



Selby District Council

Annual Report of the Head of Internal Audit 2019/20

Audit Manager:	Ed Martin
Deputy Head of Internal Audit:	Richard Smith
Head of Internal Audit:	Max Thomas
Date:	29 July 2020



Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In respect of reporting, the relevant PSIAS standard (2450) states that the Chief Audit Executive (CAE)¹ should provide an annual report to the board². The report should include:
 - (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
 - (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
 - (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)
 - (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
 - (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
 - (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.
- 2 Councillors approved the annual internal audit plan for 2019/20 at their meeting on 10 April 2019. This report summarises the delivery of the agreed plan and the other information required for the annual report, as set out in paragraph 1 above.

Internal audit work carried out in 2019/20

- 3 A summary of the audit work completed in the year is included at annex 1, below.
- 4 The results of completed audit work are reported to this committee as part of regular progress reports. Some 2019/20 audit work is still to be reported to, and discussed with, officers due to Covid-19. Internal audit normally measures performance by the number of audit reports issued compared to the agreed plan. Due to Covid-19, most audit work had to be suspended in March 2020. This included a number of audits where the fieldwork had been fully or substantially completed. Where possible, these reports have now been issued but it has not been possible to complete all the planned audit work. Before work was suspended due to Covid-19, we were on target to exceed the agreed target of 93% completion of the audit plan by 30 April 2020.

¹ The PSIAS refers to the Chief Audit Executive. This is taken to be the Head of Internal Audit.

² The PSIAS refers to the board. This is taken to be the Audit Committee.

- 5 All of the actions agreed with services as a result of internal audit work are followed up to ensure that the underlying control weaknesses are addressed. The results of follow up work are reported to this committee as part of regular progress reports. The last report in January 2020 confirmed that management were making good progress to implement most agreed actions but some actions had due dates revised by 6 months or more from that originally agreed. Significant outstanding actions are detailed in this report at annex 2.

Audit opinion and assurance statement

- 8 The overall opinion of the Head of Internal Audit on the framework of risk management, governance and control operating within the Council is that it provides Reasonable Assurance.
- 9 This opinion is however qualified, in light of the current coronavirus pandemic and the impact of this on the council. The opinion is based on internal audit work undertaken, and substantially completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short term measures or the overall impact on the framework of governance, risk management and control.
- 10 No reliance was placed on the work of other assurance bodies in reaching this opinion. The opinion is based on internal audit work completed during the year including that detailed in annex 1 and in monitoring reports to the committee during the year.
- 11 Although a Reasonable Assurance opinion can be given, we are aware of some weaknesses in the control environment. In respect of 2019-20 these relate to previously agreed actions to address significant issues, which have not yet been implemented in full. These are detailed in Annex 2 and should be considered in production of the Annual Governance Statement.

Conformance with Public Sector Internal Audit Standards

- 12 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 (PSIAS).
- 13 This Quality Assurance and Improvement Programme (QAIP) includes ongoing quality assurance arrangements and activities, annual self-assessment, external assessments at least once every five years, as well as an annual survey of senior management in each client organisation.
- 14 A detailed self-assessment to evaluate performance against the Standards is undertaken every year. This self-assessment has been carried out using the latest CIPFA checklist published in April 2019. The most recent external

assessment of Veritau internal audit working practices was undertaken in November 2018³. This concluded that Veritau internal audit activity generally conforms to the PSIAS⁴.

- 15 The outcome of the QAIP demonstrates that the service continues to generally conform to the PSIAS, including the Code of Ethics and the Standards. Further details of the QAIP are given in annex 3.

Other Matters

- 16 Veritau set up a Covid-19 Response Team to provide timely advice and support to our member councils to help them to manage the fraud risks and other challenges caused by the pandemic. A specific Covid-19 fraud risk assessment was completed for the council with targeted actions to reduce the emerging fraud risks.
- 17 CIPFA has recently issued guidance on the use of audit opinions by local authority internal audit teams. The guidance includes a recommendation that standard opinions and definitions should be adopted by the sector. The rationale is that it will provide more clarity, improve understanding, allow for easier comparison, reduce disruption (if providers of internal audit services change), allow assurances to be shared more readily across public bodies, and help with training. Annex 4 sets out the recommended opinions and definitions. Adoption of the standard opinions and definitions is not mandatory, however Heads of Internal Audit will be expected to justify why they are not using them. It is expected that most local authorities will adopt the new wording. Apart from a reduction in the number of opinions in use the proposed changes are not considered significant. Council officers have been consulted on the change and the new opinions will be used for all 2020/21 audits.



Max Thomas
Director and Head of Internal Audit
Veritau Ltd

29 July 2020

³ Reported to Audit and Governance committee in January 2019.

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

ANNEX 1: 2019/20 AUDIT WORK COMPLETED

Audit	Status⁵
Corporate Risk Register	
Savings Delivery	Draft report issued (Reasonable Assurance)
Financial Resilience	Draft report issued (Substantial Assurance)
Financial Systems	
Benefits	Draft report issued (Substantial Assurance)
Capital Accounting	Substantial Assurance
Council Tax & NNDR	Fieldwork completed (Reasonable Assurance)
Creditors	Fieldwork completed (Reasonable Assurance)
General Ledger	Draft report issued (Substantial Assurance)
Regularity / Operational Audits	
Community Infrastructure Levy	Draft report issued (Reasonable Assurance)
Data Quality	Draft report issued (Substantial Assurance)
Health and Safety	Draft report issued (Substantial Assurance)
Planning	Support/advice provided
Technical / Project Audits	
ICT Cyber Security Awareness	Reasonable Assurance
Information Security Checks	Substantial Assurance
Project Management	Support/advice provided

⁵ Draft audit opinions have been included in brackets where reports have not been finalised due to Covid-19. The opinion could change if significant new information is received which changes the auditors opinion of risk and control.

INTERNAL AUDIT OPINIONS

The following categories of opinion were used for audit reports during 2019/20.

Opinion	Level of Assurance
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial	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	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	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.

No opinion is given where the audit work was non-assurance or limited in scope. This includes work such as grant claims, fact-finding work, projects, a review of follow-up implementation or consultancy work.

ANNEX 2: SIGNIFICANT ACTIONS OUTSTANDING FROM AUDITS

Audit	Summary of Actions taken and proposed	Priority rating	Responsible Officer	Due	Notes
Information Governance	<ul style="list-style-type: none"> • Most actions relating to DPA 2018 & GDPR have been completed and reported to Selby CIGG. • On-going work is required in relation to information asset management and law enforcement processing which is included within the Information Governance work programme agreed with the Data Protection Officer (Veritau). 	2	Chief Finance Officer (SIRO)	Agreed 2020/21 work programme to be completed by 31 March 2021	<p>An Information Governance plan for 2020/21 will address the remaining actions and will be presented to CIGG.</p> <p>An Information Security Sweep took place in September 2019 and an improvement in physical information security was observed.</p>
Payment Card Industry Data Security Standard (PCI DSS)	New software purchased as old system ceased to be supported. Implementation of new software should resolve PCI DSS issues Management responsibility has been defined. Responsibility for completing annual PCI DSS assessment to be assigned.	1	Head of Business Development and Improvement	<p>Head of Business Development and Improvement</p> <p>Revised date to 31 December 2020 (previously 31 September 2020).</p>	The council procured a new system during 2019-20 to enable PCI DSS compliance. Whilst originally it was hoped that this would be implemented by September 2020(?), delays due to Covid-19 mean this is now likely to be delayed slightly to December 2020. The new system should resolve PCI DSS issues.

Audit	Summary of Actions taken and proposed	Priority rating	Responsible Officer	Due	Notes
Contract Management and Procurement	<p>An audit found there were no procedures for reporting breaches to the Contract Procedure Rules once they have been identified.</p> <p>CPRs have been updated but due to Covid-19 follow up testing has not been completed to confirm the implementation and effectiveness of the new procedures.</p>	2	Head of Commissioning, Contracts & Procurement	31 March 2020	<p>The CPRs have been updated to include that breaches are a serious matter that need to be reported so that they can be investigated further. The CPRs also include details on who breaches should be reported to.</p> <p>Once breaches have been identified they will be recorded so that they can be reported to the Council's Leadership Team.</p>
Performance Management	<ul style="list-style-type: none"> • PDR guidance to be reviewed and updated • HR to undertake QA review of sample of PDRs • Return rate of PDRs to be monitored & all PDRs reviewed and returned to manager if not complete. • Training plan to be completed promptly following PDR process. 	2	Head of Business Development and Improvement	Revised date 31 December 2020 (previously September 2020)	<p>A wholesale review of PDRs is planned for 2020 but this has been delayed.</p> <p>Existing guidance will be updated in advance of the next round of PDRs, to be completed at the end of 2020/21.</p>



ANNEX 3: 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 (Galileo)
- file review by senior auditors and audit managers and sign-off of 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 files are also 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 a senior audit manager. 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 (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 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 board⁶ 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 – 2020

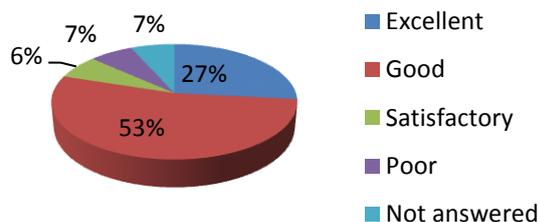
⁶ As defined by the relevant audit charter.

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2020. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 136 surveys (2019 – 171) were issued to senior managers in client organisations. 15 completed surveys were returned representing a response rate of 11% (2019 - 12%). The surveys were sent using Survey Monkey and the respondents were required to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:

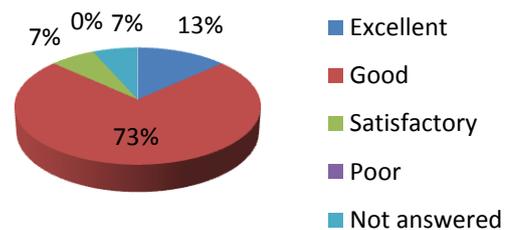
- Excellent (1)
- Good (2)
- Satisfactory (3)
- Poor (4)

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

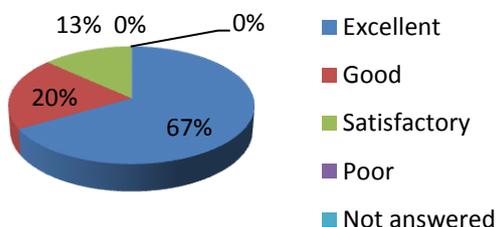
Quality of audit planning / overall coverage



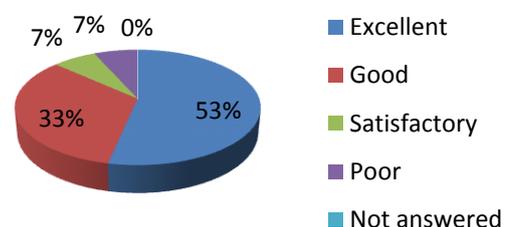
Provision of advice / guidance



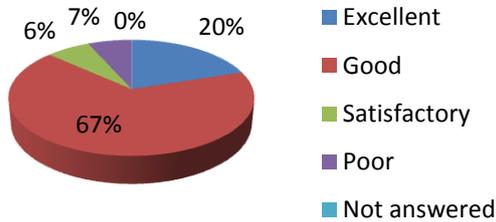
Staff - conduct / professionalism



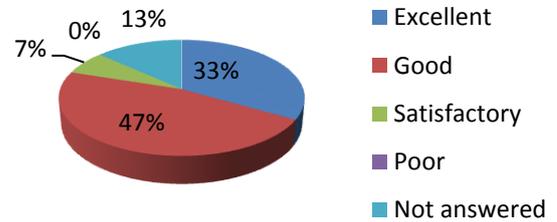
Ability to establish positive rapport with customers



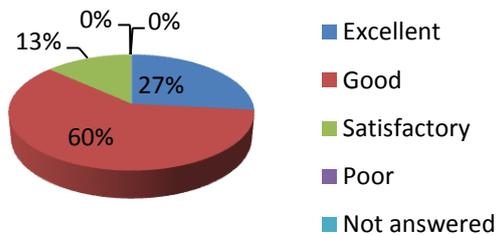
Knowledge of system / service being audited



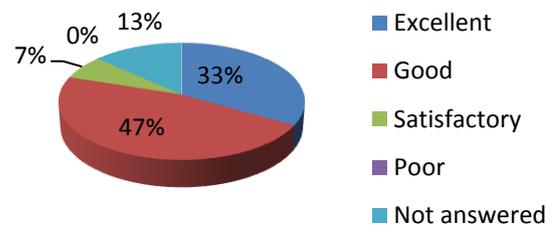
Minimising disruption to the service being audited



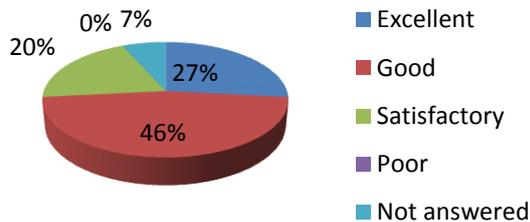
Communicating issues during the audit



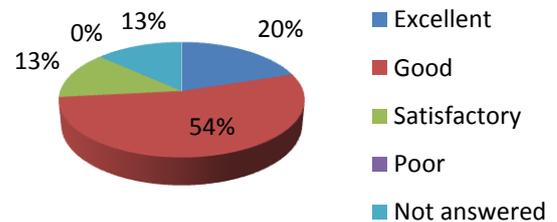
Quality of feedback at end of audit



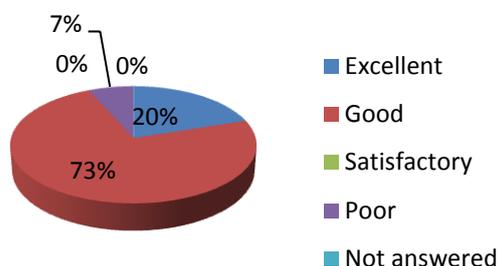
Accuracy / format / length / style of audit report



Relevance of audit opinions / conclusions



Overall rating for Internal Audit service



The overall ratings in 2020 were:

	2020		2019	
Excellent	3	20%	11	55%
Good	11	73%	6	30%
Satisfactory	0	0%	3	15%
Poor	1	7%	0	0%

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

3.0 Self-Assessment Checklist – 2020

CIPFA 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. In April 2019, CIPFA published a modified version of the checklist and this has been used to complete the latest self-assessment. The revised checklist includes some additional guidance on what constitutes compliance, and amalgamates a number of relevant checklist areas.

The current working practices are considered to be at standard. However, a few areas of non-conformance have been identified. 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 and the existing arrangements are considered appropriate for the circumstances and hence require no further action.

The table below showing areas of non-compliance has been updated to reflect the new checklist.

<u>Conformance with Standard</u>	<u>Current Position</u>
Where there have been significant additional consulting services agreed during the year that were not already	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The

<u>Conformance with Standard</u>	<u>Current Position</u>
included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	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.
Does the risk-based plan set out the respective priorities 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?	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 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 in February 2019.

The report concluded that Veritau internal audit activity generally conforms to the PSIAS⁷ 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

The external assessment identified a number of areas for further consideration and possible improvement. An action plan was developed to address these areas. One action remains to be completed, as follows:

Recommendation	Current Position
<p>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).</p>	<p>This work is ongoing. Other potential sources of assurance have been identified for each client. This information is now being used to develop more detailed assurance mapping. A standard methodology and approach is also being developed.</p>

In 2019/20, the Quality Assurance group reviewed internal processes for undertaking and recording testing of internal controls. The review identified that testing methodologies were generally good, were relevant to the controls being tested and that appropriate conclusions were being reached. However, improvements were needed to the documentation of testing in some areas. The review also found some cases where the use of data analytics should have been considered, rather than relying on sample testing. This could have improved the level of assurance obtained and provided more useful data for the client. Further training will be delivered to the internal audit teams, covering these areas, in 2020/21.

The following areas will also continue to be a priority in 2020/21:

- Further development of in-house technical IT audit expertise
- Investment in new data analytics capabilities

⁷ PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

We also plan to review the audit opinions used for reporting to ensure they remain aligned with best practice.

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.



ANNEX 4: INTERNAL AUDIT OPINIONS – 2020/21

The opinions and related definitions now being recommended by CIPFA are:

Opinion	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited