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The objective of the QAIP is to ensure that working practices continue to conform to professional standards. The results of the QAIP are reported to the committee each year as part of the annual report. The QAIP consists of various elements, including:
 - maintenance of a detailed audit procedures manual and standard operating practices
 - ongoing performance monitoring of internal audit activity
 - regular customer feedback
 - training plans and associated training and development activities
 - periodic self-assessments of internal audit working practices (to evaluate conformance to the standards).
- 12 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The most recent external assessment of Veritau internal audit

working practices was undertaken in November 2018¹. This concluded that Veritau internal audit activity generally conforms to the PSIAS².

- 13 The outcome of the recently completed self-assessment demonstrates that the service continues to generally conform to the PSIAS, including the Code of Ethics and the Standards. Further details of the QAIP prepared by Veritau are given in appendix E.
- 14 The Internal Audit Charter sets out how internal audit at the council will be provided in accordance with the PSIAS. The Charter is reviewed on an annual basis and any proposed changes are brought to the Audit & Governance Committee. No changes are proposed at this time.

OPINION OF THE HEAD OF INTERNAL AUDIT

- 15 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the council is that it provides Reasonable Assurance. No reliance was placed on the work of other assurance providers in reaching this opinion, and there are no significant control weaknesses which, in the opinion of the Head of Internal Audit, need to be considered for inclusion in the Annual Governance Statement.
- 16 The opinion given is based on work that has been undertaken directly by internal audit, and on the cumulative knowledge gained through our ongoing liaison and planning with officers. In giving the opinion, we would note that the Covid-19 pandemic has continued to affect the authority over the last year, with a consequential impact on business operations and controls. The work of internal audit has been directed to the areas considered most at risk, or that offer the most value for the authority overall. However, not all the areas affected by the Covid-19 pandemic will have been reviewed.

¹ Reported to the Audit and Governance committee in January 2019.

² PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

APPENDIX A: INTERNAL AUDIT WORK IN 2021/22

Final reports issued

Audit	Reported to Committee	Opinion
General Ledger	July 2021	Substantial Assurance
Contract Management and Procurement	July 2021	Substantial Assurance
Creditors	September 2021	Limited Assurance
Debtors	September 2021	Substantial Assurance
Housing Rents	September 2021	Substantial Assurance
Community Infrastructure Levy	September 2021	Reasonable Assurance
Housing Benefits & Council Tax Support	January 2022	Substantial Assurance
Council Tax & NNDR	January 2022	Substantial Assurance
Pooling of housing capital receipts	April 2022	No opinion given
ICT asset management	July 2022	Reasonable Assurance
Debtors	July 2022	Substantial Assurance
General ledger	July 2022	Substantial Assurance
Homes England	July 2022	No opinion given
Chairman's Account	July 2022	No opinion given

Audits in progress

Audit	Status	Assurance Level
Payroll	Draft	TBC (Reasonable Assurance)
Health and safety – homeworking	In progress	
Information security at home	In progress	
Housing Rents	In progress	
Creditors	In progress	

Audit	Status	Assurance Level
Council Tax & NNDR	In progress	
Council House Repairs and Maintenance	In progress	

Other work completed in 2021/22

Internal audit work has been undertaken in a range of other areas during the year, including those listed below.
<ul style="list-style-type: none"> • Certification of the Local Authority Covid Compliance and Enforcement Grant • Follow up of agreed actions • Support and advice provided through the year on risk management, controls and processes including bank mandate fraud controls.

APPENDIX B: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

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System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
General Ledger	Substantial Assurance	The audit reviewed key processes for maintenance of accurate accounting records, and budget management.	July 2022	<p>It was found that systems were working well. Controls relating to bank reconciliations, suspense accounts and journals were generally operating effectively. Budget management and monitoring was generally effective.</p> <p>There were issues relating to the timeliness of reconciliations of feeder files from other systems and with system administrator access rights.</p>	Actions have been agreed to address the issues found.
Debtors	Substantial Assurance	The audit reviewed processes for raising invoices, chasing outstanding debt and writing off unrecoverable debt.	July 2022	Processes were found to be working well, with no significant issues found. Debt was being chased and write offs were completed and authorised appropriately.	No actions were required. Processes need to continue to operate effectively up to the transfer to the new authority in April 2023.
Homes England	No opinion given	This was a review of the findings of a compliance audit which identified breaches in the council's return to Homes England for the affordable housing programme.	July 2022	The review confirmed there were some deficiencies in evidence provided but we were satisfied the grant claim was made correctly. Improvements in evidence and record keeping were needed. The grant claim was not signed off in	<p>Processes will be improved so that evidence to support the grant claim in future will be better.</p> <p>The grant claim will be approved by the Director for future claims.</p>

System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
				accordance with financial procedure rules.	
Chairman's Account	No opinion given	This was a review of the arrangements for collecting money for events organised by the Council's chairman and paying them over to the selected charities.	July 2022	The review found all money was correctly accounted for but that there were improvements needed to the banking arrangements.	Action will be taken to address the bank account issues.
IT Asset Management	Reasonable Assurance	The audit reviewed asset management policies, procedures, record keeping and upgrading and disposal.	July 2022	The review found that overall the control environment was satisfactory. There were some weaknesses in inventory records and disposal procedures	Action will be taken to address the issues identified. Officers will work with the LGR workstreams in making improvements.

APPENDIX C: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
Substantial assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

*There are circumstances when it is not appropriate to give an opinion/assurance level on completed work, for example on project and other support, consultancy, grant certification and follow up work. When '**no opinion**' is our conclusion this is not to be confused with a no assurance opinion.

Priorities for actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

APPENDIX D: HIGHER PRIORITY ACTIONS WITH REVISED DATES OF MORE THAN 12 MONTHS FROM ORIGINALLY AGREED DATE

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Audit	Agreed Action	Priority Rating	Responsible Officer	Due	Notes / Update
Performance Management	<p>HR to undertake QA review of sample of PDRs</p> <p>Return rate of PDRs to be monitored & all PDRs reviewed and returned to manager if not complete.</p> <p>Training plan to be completed promptly following PDR process.</p>	2	Head of Business Development and Improvement	<p>Revised date:</p> <p>February 2022</p> <p>(previously December 2020 and June 2021)</p>	<p>A significant push was undertaken in late 2021 to encourage managers to complete and return PDRs. Multiple reminders were issued. As of January 2022, 51% of PDRs were returned. This is still not satisfactory and has been raised at Leadership Team, included in the Manager Forum and at all staff briefings. Action will continue to be taken to ensure PDRs are completed.</p> <p>A Training Plan was compiled and Leadership Team reviewed requests for qualification training in March 2022. Staff were informed of the outcome of their qualification training requests in April 2022.</p> <p>Due to LGR, there are no further plans to review the PDR process but managers will still need to undertake performance reviews with their teams during 2022-23.</p>

APPENDIX E: 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
- ▲ the requirement for all audit staff to conform to the Code of Ethics and Standards of Conduct Policy
- ▲ the requirement for all audit staff to complete annual declarations of interest
- ▲ 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
- ▲ induction programmes, training plans and associated training activities
- ▲ attendance on relevant courses and access to e-learning material
- ▲ the maintenance of training records and training evaluation procedures
- ▲ membership of professional networks
- ▲ 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 and other associated work documented using the company's automated working paper system (Sword Audit Manager)
- ▲ file review by senior auditors and audit managers and sign-off at each stage of the audit process
- ▲ the ongoing investment in tools to support the effective performance of internal audit work (for example data interrogation software)
- ▲ post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- ▲ performance against agreed quality targets monitored and reported to each client on a regular basis
- ▲ regular client liaison meetings to discuss progress, share information and evaluate performance

On an ongoing basis, samples of completed audit work are subject to internal peer review by a Quality Assurance group. The review process is designed to ensure audit work is completed consistently and to the required quality standards. The work of the Quality Assurance group is overseen by an Assistant Director. Any key learning points are shared with the relevant internal auditors

and audit managers. The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken where required (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 Code of Ethics and the Standards. As part of ongoing performance management arrangements, 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, professional networking, and ongoing quality assurance and performance management arrangements 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, internal audit strategy action 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 board³ 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.

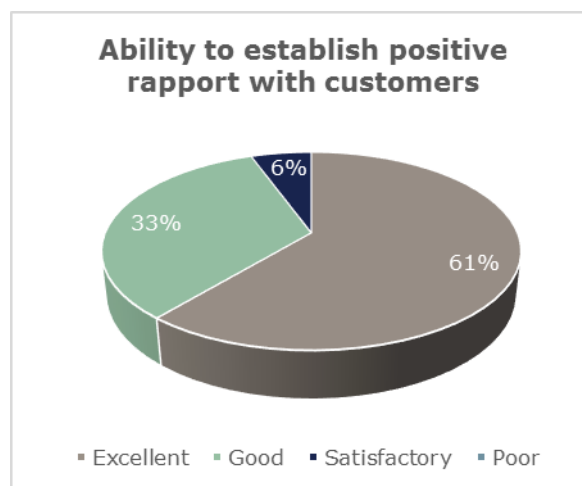
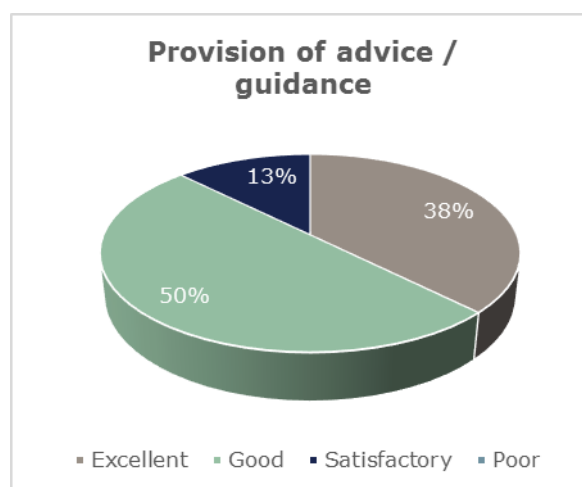
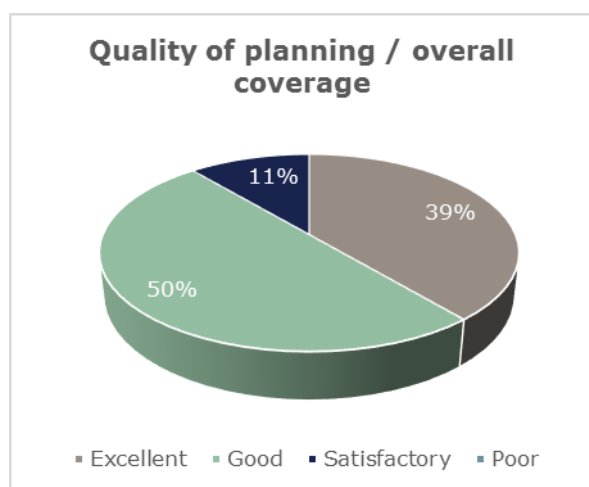
2.0 Customer Satisfaction Survey 2022

In March 2022 we asked clients for feedback on the overall quality of the internal audit service provided by Veritau. Where relevant, the survey also asked questions about counter fraud and information governance services. A total of

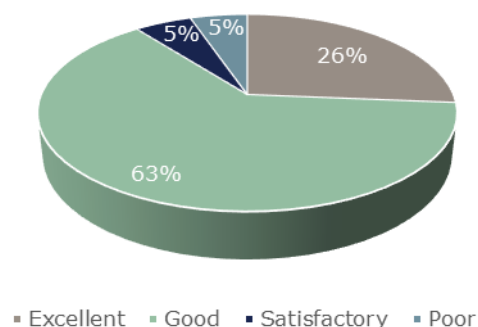
³ As defined by the relevant audit charter.

154 surveys (2021 – 165) were issued to senior managers in client organisations. A total of 19 responses were received representing a response rate of 12% (2021 – 12%). The surveys were sent using Smart Survey (an online survey tool) and the respondents were required to identify who they were. Respondents were asked to rate the different elements of the audit process as either excellent, good, satisfactory or poor.

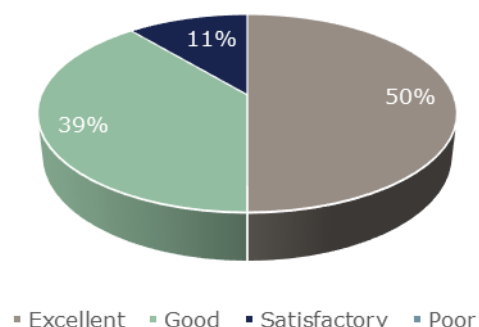
Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below. These are presented as percentages, for consistency with previous years. However, it is recognised that the low number of respondents means that the percentage for each category is sensitive to small changes in actual responses (1 respondent represents about 5%).



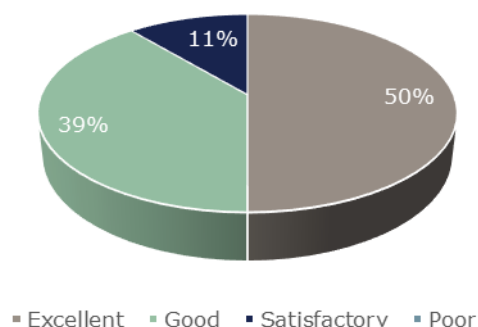
**Knowledge of system /
service being audited**



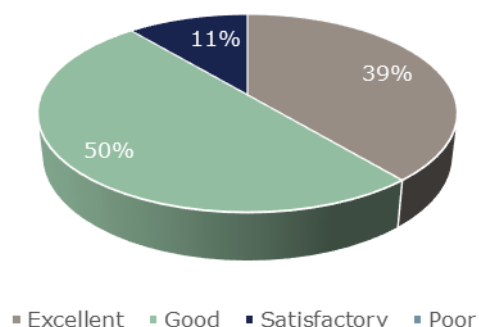
**Minimising disruption to the
service being audited**



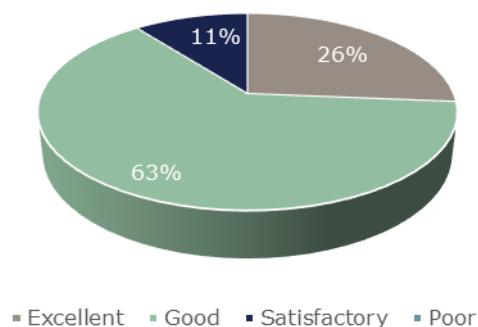
**Communicating issues during
the audit**



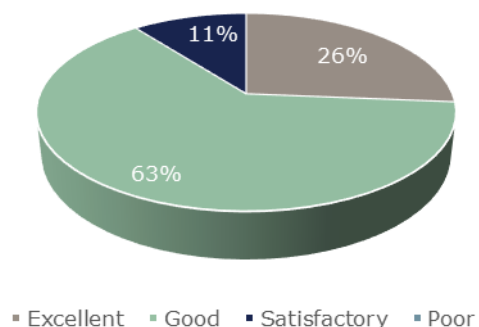
**Quality of feedback at end of
audit**

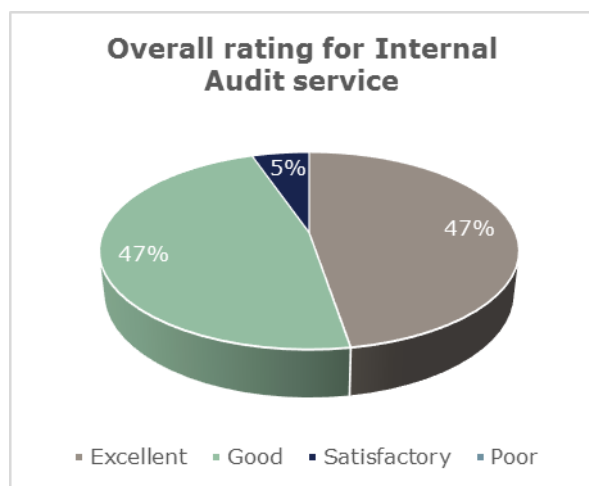


**Accuracy, format, length &
style of audit report**



**Relevance of audit opinions &
conclusions**





The overall ratings in 2022 were:

	2022		2021	
Excellent	9	47%	11	58%
Good	9	47%	6	32%
Satisfactory	1	5%	0	0%
Poor	0	0%	2	11%

The feedback shows that the majority of respondents continue to value the service being delivered.

3.0 Self-Assessment Checklist 2022

CIPFA has prepared a detailed checklist to enable conformance with the PSIAS and the Local Government Application Note to be assessed. The checklist was originally completed in March 2014 and has since been reviewed and updated annually. Documentary evidence is provided where current working practices are considered to fully or partially conform to the standards. A comprehensive update of the checklist was undertaken in 2020, following revisions by CIPFA.

Current working practices are considered to be at standard. However, as in previous years there are a few areas of non-conformance. These areas are mostly as a result of Veritau being a shared service delivering internal audit to a number of clients as well as providing other related governance services. None of the issues identified are considered to be significant. Existing arrangements are considered appropriate for the circumstances and require no further action.

The following table shows areas of non-compliance. These remain largely unchanged from last year, although one area has been removed from the table. This related to whether risk based plans set out the respective priority of audit work. New flexible planning arrangements introduced mean that working practices now comply with the standards in this area.

Conformance with Standard	Current Position
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.
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?	An approach to using other sources of assurance, where appropriate is currently being developed (see below).

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.

An external assessment of Veritau internal audit working practices was last undertaken in November 2018 by the South West Audit Partnership (SWAP). SWAP is a not for profit public services company operating primarily in the South West of England. As a large shared service internal audit provider it has the relevant knowledge and expertise to undertake external inspections of other shared services and is independent of Veritau.

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 audit committee chairs.

A copy the external assessment report was reported to this committee on 06/02/2019.

The report concluded that Veritau internal audit activity generally conforms to the PSIAS⁴ and, overall, the findings were very positive. The feedback included comments that the internal audit service was highly valued by its member councils and other clients, and that services had continued to improve since the last external assessment in 2014.

5.0 Improvement Action Plan

Overall, internal audit services provided by Veritau continue to meet the requirements of the Public Sector Internal Audit Standards. However, we recognise that the pace of change in local government and the wider public sector mean that we need to update aspects of the service to ensure it stays up to date and continues to deliver good value.

Between autumn 2020 and autumn 2021, Veritau undertook a fundamental review of internal audit practices. This resulted in the development of a new three year strategy which details how we will improve the internal audit service for our clients. The strategy sets out the actions we will be taking within Veritau to modernise our practices, from 2021 to 2024. The five key areas we are focussing on are:

- ▲ increasing engagement across all clients; to improve communication and ensure we understand what represents good value and where internal audit work should be focussed
- ▲ further development of strategic planning frameworks; focussing on further development of assurance mapping arrangements and other activities that help us ensure we provide assurance in the right areas at the right time
- ▲ redesign and modernisation of audit processes; to ensure we can respond quickly as priorities change, reduce time to deliver findings and manage resources efficiently
- ▲ increasing investment in high value data analytics work; shifting the focus of work towards a data driven model that provides wider assurance in real time
- ▲ introducing better measures of outcomes from audit work, to enable us to direct resources to areas of most value to our clients.

Strategy focus area 2 includes further development of assurance mapping arrangements. This is an outstanding issue from previous improvement plans. We are currently undertaking a pilot assurance mapping exercise in partnership with officers at one of our key clients. The lessons learnt from this will be used to further develop processes to be rolled out as part of our core internal audit service. Completion of actions in this area will further reduce the areas of non-conformance with the standards (section 3 above).

In the 2020/21 QAIP we reported on the findings from the last Quality Assurance Group review, focussed on the follow up of agreed actions. The findings have been finalised and a programme of work is underway to improve these processes. This includes updates to processes (including integration with client

⁴ PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

risk management systems where appropriate), a full review of all outstanding actions across all clients, and further training for all auditors. This work will be completed in 2022/23.

A further review by the group in 2021/22 focussed on the consistency of opinions given for individual audit assignments. This follows the adoption of a revised four level opinion framework introduced in 2020/21, in accordance with recommendations from Cipfa. It was found that in almost all cases the opinions given on completed work was consistent with the guidance contained in the Veritau audit manual, and supported by the number and priority of actions. Auditors continue to use the guidance and professional judgement when forming conclusions on individual pieces of work. We will feedback and discuss the wider findings as part of auditor training in 2022/23.

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 *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.