

## **Annual Report of the Head of Internal Audit**

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### **Summary**

- 1 This report summarises the outcome of audit and fraud work undertaken in 2015/16 and provides an opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and internal control.

### **Background**

- 2 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the standards, and the council's internal audit charter, the Head of Internal Audit is required to provide an annual report to the Audit and Governance Committee. This report is to be used by the committee to inform its consideration of the council's annual governance statement and it must include:
  - a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies;
  - a statement on conformance with the PSIAS;
  - an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme;
  - the Head of Internal Audit's opinion on the adequacy and effectiveness of the council's framework of governance, risk management, and control;
  - any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity);

- any particular control weakness judged to be relevant to the preparation of the Annual Governance Statement.

### **2015/16 Internal Audit & Counter Fraud Work**

- 3 The results of completed audit work have been reported to service managers and relevant 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 monitoring reports. Details of audits finalised since the last report to this committee in April 2016 are included at annex 2. Two of these audits were given a Limited Assurance opinion, and are included as annexes to this report (annex 7 - Project Management Audit Report; annex 8 - Section 117 of the Mental Health Act Audit Report). All of the other final reports referred to in annex 2 are available on the council's website.
- 4 Internal audit delivered 95.2% of the 2015/16 internal audit plan by 30 April 2016 (against a target of 93%). The service also achieved a positive customer satisfaction rating of 100% (against a target of 95%), and agreed actions to address 100% of high priority issues identified through audit work (against a target of 95%).
- 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 summarised twice yearly for this committee in April and September. The last report in April 2016 identified that, overall, good progress in implementing actions continues to be made by management.
- 6 Counter fraud work was undertaken in accordance with the approved plan. A summary of activity is included in Annex 3. This has been a successful year for the counter fraud team with investigations leading to the recovery of over £141k defrauded from the council. Forty-one percent of all investigations resulted in a positive outcome (for example a sanction being taken, or recovery of loss). Housing fraud investigations lead to 33 properties either recovered or prevented from being let and one right to buy being stopped following joint work with the Housing Department. The team has successfully investigated a range of fraud being committed against the council including Adult Social Care

fraud, internal fraud, Council Tax and Non Domestic Rates fraud, parking fraud and abuse of the York Financial Assistance Scheme. Work with School Services to investigate potentially false applications for school placements has resulted in three applications being stopped.

### **Breaches of Financial Regulations**

- 7 Where breaches of council regulations, legislation, or other external regulations are identified through internal audit work these are reported to the committee in accordance with best practice. In most cases, actions agreed with managers as a result of the audit work will address the breaches identified. There have been a number of breaches of the council's financial regulations identified during the course of internal audit work in 2015/16. One breach has been identified since the last report to this committee in April 2016 and is included in annex 5.

### **Conformance with the Public Sector Internal Audit Standards**

- 8 Veritau maintains a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. As well as undertaking an annual survey of senior management in each client organisation and completing a detailed self assessment to evaluate performance against the Standards, the service is also subject to periodic external assessment. The last assessment was conducted by the South West Audit Partnership (SWAP) and completed in April 2014. The results of the assessment provide evidence to support the QAIP as well as helping to inform the Improvement Action Plan.
- 9 The outcome of the QAIP demonstrates that the service conforms to International Standards for the Professional Practice of Internal Auditing. Further details of the QAIP and Improvement Action Plan prepared by Veritau are given in annex 6.

### **Opinion of the Head of Internal Audit**

- 10 In accordance with the council's internal audit charter, the Head of Internal Audit is required to provide an annual report

to the Audit and Governance Committee. The report sets out the Head of Internal Audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control. In doing so, the report also contributes to the preparation of the Annual Governance Statement.

- 11 The opinion of the Head of Internal Audit is given at annex 1. The opinion is based on audit and counter fraud work completed during the year including that detailed in the annexes to this report and other monitoring reports to this committee during the year. Internal audit work has been conducted in accordance with proper standards. No qualifications to this opinion are considered necessary.
- 12 In giving this opinion attention is drawn to the following significant control issue which is considered relevant to the preparation of the 2015/16 Annual Governance Statement:
  - Attendance Management - an audit report was issued in 2013/14 identifying that there were a number of weaknesses with the council's processes for recording and managing sickness absence. The council has not yet been able to address the outstanding issues. The service presented an update to this committee at its last meeting in May.

### **Consultation**

- 13 Not relevant for the purpose of the report.

### **Options**

- 14 Not relevant for the purpose of the report.

### **Analysis**

- 15 Not relevant for the purpose of the report.

### **Council Plan**

- 16 The work of internal audit and counter fraud helps to support overall aims and priorities by promoting probity, integrity and accountability and by helping to make the council a more effective organisation.

## **Implications**

17 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

## **Risk Management Assessment**

18 The council will not comply with proper practice for internal audit if the results of audit work are not reported to senior management and the Audit and Governance Committee.

## **Recommendation**

19 Members are asked to:

- (a) note the results of audit and counter fraud work undertaken in 2015/16.

Reason

*To enable members to consider the implications of audit and counter fraud findings.*

- (b) note the opinion of the Head of Internal Audit on the adequacy and effectiveness of the council's framework of governance, risk management and internal control .

Reason

*To enable members to consider the implications of audit and counter fraud findings.*

- (c) note the outcome of the Quality Assurance and Improvement Programme and the confirmation that the internal audit service conformed with Public Sector Internal Audit Standards.

Reason

*To enable members to consider the opinion of the Head of Internal Audit.*

- (d) note the significant control weaknesses identified during the year which are relevant to the preparation of the Annual Governance Statement.

Reason

*To enable the Annual Governance Statement to be prepared.*

**Contact Details**

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**Report  
Approved**



**Date** 8/06/16

**Specialist Implications Officers**

Not applicable

**Wards Affected:** Not applicable

**All**

**For further information please contact the author of the report**

**Background Papers**

- 2015/16 Internal Audit and Counter Fraud Plan
- Internal Audit and Counter Fraud Monitoring Reports to Audit and Governance Committee in 2015/16 (September, December and April)

**Annexes**

- Annex 1 - Opinion of the Head of Internal Audit

- Annex 2 - Audits Completed and Reports Issued
- Annex 3 - Counter Fraud Work
- Annex 4 - Variations to the Audit Plan
- Annex 5 - Breaches of Council Financial Regulations
- Annex 6 - Veritau Internal Audit Quality Assurance and Improvement Programme.
- Annex 7 - Project Management audit report (Limited Assurance)
- Annex 8 - Section 117 of the Mental Health Act audit report (Limited Assurance)

### **Available on the council's website**

The following Internal Audit reports referred to in annex 2 are published on the council's website:

<http://democracy.york.gov.uk/ieListDocuments.aspx?CId=437&MId=9183&Ver=4> (see agenda item 8).

- Bishopthorpe Infant School
- Carr Junior School
- Cashiers and Income Management
- Lord Deramore's Primary School
- Naburn Primary School
- St Mary's CE Primary School
- Treasury Management & Prudential Code
- VAT Accounting
- Budget Savings
- Joseph Rowntree Secondary School
- Main Accounting System
- Woodthorpe Primary School
- York Financial Assistance Scheme
- Car Parking
- Section 106 Agreements

Information which might increase risk to the Council, its employees, partners or suppliers has been redacted. Paper copies are available on request from [democratic.services@york.gov.uk](mailto:democratic.services@york.gov.uk) or telephone 01904 552030