

Report of the Head of Internal Audit

Annual Report of the Head of Internal Audit

Summary

- 1 This report summarises the outcome of audit and counter fraud work undertaken in 2016/17 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 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:
 - the Head of Internal Audit's opinion on the adequacy and effectiveness of the council's framework of governance, risk management, and control
 - a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
 - 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

- 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.
- 3 From April 2017, revised PSIAS came into effect. This report also includes a proposed update to the council's internal audit charter to reflect the changes to the standards.

Internal Audit & Counter Fraud Work Completed

- 4 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 May 2017 are included at annex 2 and copies of the reports are available on the council's website. Internal audit delivered 95.5% of the 2016/17 internal audit plan by 30 April 2017 (against a target of 93%).
- 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. The last report in May 2017 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 at annex 3. This has been a successful year for the counter fraud team with investigations leading to the recovery of £347k defrauded from the council - an increase of 145% from 2015/16 (£142k). Overall, 47% of investigations resulted in a positive outcome (for example a sanction being given, recovery or prevention of loss, or other action being taken). Housing fraud investigations resulted in 12 properties being recovered or prevented from being let. The team has successfully investigated a range of other fraud being committed against the council including adult social care fraud, internal fraud, council tax and non domestic rates fraud, parking fraud, abuse of the York Financial Assistance Scheme and fraud relating to applications for school admissions.

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 year. Fifteen breaches have been identified since the last report to this committee in May 2017. These are summarised in annex 4. All of the breaches relate to the audit of social care contracts included in annex 2.

Variations to the 2017/18 Plan

- 8 A variation to the 2017/18 plan has been made to correct the number of counter fraud days in the original plan, which should have been recorded as 1,123 instead of 1,250. The original allocation of 2 days for preparation of reports and attendance at the Shareholder Committee has also been removed. Details are included in annex 5.

Conformance with the Public Sector Internal Audit Standards & Update to Charter

- 9 Veritau maintains a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. Quality assurance arrangements include ongoing operational procedures, annual internal self assessment against the PSIAS, and periodic external assessment. Further details on the QAIP and the outcomes of the quality assurance process are provided in annex 6.
- 10 The Chartered Institute of Public Finance and Accountancy (CIPFA) are responsible for setting internal audit standards for local government. CIPFA works jointly with other responsible bodies in the UK public sector (such as HM Treasury and the Department of Health) to produce common standards - the Public Sector Internal Audit Standards (PSIAS). The PSIAS are based on standards set by the Global Institute of Internal Auditors (Global IIA). Global IIA introduced new and revised International Standards that came into force on 1 January 2017. To ensure the UK public sector standards continue to

reflect the international standards, the revisions were adopted into the PSIAS from 1 April 2017. To reflect the changes to the standards, a number of updates to the council's internal audit charter are required. The updated charter is included at annex 7, with amendments shown as tracked changes.

Opinion of the Head of Internal Audit

- 11 In accordance with the PSIAS and the council's internal audit charter, the Head of Internal Audit is required to provide an opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control. 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 issues which are considered relevant to the preparation of the 2016/17 Annual Governance Statement.
 - Procurement: A number of audits completed during the year have highlighted issues with procurement and contracting arrangements.
 - Information Security: Information security sweeps undertaken during the year indicate a lack of progress in addressing security issues in some areas. The themed audit of schools information governance arrangements also indicates a lack of awareness of information security risks and a lack of procedures across schools. While we've previously seen significant improvements year on year it is important that controls continue to be strengthened to mitigate risks in this area.

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.

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.

- (e) approve the proposed changes to the internal audit charter at annex 7.

Reason

In accordance with the responsibility of the committee to consider reports dealing with the management of the internal audit function, and to comply with proper practice for internal audit.

Contact Details

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**Report
Approved**



Date 08 June
2017

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers

- 2016/17 Internal Audit and Counter Fraud Plan
- Internal Audit and Counter Fraud Monitoring Reports to Audit and Governance Committee in 2016/17 (September, December and May)
- The Public Sector Internal Audit Standards 2017

Annexes

- Annex 1 - Opinion of the Head of Internal Audit
- Annex 2 - Audits Completed and Reports Issued
- Annex 3 - Counter Fraud Activity
- Annex 4 - Breaches of Council Financial Regulations
- Annex 5 - Variations to the 2017/18 Audit Plan
- Annex 6 - Veritau Internal Audit Quality Assurance and Improvement Programme
- Annex 7 - Updated Internal Audit Charter

Available on the council's website

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

- Adult Social Services Contracts
- Asset Disposal Policy (review)
- Concessionary Bus Passes
- Council Tax Support and Housing Benefits
- Information Security Checks (March)
- Management of Travellers' Sites
- Public Health
- School Placement Planning

- Server Room Security

Information which might increase risk to the Council, its employees, partners or suppliers has been redacted.