



**Report Reference Number: A/18/17**

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**To:** Audit and Governance Committee  
**Date:** 30 January 2019  
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**Lead Officer:** Karen Iveson; Chief Finance Officer (s151 Officer)

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**Title: Internal Audit and Counter Fraud Progress Report 2018/19**

**Summary:**

The purpose of the report is to provide an update on progress made in delivering the internal audit workplan for 2018/19, and to summarise the findings of recent internal audit work. The report also updates the committee on counter fraud work undertaken in the financial year.

**Recommendations:**

**That the committee:**

- a) **Note progress on delivery of internal audit and counter fraud work**
- b) **Comment on the results of the external assessment of internal audit.**

**Reasons for recommendation**

To support the work of the Committee in monitoring internal audit and scrutinising and monitoring control systems.

**1. Introduction and background**

- 1.1 The provision of Internal Audit is a statutory requirement (Accounts & Audit Regulations 2015).
- 1.2 The Audit and Governance Committee approved the Internal Audit and Counter Fraud plans for 2018/19 at its meeting held on 18 April 2018. The purpose of this report is to inform Members of the progress made to date in delivering the 2018/19 plans and to summarise the outcomes of internal audit reviews.

## 2. The Report

- 2.1 Details of internal audit and counter fraud work undertaken in 2018/19 are included in the reports attached at Appendix 1 and Appendix 2 respectively.
- 2.2 Veritau carries out its work in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 2.3 There is no direct linkage to any of the Council's Priorities, as internal audit and counter fraud are support services, providing assurance on corporate governance arrangements, internal control and risk management to the Council's managers in respect of their services.
- 2.4 Specifically, this support is provided to the Council's S151 Officer on financial systems, and support and advice on counter fraud arrangements and investigation services.

## 3. External Assessment

- 3.1 In order to comply with the Public Sector Internal Audit Standards (PSIAS), internal auditors working in local government are required to maintain a quality assurance and improvement programme (QAIP). As part of this programme, providers are required to have an external assessment of their working practices at least once every five years. An external assessment of Veritau Limited and VNY Limited<sup>1</sup> was undertaken in November 2018 by the South West Audit Partnership (SWAP). A copy of the assessors report is included at Appendix 3.
- 3.2 The report concludes that Veritau internal audit activity generally conforms to the PSIAS<sup>2</sup> 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. However, the report does include some areas for further development. These areas, and initial draft proposed actions, are summarised in figure 1 below. Further comment on the proposed actions would be welcomed.

*Figure 1: external assessment - action plan*

<b>Matter for Consideration</b>	<b>Response</b>	<b>Responsibility</b>	<b>Action by</b>
Guidance from the IIA recommends that the	While IIA guidance recommends this	NA	NA

<sup>1</sup> Referred to collectively as Veritau in the remainder of this section.

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

<p>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).</p>	<p>approach, there is no explicit requirement for annual meetings in the standards. And existing audit charters for each client already recognise that the Head of Internal Audit will meet with members of the relevant committee in private, as required.</p> <p>No formal changes to current arrangements are proposed. Although formal annual meetings will be arranged if individual committees express a preference for this arrangement.</p>		
<p>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</p>	<p>The chairman of the Veritau board will be asked to consider whether further input from client Chief Executives and Chairs of Audit Committees (or equivalent) is needed to meet the requirements of the standards.</p>	<p>Veritau Chair</p>	<p>May 2019</p>

the HoIA's performance. (Attribute Standard 1100).			
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).	<p>All work included in annual audit plans is considered a priority for audit in the coming year. However, it is recognised that further prioritisation may support decision making, for example where changes to audit plans are required.</p> <p>As part of the development of audit plans for 2019/20, we will explore how audits included in each plan are given a priority rating.</p>	Deputy Head of Internal Audit and Audit Managers	April 2019
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).	A review of potential sources of assurance for each client will be undertaken during the course of 2019/20. This will be used to assess the scope for more detailed assurance mapping at each client; and to help develop a standard approach if appropriate.	Deputy Head of Internal Audit and Audit Managers	April 2020
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	<p>Actions included in 2018/19 annual reports will be SMART.</p> <p>Progress against actions will be reported to the Veritau and VNY boards during the course of the year.</p>	Head of Internal Audit	June 2019 (annual report)

reported to the Audit Committee annually, the report does not outline the detailed actions with SMART targets for completion. (Attribute Standard 1320).			
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#### **4. Legal/Financial Controls and other Policy matters**

##### **4.1 Legal Issues**

4.1.1 There are no legal issues.

##### **4.2 Financial Issues**

4.2.1 There are no financial issues.

#### **5. Conclusion**

5.1 At the time of drafting this report, there are sixteen 2018/19 audits in progress. Two of these reports are currently at draft report stage. One 2017/18 report has been finalised since the last report to this committee. It is anticipated that the target to complete 93% of the audit plan will be exceeded by the end of April 2019 (the cut off point for 2018/19 audits).

5.2 Up to 31 December, the fraud team has achieved £9.5k in savings for the council and detected £33.6k of loss. There are currently 11 ongoing investigations.

#### **6. Background Documents**

SDC Internal Audit and Counter Fraud Plans 2018/19

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**Appendices:** Appendix 1 – Internal Audit Progress Report 2018/19

Appendix 2 – Counter Fraud Progress Report  
2018/19  
Appendix 3 – Internal Audit external assessment  
report.