

HEAD OF INTERNAL AUDIT ANNUAL REPORT 2025/26

25 June 2026

APPENDIX 1

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Ed Lambert-Martin
Internal Audit Manager



Stuart Cutts
Assistant Director - Internal
Audit (Head of Internal Audit)

Background



- 1 The work of internal audit is governed by the Global Internal Audit Standards in the UK Public Sector 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.
- 2 To assist the committee in interpreting the annual report, it 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 outcomes from the internal audit service's quality assurance arrangements, including a statement on conformance to professional standards.

Internal audit work carried out in 2025/26



- 3 Audit work has been prioritised based on risk. The programme has been updated throughout the year to reflect changing risks and priorities.
- 4 We have also continued to promote good governance, provide advice and support, and make recommendations to management to help improve controls. We have met with the Assistant Director – Finance and directorate management teams and other officers on a regular basis to help identify and address governance issues and concerns, and to ensure audit work has remained targeted towards key areas.
- 5 The results of completed audit work have been reported to service managers and chief officers during the course of the year. In addition, summaries of all finalised audit reports have been presented to this committee as part of regular progress reports.
- 6 An overview of internal audit work undertaken 2025/26, and relevant to the Head of Internal Audit's opinion, is contained in Annex A. This appendix also shows other work undertaken by the internal audit team to support the council during the year.

Position of work

- 7 At the time of writing, five audits have been finalised since the previous report to this committee in April 2026. A further audit report (Asset management) has been issued to the responsible officer in draft.
- 8 Two audits are at fieldwork completed stage. Draft reports have not yet been issued. We are working to ensure these are issued at draft report stage before the date of the June committee.
- 9 Four audits are ongoing and will be reported in the first 2026/27 progress report to members. See Annex A for the audits that are in progress, and the stage they are at.
- 10 Annex B provides details of the key findings arising from internal audit assignments completed, that we have not previously reported to the committee.
- 11 Annex C provides details of progress on ongoing audits. This includes when audits were started, the scope of the audit, commentary on progress including any issues that have caused delays and an expected date for the issuing of the final report and a summary to this committee.
- 12 Annex D provides an explanation of our assurance levels and priorities for management action.

Follow up of agreed actions

- 13 All actions agreed with services as a result of internal audit work are followed up to ensure that issues are addressed. A refreshed follow-up and escalation procedure was agreed for 2025/26.
- 14 Based on follow up work completed, we are generally satisfied that sufficient progress is being made to address the control weaknesses identified in previous audits. A summary of the current status of follow up activity is included at annex E.

Professional standards

- 15 In order to comply with professional standards, the Head of Internal Audit is required to develop and maintain a quality assurance and improvement programme (QAIP).
- 16 The objective of the QAIP is to ensure that working practices continue to conform with the standards. A summary of quality assurance processes, and any areas identified for development, are reported to the committee each year as part of the annual report. The arrangements consist 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).
- 17 External assessments must also be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. An external assessment of Veritau's internal audit working practices was undertaken between June and August 2023 by John Chesshire, an approved reviewer for the Chartered Institute of Internal Auditors (the UK and Ireland's local chapter)¹.
- 18 The assessment involved a full independent validation of Veritau's own self-assessment of conformance to the Public Sector Internal Audit Standards (PSIAS)², as well as to the wider International Professional Practices Framework which governed the performance of internal auditing globally at the time the assessment was undertaken. The report concluded that Veritau's internal audit activity generally conforms to the PSIAS³ and, overall, the findings were very positive.
- 19 The feedback included comments that the internal audit service was highly valued by its clients. Key stakeholders felt confident in the way Veritau had established effective working relations, both in our approach to planning and the way in which we engaged flexibly with our clients throughout the internal audit process, at the strategic and operational levels.
- 20 Effective from 1 April 2025, the PSIAS were replaced by what are known as the Global Internal Audit Standards in the UK Public Sector. These standards are made up of the Institute of Internal Auditors' Global Internal Audit Standards (GIAS) and the Application Note: Global Internal Audit Standards in the UK Public Sector ('the Application Note'). The Application Note interprets the GIAS, clarifying how they should be applied in UK public sector organisations.
- 21 In the UK, the body responsible for interpreting the GIAS and setting expectations for the performance of internal audit in the public sector is the Internal Audit Standards Advisory Board (IASAB). The IASAB is made up of six 'Relevant Internal Audit Standard Setters' (RIASS) representing central

¹ Reported to the Audit and Governance committee in November 2023.

² The assessment undertaken in 2023 was made against the PSIAS as the standards applicable at the time. The PSIAS were replaced by the GIAS UK Public Sector on 1 April 2025.

³ PSIAS guidance suggested a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' was the top rating.

and local government, and the health sector. The RIASS for UK local government is the Chartered Institute of Public Finance and Accountancy (CIPFA). The IASAB developed the Application Note, releasing it in the early part of 2025.

- 22 The Global Internal Audit Standards (from which the Application Note provides its local government interpretations) were launched on 9 January 2024 and became effective on 9 January 2025. Veritau has used a conformance assessment toolkit, published by CIPFA in January 2026, to undertake our self-assessment against the Global Internal Audit Standards in the UK Public Sector. At the time of reporting, the self-assessment has not been finalised, but no conformance issues have been identified to date.
- 23 Our overall assessment is that Veritau conforms to the Global Internal Audit Standards in the UK Public Sector. However, through application of the QAIP, we have identified some actions to help strengthen our ability to demonstrate conformance and to continuously improve service delivery.
- 24 Details of Veritau's QAIP are set out in annex F.
- 25 The internal audit charter sets out how internal audit at the council will be provided in accordance with professional standards. The charter is reviewed on an annual basis. It was updated following the introduction of the Global Internal Audit Standards in the UK Public Sector in April 2025 and was presented to the committee in May 2025. No further changes are considered necessary at this time.

Opinion of the Head of Internal Audit



- 26 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**.
- 27 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. We have considered the work of other assurance providers where appropriate. No formal reliance has been placed on their work in forming this opinion.
- 28 In forming this opinion, consideration has been given to the level of assurance provided across individual audit assignments, the significance of identified control weaknesses, and the extent to which key risks facing the Council have been subject to internal audit review. There have been no impairments to the independence or objectivity of internal audit during the year.
- 29 A small number of audits within the 2025/26 programme were not finalised at the time of preparing this report. However, sufficient work has been completed, and sufficient evidence obtained, to enable the Head of Internal

Audit to form an overall opinion on the Council's framework of governance, risk management and control. These audits are not expected to have a material impact on the opinion provided.

- 30 In giving our opinion, there are no significant control weaknesses which, in the opinion of the Head of Internal Audit, need to be considered for inclusion in the Council's annual governance statement.
- 31 However, we are bringing to the attention of the committee the audit of no recourse to public funds (Children's services). This audit received an opinion of Limited Assurance and contained a number of findings rated as Significant. The council has provided detailed action plans in order to address these issues and whilst the findings are significant for the service and should be addressed as soon as possible we do not believe they indicate wider control issues. We are therefore not recommending them for inclusion in the Council's annual governance statement.

ANNEX A: INTERNAL AUDIT WORK IN 2025/26

Final reports issued

Audit	Reported to Committee	Opinion
Treasury management	July 2025	Substantial Assurance
Teesside Pension Fund – Investments	July 2025	Substantial Assurance
Procurement cards (follow-up)	July 2025	Reasonable Assurance
Commercial property income Regen	July 2025	Reasonable Assurance
Domestic abuse	July 2025	Limited Assurance
Server admin (IT)	July 2025	Substantial Assurance
Council Tax and NNDR	July 2025	Substantial Assurance
Members’ allowances and declarations of interest	July 2025	Reasonable Assurance
VAT Accounting	September 2025	Substantial Assurance
Homelessness	September 2025	Reasonable Assurance
Anti-social behaviour management	December 2025	Reasonable Assurance
Debtors	April 2026	Substantial Assurance
Information security	April 2026	Reasonable Assurance
Savings plans delivery	April 2026	Reasonable Assurance
Middlesbrough Community Learning Service (MCLS) – subcontracting standards compliance	April 2026	No opinion given
Business continuity	April 2026	Substantial Assurance
Schools themed audit	April 2026	Reasonable Assurance
Cyber security: malware protection	April 2026	Reasonable Assurance
No recourse to public funds (CS)	June 2026	Limited Assurance
Benefits	June 2026	Substantial Assurance
Partnerships	June 2026	Substantial Assurance
Creditors	June 2026	Substantial Assurance
ASC Financial assessments	June 2026	Substantial Assurance

Other work in 2025/26

Internal audit work has been undertaken in a range of other areas during the year, including those listed below.

- ▲ A review of grant claims including those relating to:
 - ▲ Delivering Better Value in SEND
 - ▲ Bus Service Operators
 - ▲ City Region Sustainable Transport Settlements
- ▲ Supporting District Centre Improvement Grant (DCIG) processes
- ▲ Supporting counter fraud colleagues relating to whistleblowing referrals and other internal investigations
- ▲ Follow up of agreed management actions
- ▲ Reviews of key corporate governance areas to inform risk assessments and audit planning and prioritisation for 2026/27, including: performance management, project management, people management.
- ▲ Provision of general support and advice, and regular liaison with officers.

Audits in progress

Audit	Status
Asset management	Draft report
Planning applications	Fieldwork complete
Home to school transport	Fieldwork complete
Records management	Fieldwork in progress
Section 17 payments	Fieldwork in progress
Climate change	Fieldwork in progress
Implementation of the Procurement Act	Fieldwork in progress

Further explanation of audit progress status

Status	Further explanation
Planning	We are working with officers to define and agree the scope and timing of the internal audit work.
Fieldwork in progress	A specification has been issued and agreed with officers which includes target dates for key work deadlines. Fieldwork has started.
Fieldwork complete	Fieldwork has been completed. Closing meetings to discuss findings are taking place and/or the audit is subject to internal quality assurance review.
Draft report issued	A report with findings has been shared with officers. Appropriately focused actions with deadlines for completion need to be provided by officers before an agreed final report can be issued.

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

System/area	Opinion	Area reviewed	Date issued	Comments / Key issues identified	Management actions agreed
No recourse to public funds (Children's services)	Limited Assurance	<p>The audit reviewed the council procedures to ensure:</p> <ul style="list-style-type: none"> Processing is in line with legislation cases are managed appropriately (including multi-service responses) funds are accessed and approved the transition of children with NRPF from children to adult's services, without discontinuity of NRPF support. <p>The audit was commenced under previous management in children's services.</p>	21 May 2026	<p>The council lacks specific policies aligned to NRPF legislation. Guidance omits key elements, including legal advice and funding considerations. This creates a risk of inconsistency and non-compliance.</p> <p>Cases are generally well managed, with qualified leads, multi-service input, and regular oversight. The absence of formal policy means staff must source key information independently.</p> <p>NRPF expenditure is not consistently coded, leading to incomplete oversight. Approval processes lack transparency, sufficient challenge, and routine finance involvement. Arrangements are in place and operating between services. Limited case numbers restrict the level of assurance.</p>	<p>3 significant findings were agreed. Responsible officer(s): Corporate Director of Children's Services and Finance Business Partner.</p> <p>The council will introduce a formal policy framework and improve guidance and training.</p> <p>Financial control will be strengthened, including enhanced monitoring of spend.</p> <p>Officers will ensure appropriate finance involvement in decision-making and regular review of financial risks.</p> <p>Actions will also improve forward planning and coordination, supporting more effective management of complex cases and transitions.</p> <p>All actions will be completed by 30 September 2026.</p>

System/area	Opinion	Area reviewed	Date issued	Comments / Key issues identified	Management actions agreed
Benefits	Substantial Assurance	<p>The work covered whether:</p> <ul style="list-style-type: none"> • Applications for Housing Benefit and Council Tax Support are processed promptly and accurately • Payments are made and accurately recorded in the council's accounts • Overpayments are minimised and recovered promptly, with appropriate write-off arrangements • Effective monitoring of entitlements, overpayments and adjustments is in place 	29 May 2026	<p>Applications are processed in line with targets. Performance is monitored through KPIs, quality assurance, and regular oversight.</p> <p>Daily reconciliations ensure payments are accurate and recorded correctly. Discrepancies are identified, investigated, and resolved promptly.</p> <p>Controls minimise overpayments. Recovery processes are effective, and write-offs are appropriately authorised.</p> <p>Monitoring is well established. Reviews and system reporting ensure entitlements remain accurate and adjustments are identified promptly</p>	No management actions required.

System/area	Opinion	Area reviewed	Date issued	Comments / Key issues identified	Management actions agreed
Partnerships	Substantial Assurance	<p>The audit reviewed whether:</p> <ul style="list-style-type: none"> Annual partnership health assessments are completed, up to date, and aligned to governance standards The partnership register is up to date and reflects links to the council's strategic priorities Partnership risks are appropriately identified, recorded, and linked to the council's risk registers Controls identified on the Chief Executive's risk register for partnership working are in place and operating effectively 	29 May 2026	<p>Annual partnership assessments are completed on time using a consistent template and aligned to governance standards. However, some elements were not fully updated, reducing the reliability of reported information.</p> <p>The partnership register is up to date and clearly links partnerships to the council's strategic priorities.</p> <p>Most partnerships maintain risk registers. However, some do not have registers in place, and some link officers lack appropriate access, limiting risk visibility.</p> <p>Controls on the Chief Executive's risk register are in place, operating effectively, and subject to regular oversight. One partnership is rated red, with an improvement plan in place.</p>	<p>2 moderate findings were agreed.</p> <p>Responsible officer(s): Head of Chief Executive's Department.</p> <p>The council will reinforce requirements to ensure all elements of partnership assessments are fully reviewed and updated annually.</p> <p>Action will be taken to ensure partnership risk registers are in place where required, kept up to date, and accessible to link officers.</p> <p>These actions will strengthen oversight, improve risk visibility, and support consistent application of partnership governance requirements.</p> <p>All actions will be completed by 31 October 2026.</p>

System/area	Opinion	Area reviewed	Date issued	Comments / Key issues identified	Management actions agreed
Creditors	Substantial Assurance	<p>The audit reviewed whether:</p> <ul style="list-style-type: none"> • Appropriate performance management arrangements are in place to monitor and report on creditor performance. • Duplicate invoices are identified and payment prevented. • There are suitable procedures in place for setting up new suppliers and amending supplier details and these are followed correctly. • Goods and services are ordered in line with the Council's financial regulations, appropriately authorised, and paid in line with agreed timescales 	5 June 2026	<p>Creditor performance is effectively monitored through monthly dashboards and KPIs, with the 30-day payment target consistently achieved.</p> <p>Controls to detect and recover duplicate payments are operating well, although formal guidance is limited.</p> <p>Processes for supplier setup are robust with clear segregation of duties. However segregation of duties was not consistently in place for making amendments to supplier details.</p> <p>While policies for managing creditor fraud are in place, staff training is outdated.</p> <p>Overall goods and services are ordered in line with the council's financial regulations, appropriately authorised, and paid in line with agreed timescales.</p>	<p>1 significant and 2 moderate findings were agreed.</p> <p>Responsible officer(s): Operations manager, Strategic Business Manager.</p> <p>The council will review and revised the procedures for the amendment of suppliers to ensure the requirement for a segregation of duties is clear and ensure staff are aware of this requirement.</p> <p>The council will ensure processes for identification and handling of duplicate invoices is clearly documented in creditors guidance.</p> <p>The council will arrange for cyber security and mandate fraud training for the accounts payable and receivable teams.</p> <p>All actions will be completed by 31st July 2026</p>

System/area	Opinion	Area reviewed	Date issued	Comments / Key issues identified	Management actions agreed
ASC Financial assessments	Substantial Assurance	<p>The audit reviewed whether:</p> <ul style="list-style-type: none"> • Policies and procedures are in place, up-to-date and aligned with legislation. • Guidance and correspondence is provided to individuals in an accessible format and a suitable timeframe, allowing for informed decisions to be made. • Financial assessments are completed in a timely manner, correct procedures are followed, and documentation is retained and recorded appropriately. • Reviews of financial assessments are undertaken in a timely manner. 	15 June 2026	<p>The council has established a robust and compliant framework for financial assessments, aligned with the Care Act 2014.</p> <p>Clear and accessible guidance supports informed decision-making.</p> <p>Assessments are completed promptly, with strong performance monitoring, documentation standards, and management oversight.</p> <p>Staff are supported through structured training, supervision, and quality assurance processes.</p> <p>Review mechanisms operate effectively with appropriate oversight and timely client communication.</p> <p>While arrangements are generally effective, there is an opportunity to enhance ContrOcc functionality to streamline processes, reduce manual effort, and improve efficiency and document management.</p>	<p>1 opportunity finding was agreed.</p> <p>Responsible officer(s): Senior financial officer</p> <p>The council will develop a timeline and project plan outlining the requirements for IT and Finance, ensuring that all letters are prepared in readiness for the April 2027 annual uplift, with clear ownership assigned to each element and agreed completion dates established.</p> <p>This action will be completed by 31st July 2026</p>

ANNEX C: SUMMARY OF PROGRESS ON ONGOING AUDITS

Audit	Specification issued	Scope	Details on progress	Target final report date	Target committee date
Planning applications <i>Fieldwork complete</i>	September 2025	Compliance with legislation and guidance, compliance with policies and procedures.	Fieldwork has been substantially completed. Some final information is being requested. Internal audit quality review needs to take place and a closing meeting to be held with the service.	June 2026	October 2026
Asset Management <i>Draft report issued</i>	March 2026	Asset strategy, long term plans to manage assets, assets sales.	Fieldwork has been completed and a draft report has been issued to responsible officers. Reasonable assurance opinion given with a number of moderate findings but no significant control weaknesses.	June 2026	October 2026
Home to school transport <i>Fieldwork complete</i>	March 2026	Policy and procedures, transport referrals, emergency procedures, non-school transport.	Fieldwork has been completed and a report is being drafted. Internal quality review needs to take place and a closing meeting to be held with the service.	June 2026	October 2026

Audit	Specification issued	Scope	Details on progress	Target final report date	Target committee date
Records Management <i>Fieldwork in progress</i>	February 2026	Governance over management of records, access to records, retention and disposal,	Fieldwork in progress; systems documented. Testing has been delayed due to resourcing constraints but expected to be substantially completed during June.	August 2026	October 2026
Section 17 payments <i>Fieldwork in progress</i>	February 2026. Re-issued April 2026	Roles and responsibilities, plans, policies and procedures, authorisation of payments, budgetary control.	Start delayed due to key staffing changes in service. Testing strategy in place. Fieldwork to start in June 2026.	September 2026	October 2026
Climate change <i>Fieldwork in progress</i>	April 2026	Governance arrangements, embedding of plans in services, strategy priorities and actions.	Delayed response to specification. Agreed in May 2026 and fieldwork to start in June 2026.	September 2026	October 2026
Implementation of the Procurement Act <i>Planning</i>	April 2026	Procurement strategy and policies; training and guidance; compliance with the Procurement Act 2023.	Delayed response to specification. Fieldwork to start in June 2026.	August 2026	October 2026

ANNEX D: ASSURANCE AUDIT OPINIONS AND FINDING PRIORITIES

Audit opinions

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. Our overall audit opinion is based on four grades of opinion, as set out below.

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.

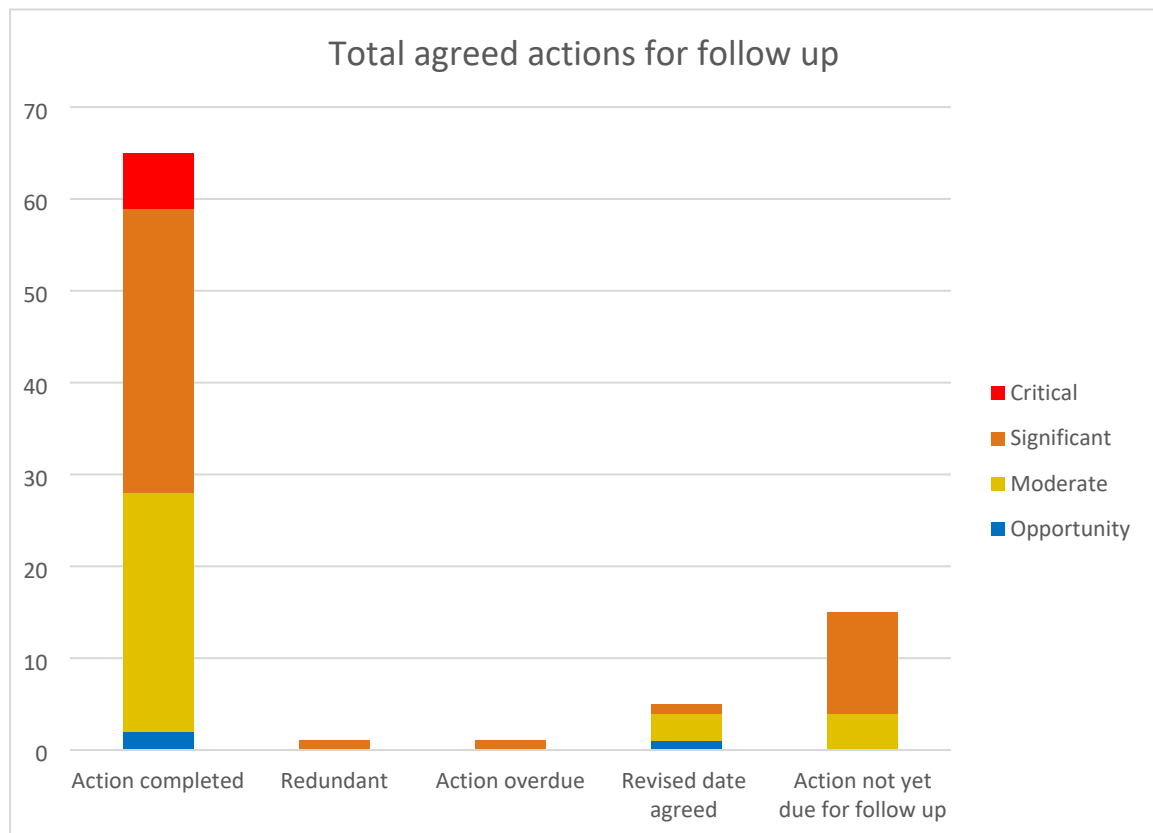
Finding ratings

Critical	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Significant	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Moderate	The system objectives are not exposed to significant risk, but the issue merits attention by management.
Opportunity	There is an opportunity for improvement in efficiency or outcomes but the system objectives are not exposed to risk.

ANNEX E: FOLLOW UP OF AGREED AUDIT ACTIONS

- 1 Follow-up work is carried out through a combination of notifications via the Council's Pentana system, questionnaires completed by responsible managers, risk assessment, and by further detailed review by the auditors where necessary.
- 2 Where responsible officers have not taken the action they agreed to, issues are escalated to more senior officers. Ultimately, they may be referred to the Audit Committee in accordance with the follow-up and escalation procedure.
- 3 In figure 1, below, the status of agreed actions from follow-up activity undertaken up to 27 May 2026 is shown⁴.
- 4 For clarity, the figure shows the results of follow up activity for this period, regardless of when actions were originally due (that is, it includes actions which were due over twelve months ago but which are still being followed up).
- 5 For completeness, it also shows the number of actions which have been agreed in finalised audits but which have either (a) not yet fallen due, so have not been followed up or (b) which have been followed up and a revised completion date has been agreed.

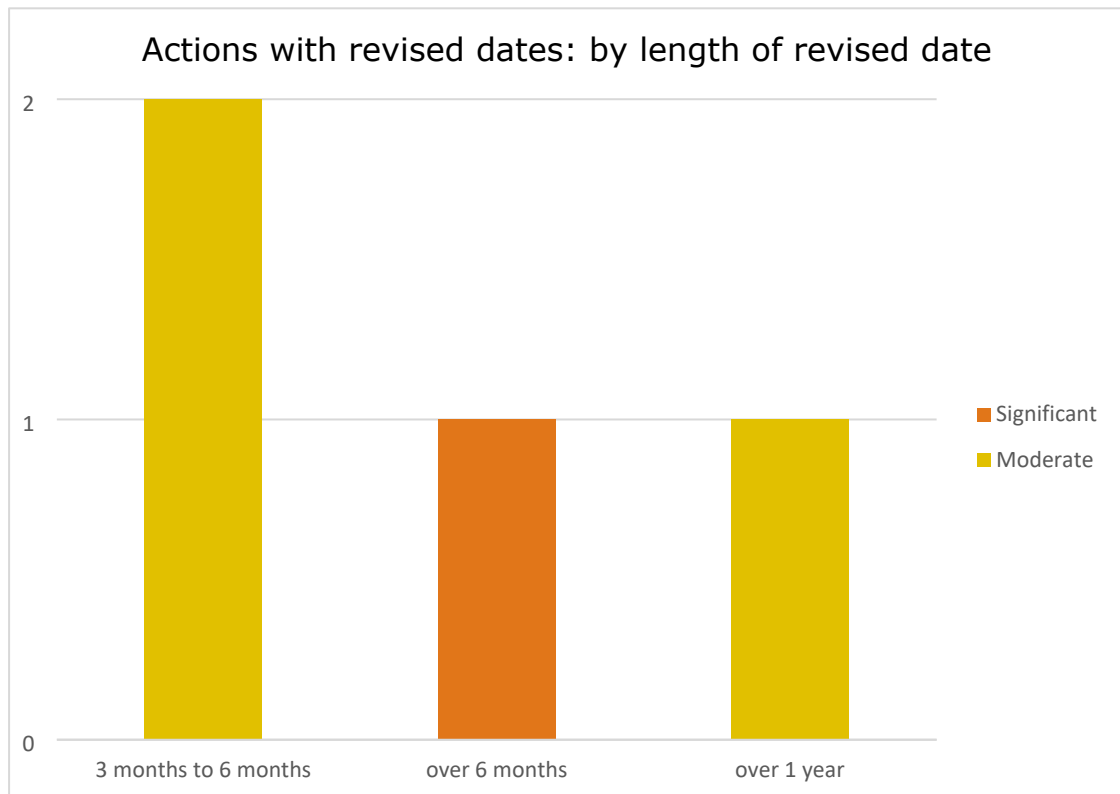
Figure 1: Total agreed actions by current status



⁴ Effective 1 April 2025, follow-up data has been reported on a rolling 12-month basis.

- 6 A total of 74 actions have been followed up in the last twelve months. Of these, 65 have been satisfactorily implemented (88%). Thirteen actions are not yet due for follow-up as their original implementation date has not passed at the time of reporting.
- 7 A total of four outstanding actions have had their original implementation timescale extended. A revised implementation date has been agreed with the action owner. We agree revised dates where the delay in addressing an issue will not lead to unacceptable exposure to risk and where the delays may be unavoidable. Although lengthy or continued revision of implementation dates can increase the risk of issues occurring. Figure 2, below, shows how long dates have been extended beyond original implementation dates.

Figure 2: Length of revised dates agreed for action implementation



- 8 At the time of reporting, no actions are overdue.

ANNEX F: INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

1.0 Background

Quality assurance and improvement programme (QAIP)

Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards. From April 2025 those standards are the Global Internal Audit Standards in the UK Public Sector. Veritau's QAIP includes:

- ▲ the maintenance of a detailed audit procedures manual
- ▲ the requirement for all audit staff to conform to a 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 operational 121 meetings for all auditors, to review progress with audit engagements, and formal 121s that include discussion of overall performance and development
- ▲ 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 in a structured format using our audit management system – K10 Vision
- ▲ 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
- ▲ regular client liaison meetings to discuss progress, share information and evaluate performance.

On an ongoing basis, completed audit work is 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 (Head of Internal Audit). Any key learning points are shared with the relevant internal auditors and internal audit management team. 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, Veritau seeks feedback from each client on the quality of the overall internal audit service. This includes surveys targeted at senior officers and chairs of audit committees. The Head of Internal Audit also undertakes an annual self-assessment against internal audit standards. As part of ongoing performance management arrangements, managers and auditors assess current skills and knowledge against the competency profiles for internal audit roles. Where necessary, further training or support will be provided to address any development needs.

The internal audit management team also participate in various professional networks and obtain information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes.

The results of annual client surveys, self-assessment against the standards, professional networking, and ongoing quality assurance and performance management arrangements are used to identify any areas requiring further development or improvement. Actions required are reflected in Veritau business plans, the Veritau internal audit strategy, and individual personal development plans as appropriate. Any specific changes needed to address conformance with professional standards are reported to the Audit Committee as part of the annual report of the Head of Internal Audit. The report also summarises other development activity planned to enhance the delivery of the service. Information gathered for quality assurance and development purposes is also used to evaluate overall conformance with internal audit standards.

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. Any specific areas identified as requiring further development and/or improvement will be incorporated into current development plans.

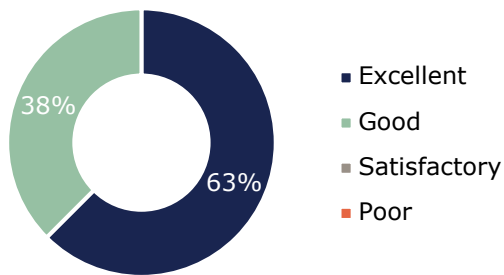
2.0 Customer satisfaction survey 2026

In March 2026, we asked clients for feedback on the overall quality of the internal audit service provided by Veritau during the preceding year. Where relevant, the survey also asked questions about counter fraud and information governance services. A total of 189 surveys (2025 – 188) were issued to senior managers in client organisations. A total of 24 responses were received, representing a response rate of 13% (2025 – 17%). Respondents were asked to

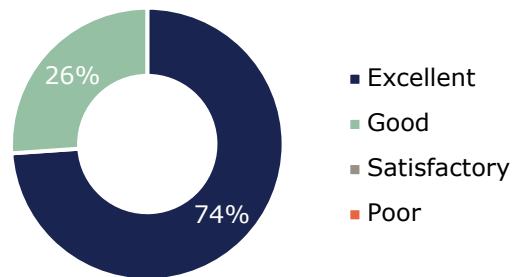
rate the different elements of the audit process as either excellent, good, satisfactory or poor.

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 relatively low number of respondents means that the percentage for each category is sensitive to small changes in the selected response (1 respondent represents about 4%).

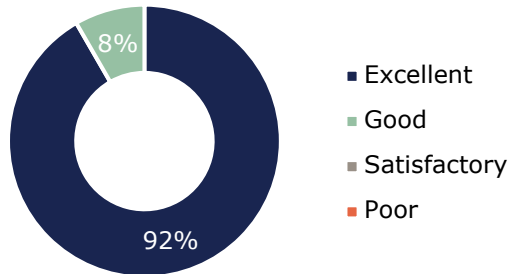
Quality of audit planning / coverage



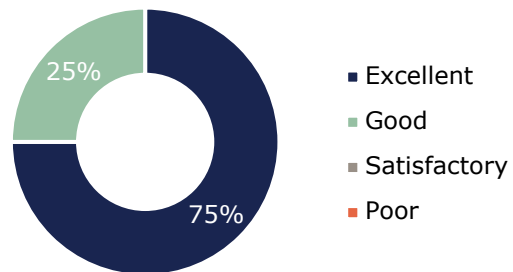
Provision of advice / guidance



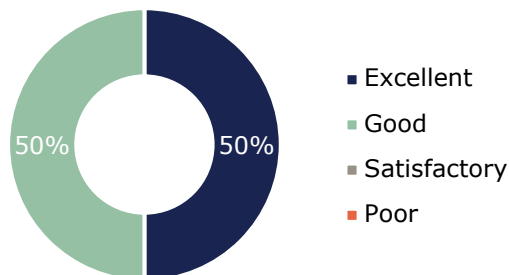
Staff conduct & professionalism



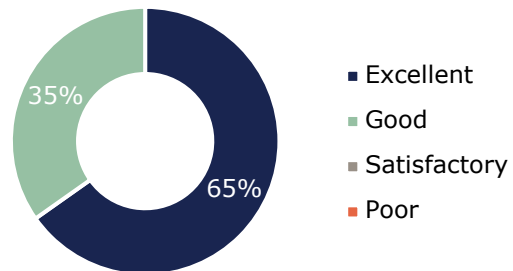
Ability to establish positive rapport



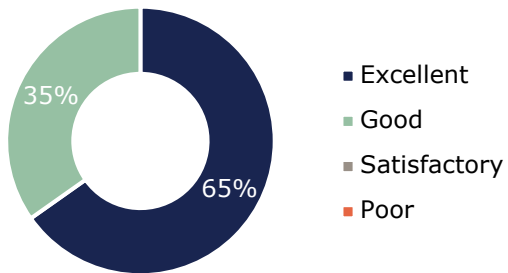
Knowledge of area being audited



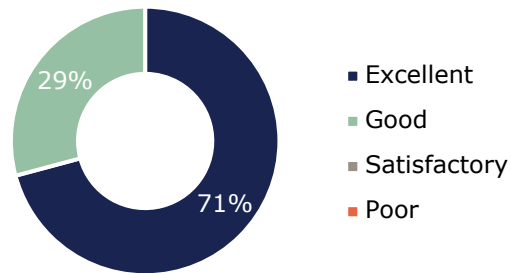
Minimising disruption for area being audited



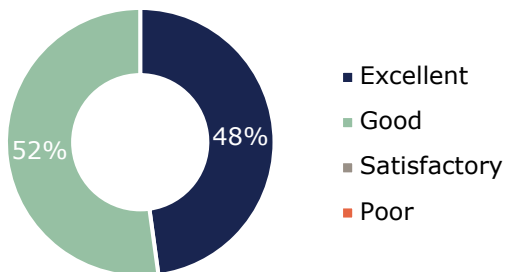
Communication of issues during audit



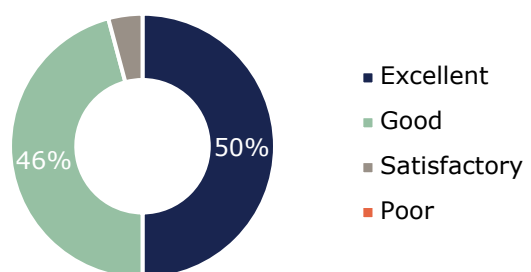
Quality of feedback at end of audit



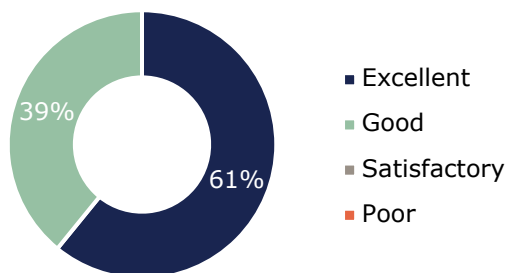
Accuracy / format / length / style of report



Relevance of audit opinions & conclusions



Overall rating for the Internal Audit service



The overall ratings in 2026 were:

	2026 ⁵		2025	
Excellent	14	61%	18	56%
Good	9	39%	12	38%
Satisfactory	0	0%	2	6%
Poor	0	0%	0	0%

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

3.0 Internal audit quality and effectiveness survey (audit committee chairs) 2026

In April 2025, Veritau issued its first internal audit quality and effectiveness survey. The survey was sent to the chairs of the audit committees (or equivalent) of our larger clients. Its purpose was to seek the chairs' feedback on how well Veritau had performed, during 2024/25, in supporting the work of their committees. The same survey was issued in April 2026.

The survey includes eight questions covering consultation on audit priorities, coverage and relevance of audit work, timeliness of responses and communication of key issues, quality of reporting, and professionalism. Respondents are also asked to provide an overall rating for the service.

A total of 10 surveys (2025 – 10) were issued in April 2026. Seven responses were received, representing a response rate of 70% (2025 – 50%). Respondents were asked to provide a rating of excellent, good, satisfactory or poor for each question.

The overall ratings in 2026 were:

	2026 ⁶		2025	
Excellent	5	83%	3	60%
Good	0	0%	2	40%
Satisfactory	1	17%	0	0%
Poor	0	0%	0	0%

Overall, the feedback shows that audit committee chairs continue to consider Veritau's internal audit service effective.

⁵ Despite responding either 'excellent' or 'good' to the 10 other questions in the survey, one respondent did not provide an overall rating. Therefore, the total response count in the table for 2026 equals 23 rather than 24.

⁶ Despite responding either 'excellent' or 'good' to the seven other questions in the survey, one respondent did not provide an overall rating. Therefore, the total response count in the table for 2026 equals 6 rather than 7.

4.0 Self-assessment against audit standards

The Accounts and Audit Regulations 2015 require internal auditors working in local government to take into account public sector internal auditing standards or guidance. CIPFA (who are responsible for setting internal audit standards for local government) has adopted the Global Internal Audit Standards in the UK Public Sector – or GIAS (UK Public Sector). These standards came into effect on 1 April 2025.

Prior to 2025, Veritau had used a checklist published by CIPFA to assess conformance with the previous standards, the Public Sector Internal Audit Standards. No equivalent checklist for assessment against the new standards had been published by CIPFA at the time the 2025 self-assessment took place. This meant that the 2025 self-assessment used documentation published by the Institute of Internal Auditors (designed to help internal audit functions prepare for the introduction of the new standards) and CIPFA's Application Note.

In January 2026, CIPFA launched its GIAS (UK Public Sector) conformance assessment toolkit. The toolkit requires 91 conformance assertions to be made⁷ across the following:

- ▲ Global Internal Audit Standards (Institute of Internal Auditors)
- ▲ Application Note: Global Internal Audit Standards in the UK Public Sector (Relevant Internal Audit Standard Setters, including CIPFA)
- ▲ Code of Practice for the Governance of Internal Audit in UK Local Government (CIPFA)

CIPFA's conformance assessment toolkit was used to undertake a full self-assessment for 2026, the outcomes from which are summarised later.

5.0 2025 self-assessment: update on previous actions

Partial conformance actions

Our 2025 self-assessment allowed us to confirm our overall conformance with the GIAS (UK Public Sector). However, we identified two actions to address areas of partial conformance. These were to update internal audit charters to align with the GIAS (UK Public Sector) and to provide a more structured means for audit committees to provide input on internal audit performance. Both actions have been completed.

All audit charters were updated to incorporate new and changed requirements brought about by the GIAS (UK Public Sector) and were presented to audit

⁷ Conformance assertions are made on a three-point scale: does not conform; partially conforms; generally conforms. Assertions are made at the domain, principle, standard, interpretation, and requirement levels.

committees for approval. A new survey of chairs of audit committees was also developed and issued in April 2025 and is now repeated annually.

Continuous improvement actions

The 2025 self-assessment also highlighted a number of other actions that were not required to conform to the standards but which would help to improve the service. Good progress has been made in implementing these actions.

Updates have been made to our internal training forward plan so that it now links individual sessions to the relevant professional standard(s). Training has been designed and delivered on the professional scepticism standard. Training preparation and evaluation forms have also been developed. Other actions, such as reviewing role competency profiles and value for money auditing procedures, have been incorporated into wider development plans and initiatives.

6.0 2026 self-assessment: outcomes

The 2026 self-assessment has been completed. No areas of non-conformance were identified.

Across the 91 assertions made, only two indicate that Veritau is achieving partial conformance. Both arise from requirements in the Application Note: Global Internal Audit Standards in the UK Public Sector. Specifically, these are the requirements to:

- ▲ Promote awareness and support understanding of value for money, including development of evaluation criteria
- ▲ Have a methodology in place to risk-assess areas covered by a Topical Requirement⁸ and, where required, to perform work in accordance with it.

Three 'conformance actions' have been developed to address the partial conformance identified, as follows:

Ref.	Title	Action	Timescale
CA01	Auditing value for money: definition and evaluation criteria	Update the audit manual and create a new appendix which defines value for money, provides example evaluation criteria, and documents an approach to evaluation.	December 2026
CA02	Auditing value for money: training	Develop and provide training to the internal audit service on value for money in the public sector, and on suggested approaches for evaluation.	December 2026

⁸ Topical Requirements provide a minimum baseline and relevant criteria for a consistent, comprehensive approach to assessing the design and implementation of governance, risk management, and control processes in particular risk areas (the topics).

CA03	Managing Topical Requirements	Update the audit manual to include a methodology for how Topical Requirements will be managed, including the rationale for inclusion or exclusion of relevant audits based on an assessment of risk (using the IIA's Topical Requirements Application Guidance to support with design and implementation).	December 2026
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These three actions will be brought into Veritau’s quality assurance and improvement programme via the ‘conformance and continuous improvement action plan’. The action plan will also contain a further 24 ‘continuous improvement actions’ arising from domains 2-5 of the Global Internal Audit Standards and the Code of Practice for the Governance of Internal Audit in UK Local Government. All 24 actions are designed to support Veritau’s ability to evidence conformance in areas already assessed as ‘generally conforms’.

The conformance and continuous improvement action plan will be owned and delivered by Veritau’s audit management team. We expect that all actions will be completed in time for the 2027 self-assessment.

7.0 External Assessment

The GIAS (UK Public Sector) 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’s internal audit working practices was undertaken in summer 2023, by John Chesshire, an approved reviewer for the Chartered Institute of Internal Auditors. The report concluded that Veritau internal audit activity ‘generally conforms’ to the PSIAS⁹ and, overall, the findings of the review were very positive. The feedback included comments that the internal audit service was highly valued by its member councils. Key stakeholders felt confident in the way Veritau had established effective working relations, both in our approach to planning, and the way we engage flexibly with our clients throughout the internal audit process, at both strategic and operational levels.

The outcomes from the external assessment were reported to this committee on 8 November 2023. The assessment was based on the PSIAS. Many of the requirements under the new standards are the same or similar, and we can therefore continue to place reliance on the previous report. However, a further external assessment against the new standards will need to be carried out in the next two years.

⁹ PSIAS guidance suggested a scale of three ratings, ‘generally conforms’, ‘partially conforms’ and ‘does not conform’. ‘Generally conforms’ was the top rating.

8.0 Wider development plans and initiatives

Overall, the internal audit services provided by Veritau continue to meet the requirements of professional standards. However, we recognise that the pace of change in local government and the wider public sector mean that there is a need to continually review and update aspects of our service to ensure it stays up to date and continues to deliver good value.

The internal audit strategy

We first introduced an internal audit strategy in 2021. The strategy identified priorities for developing the service and actions to deliver continuous improvement. The latest strategy (2025 to 2027) was adopted in January 2025. It sets out areas we are prioritising for development. These include the following:

- ▲ focussing on the development of high value assurance techniques and expertise
- ▲ further development of systems for planning, prioritising and reporting audit work
- ▲ use of the K10 audit system to improve functionality for the delivery of audit work and the production of management information.

To achieve these priorities, we have focused actions in the following four key areas during 2025/26:

1. embedding a strategic approach to work programme development and the use of the audit opinion framework
2. redesigning and modernising our audit working practices (including assignment planning and reporting)
3. further developing our use of data analytics
4. developing our key performance indicators and the measures of added value.

At the time of preparing this report, we are currently refreshing our internal audit strategy. The new strategy will retain many of the priorities and focus areas of the previous version because they remain central to our continuous improvement efforts. However, early stages of development show that further emphasis will be placed on generating deeper insights and minimising time taken to deliver value. Attention is required in these areas to ensure we keep pace with developments in the profession, aspects of which have been accelerated by improvements in data analytics capability / availability and the growth in artificial intelligence. We expect to launch the new strategy in the first half of 2026.

Quality assurance group: outcomes

The internal audit quality assurance group is currently working on its 2025/26 review. With new follow-up and escalation procedures established at the

beginning of the year, the group is aiming to assess how well these have been applied through our K10 system. Specifically, the review is looking at the design and governance of the follow-up process, its overall effectiveness in terms of outcomes, compliance with procedures, and the strength of the links with client arrangements, the annual opinion, and work programme development.

The group has concluded the first part of the review into governance and procedures. They found that Veritau's arrangements for follow-up align strongly with the requirements of the GIAS (UK Public Sector). Expectations are clearly set in the audit manual, with accompanying procedures available to support consistent application of the process.

A small number of areas requiring improvement have been identified. These include:

- ▲ Further clarifying procedures for initiating follow-up audits, and how to treat the follow-up of actions prior to these audits
- ▲ Developing a stronger process for recording and tracking new actions agreed as a result of follow-up work (i.e. those which replace the originally agreed action)
- ▲ Developing more detailed guidance on the use of system reports, including data quality checks to perform on information shared with client governance groups and audit committees
- ▲ Improving the ease with which system reports can be converted into management information so that we can continue to report on the overall disposition of follow-ups to governance groups rather than on an escalation-only basis.

Once the review has concluded, the final set of improvement actions will be communicated and brought into Veritau's quality assurance and improvement programme. Improvements will then be implemented in a range of ways such as through updating procedures, further system development, incorporation into the internal audit strategy, via team training events, and through feedback to individual auditors where required.

9.0 Overall conformance with standards

Based on the overall outcomes from Veritau's quality assurance and improvement programme, the Head of Internal Audit considers that the internal audit service conforms to Global Internal Audit Standards in the UK Public Sector.