

Report of the Director of Finance to the meeting of the Governance and Audit Committee to be held on 29 September 2016.

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Subject:

INTERNAL AUDIT ANNUAL REPORT 2015/16

Summary statement:

This report reviews the service Internal Audit has provided to the Council during the financial year 2015/16.

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Portfolio

Corporate

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Improvement Area:

Corporate

1. **SUMMARY**

- 1.1 The purpose of this report is to inform members of the Governance and Audit Committee (GAC) about the service Internal Audit has provided to the Council during the financial year 2015/16.

In particular Members are advised of the following:-

- Internal Audit completed 92% of the 2015/16 audit plan which, is above the target of 90%.
- Internal Audit's Client satisfaction identified that 100% of the respondents said that the "recommendations were useful and realistic" and believed that the audit was "of benefit to management."
- 100% of all high priority recommendations made from the work undertaken were accepted by management.

2. **BACKGROUND**

- 2.1 Internal Audit is part of the Department of Finance.
- 2.2 The Internal Audit Annual Report 2015/16 is contained within Appendix 1.

3. **OVERVIEW AND SCRUTINY COMMITTEE CONSIDERATION**

- 3.1 Not Applicable.

4. **OTHER CONSIDERATIONS**

- 4.1 There are no other considerations.

5. **OPTIONS**

- 5.1 Not applicable

6. **FINANCIAL AND RESOURCE APPRAISAL**

- 6.1 There are no direct financial consequences arising from this report. The work of Internal Audit adds value to the Council by providing management with an assessment on the effectiveness of internal control systems, making, where appropriate, recommendations that if implemented will reduce risk.

7. **RISK MANAGEMENT**

- 7.1 The work undertaken within Internal Audit is primarily concerned with examining risks within various systems of the Council and making recommendations to mitigate those risks. Consideration was given to the corporate risk register when

the Audit Plan for 2015/16 was drawn up and any issues on the risk register that relate to an individual audit are included within the scope of the assignment.

- 7.2 The key risks examined in our audits are discussed with management at the start of the audit and the action required from our recommendations is verified as implemented by Strategic Directors.

8. LEGAL APPRAISAL

- 8.1 The Accounts and Audit Regulations for 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Council achieves this by complying with the Public Sector Internal Audit Standards (PSIAS) 2013, which it does by following the CIPFA Local Government Application Note.

- 8.2 Standard 2450 of the PSIAS requires an annual report to be submitted which includes an opinion on the overall adequacy and effectiveness of the organisation's control environment. This requirement is met by the attached (Appendix 1) Internal Audit Annual Report for 2015/16.

- 8.3 The Accounts and Audit Regulations 2015 require the Council to undertake at least annually "a review of the effectiveness of its system of internal audit". The outcome of this review has been included in the Internal Audit Annual Report as well as being part of the evidence to support the Annual Governance Statement.

9. OTHER IMPLICATIONS

9.1 Equal Rights

Internal Audit seeks assurance that the Council fulfils its responsibilities in accordance with its statutory responsibilities and its own internal guidelines. When carrying out its work Internal Audit reviews the delivery of services to ensure that they are provided in accordance with the formal decision making process of the Council.

9.2 Sustainability Implications

When reviewing Council Business Internal Audit examines the sustainability of the activity and ensures that mechanisms are in place so that services are provided within the resources available

9.3 Greenhouse Gas Emissions Impacts

There are no impacts on Gas Emissions.

9.4 Community Safety Implications

There are no direct community safety implications.

9.5 Human Rights Act

There are no direct Human Rights Act implications.

9.6 **Trade Union**

There are no implications for the Trade Unions arising from the report.

9.7 **Ward Implications**

Internal Audit will undertake specific audits through the year which will ensure that the decisions of council are properly carried out.

10 **NOT FOR PUBLICATION DOCUMENTS**

10.1 None.

11. **RECOMMENDATIONS**

That the Committee recognises and supports the work carried out by Internal Audit during 2015/16.

12. **APPENDICES**

Appendix 1 – Internal Audit Annual Report 2015/16.

13. **BACKGROUND DOCUMENTS**

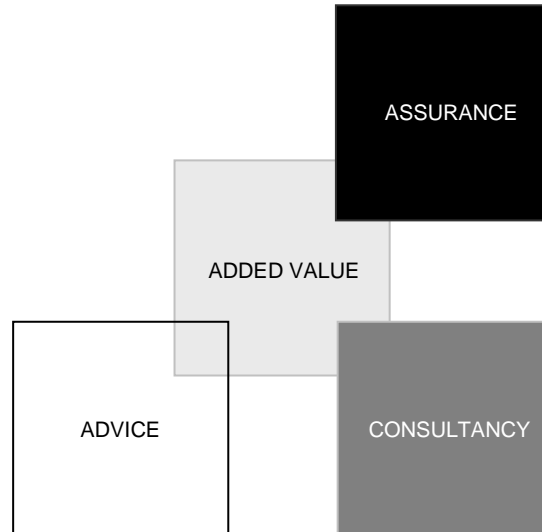
13.1 Accounts and Audit Regulations 2015.

13.2 Public Sector Internal Audit Standards 2013.

13.3 GAC report dated 24 July 2015 – Internal Audit Plan 2015/16.

13.4 GAC report dated 27 November 2015 Internal Audit Plan 2015/16 Monitoring Report as at 30 September 2015

INTERNAL AUDIT ANNUAL REPORT 2015/16



INTRODUCTION

The aim of this report is to provide information on the activities of Internal Audit during the financial year 2015/16 and to support the Council's Annual Governance Statement by providing an "Audit Opinion" on the overall adequacy and effectiveness of the Council's internal control environment.

It is not the intention of this report to attempt to give a detailed summary of each audit assignment but to provide a summary of the overall audit activity identifying, whenever appropriate, significant outcomes from the audit work.

The completion and presentation of the Annual Report to Governance and Audit Committee has been completed under the requirements of the Public Sector Internal Audit Standards (PSIAS).

Mark St Romaine

Head of Internal Audit, Insurance, Information Governance and Risk

September 2016

Circulation:-

Members
Stuart McKinnon Evans
Mark Kirkham
All Staff

Governance & Audit Committee
Director of Finance
Director and Engagement Lead, Mazars
Internal Audit

1 INTERNAL AUDIT'S RESPONSIBILITIES AND RELATIONSHIPS

1.1 Governance and Audit Committee (GAC)

The Member responsibility for Internal Audit rests primarily with the GAC.

During the year the following reports were presented to Committee:-

- Internal Audit Annual Report 2014/15
- Internal Audit Plan 2015/16
- Internal Audit Plan 2015/16 Monitoring Report as at 30 September 2015.

The Committee strengthens the Council's Corporate Governance arrangements as well as bringing together the review agencies of both Internal and External Audit to one Member forum.

1.2 Staffing & Resources

In total 1,825 audit days (7.0 FTE) were available in 2015/16. This represented a resourcing gap of 1.9 FTE from the original audit resource planned in April 2014. This resource gap is attributable to the Service absorbing a net reduction of 3 FTEs in, 2015/16, when it was planned for this reduction to be phased over 3 years, with a 10% (1 FTE) reduction per annum in resources planned from its 2014/15 establishment base of 9.9 FTE.

From September 2014 the Head of Internal Audit commenced as the Head of Internal Audit at Wakefield in support of the joint working arrangement spending 40% of his time at that authority. This arrangement continued during 2015/16. One member of staff continued to give 50% of their time to provide support to the Insurance function. There has been an addition of 30 days audit resource through the purchase of computer audit services from Wakefield Council.

1.3 External Audit

In November 2012 Mazars formerly commenced its role as the Council's External Auditors. Work has continued between Internal and External Audit to establish an effective working relationship and develop a framework for co-operation in the planning, conduct and reporting of work.

The 2015-16 Internal Audit Plan was shared with External Audit as were a number of Internal Audit Reports. Whilst no formal review of Internal Audit by External Audit has taken place, External Audit has no concerns about Internal Audit from the work that has been presented to them.

1.4 Public Sector Internal Audit Standards (PSIAS)

On 1st April 2013 the Council was required to comply with the Public Sector Internal Audit Standards (PSIAS). In April 2014 Governance and Audit Committee approved the Council's Internal Audit Charter. The Internal Audit Charter details the purpose, authority and responsibility of Internal Audit with the supporting code of ethics. It details how Internal Audit activity should be completed and how the service should be managed. It links Internal Audit activity with risk management. It also determines reporting arrangements, the management of consultancy engagements and the quality assessment process.

1.5 Joint Working

Due to pressures on resources and the need to maintain a sustainable service, the Internal Audit sections of Bradford and Wakefield have been looking to deliver efficiencies through joint working. On September 1st 2014 a Service Level Agreement (SLA) was approved between the two Councils to share a Head of Internal Audit. The Service Level Agreement also requires a Business Plan to be prepared to determine an option appraisal for future service delivery. Originally the Business Plan was to be prepared for December 2015 but the timeline has been deferred until December 2016.

2. SERVICE DELIVERY - ALL

2.1 Audit Resources and Coverage

The original audit plan for 2015/16 was approved by GAC on 24 July 2015 and was based on 1,795 days of audit resources. The Internal Audit Monitoring Report presented to GAC on 27 November 2015 noted that after taking into account Internal Audit's SLA commitment to Wakefield; insurance management and accountancy support to Bradford; its audit provision to West Yorkshire Pension Fund; and its buying in of computer audit service days from Wakefield, Bradford Council would receive circa 1470 audit days in 2015/16. These days were delivered.

The audit plan was also monitored by assignments completed during the year. Completion of 90% or more of the plan is a positive indicator of the effectiveness of Internal Audit. In 2015/16, Internal Audit achieved 92% of the original plan.

2.2 Reports Issued and Control Environment

All Internal Audit assignments result in an Audit Report which identifies the audit coverage, findings from the audit, risks arising from identified control weaknesses and prioritised audit recommendations. In 2015/16 a total of 81 reports were issued, which was almost half of the 150 reports issued in 2014/15. This was due to the reduction in audit resources and prioritising their focus, primarily on the provision of assurance on the Council's fundamental financial and significant systems, which take considerably longer than other types of audit due to the level of audit testing required.

The reports issued in 2015/16 recorded that the percentage of controls satisfied was 75%, an increase of 3% on the 72% satisfied in 2014/15. This also compares favourably with the five year average of 73% of controls satisfied. As in 2014/15 the service continued to focus on and require responses only in relation to high priority recommendations. 100% of these recommendations were accepted by management.

Chart One overleaf, shows the total number of audits by type and paragraphs 2.3 onwards explain in more detail the audit coverage and some of the issues arising from the work undertaken during the year.

Chart One: Showing the Breakdown of Total Reports Produced in 2014/15 and 2015/16 by Audit Type

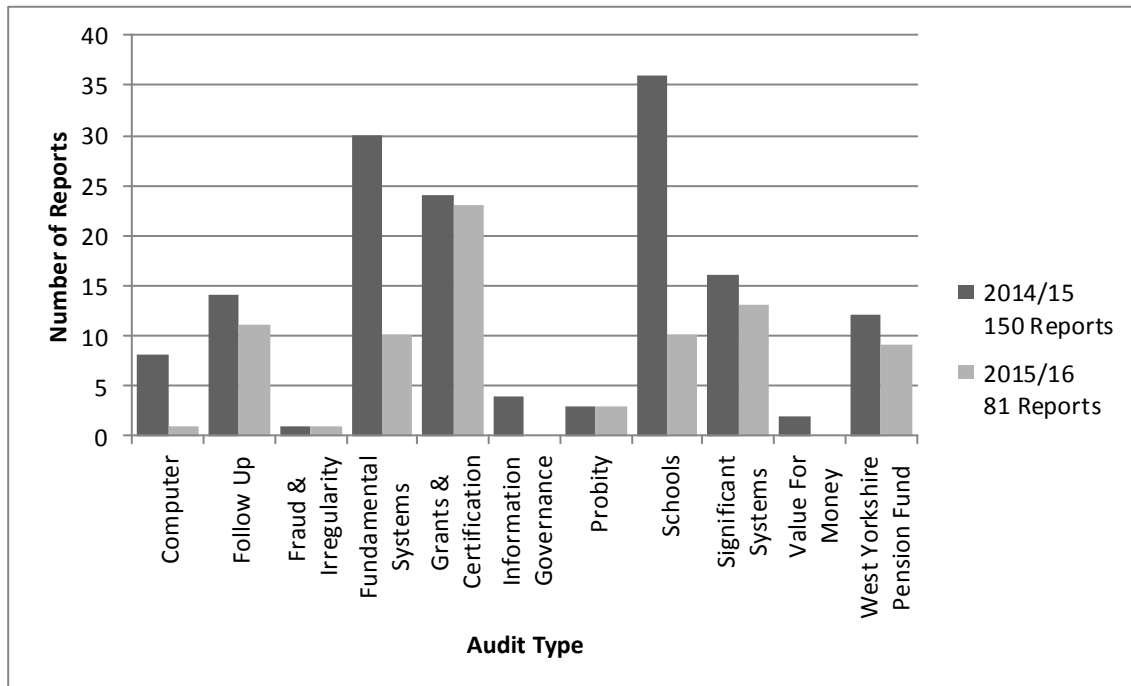
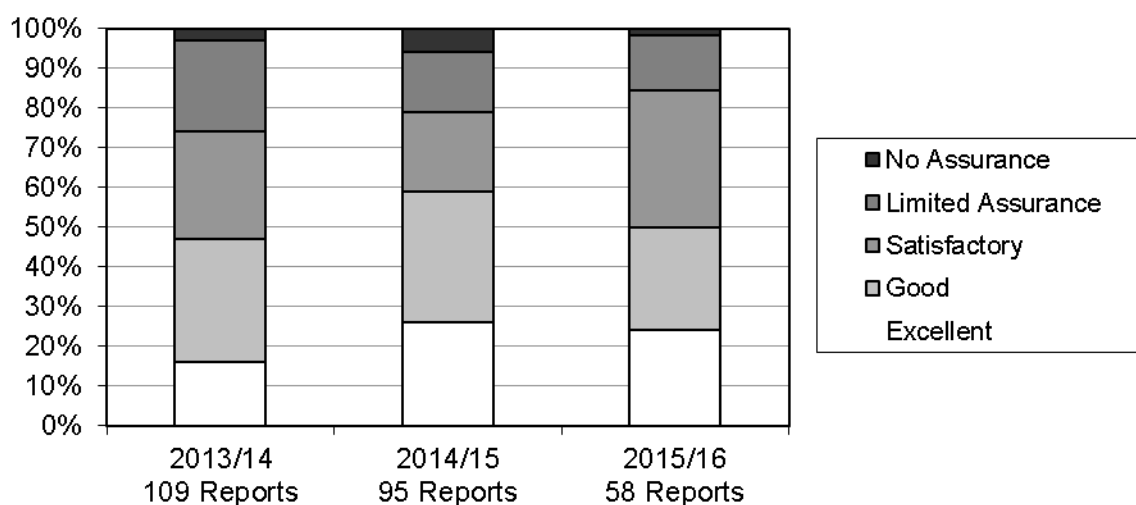


Chart Two, overleaf, shows that, from the evaluation of risks and controls in 2015/16, 84% had audit opinions that were satisfactory or above. 50% of the systems examined had either an ‘excellent’ or ‘good’ audit opinion and 34% were classified as ‘satisfactory’ indicating that the overall control of risk within the Council remains adequate. A total of 14% of reports had a ‘limited assurance’ audit opinion and 2% were categorised as ‘no assurance’. As can be seen from the chart the proportion of reports with less than satisfactory opinions has improved, as it is lower than it was in 2014/15.

However the proportion of audits with good or excellent opinions has deteriorated slightly in 2015/16, from the 2013/14 levels, with satisfactory opinion being the dominant opinion in 2015/16. This may be an indicator that the Council’s control environment is slightly deteriorating but may also be a distorted view due to the significant reduction in audit reports issued, including the cessation of annual assurance audits, which until 2015/16 were performed annually focusing on a small number of key controls, the majority of which gave excellent opinions.

Chart Two: Breakdown of Audit Opinions 1 April 2013 to 31 March 2016



The analysis above relates to those reports with opinions. In 2015/16 58 (72%) out of 81 issued reports had an audit opinion, compared with 95 (63%) out of 150 issued reports in 2014/15.

Opinions are derived from a standard analysis of the level of control satisfaction and number of high priority recommendations within a report. Where reports are produced that do not relate to the planned evaluation of risks and controls, for example in response to requests for advice on specific matters, or in response to known control failures there is often no opinion applied to the report.

In 2015/16, 23 (28%) of all reports issued had no opinion and accounted for 9% of the High Priority recommendations made during the year. This is a favourable comparison to 2014/15 where 55 (37%) of all reports issued in 2014/15 accounted for over 40% of the High Priority recommendations made during the year. In order to minimise the number of reports without an opinion, the methodology for applying a more subjective opinion to reports that was introduced in 2015/16 will continue to be applied wherever possible, so as to provide a fuller analysis of the control environment.

2.3 Fundamental Systems/ Assurance

Fundamental financial systems are those that are material to the Council and have a significant impact on the Council's internal control systems and the Council's accounts. The review of these systems provides assurance relating to the main systems operating within the Council and remains a significant part of the audit plan. Up until 2014/15 the fundamental system audits included a brief annual review of key controls in each of the systems, however in 2015/16 the available resources were focussed into longer more detailed audits of different elements of these systems. As a consequence the number of reports issued in relation to fundamental systems fell from 30 in 2014/15 to 10 in 2015/16.

The only fundamental systems audit to result in a less than satisfactory opinion related to the Provision of Payroll Services to Full Budget Share Schools and

External Bodies. The audit found that the systems in place provided only limited assurance that the costs incurred by the Council in delivering this service were being correctly charged and recovered. This was in spite of system changes being made following a previous critical audit in this area, and consequently the area will be subject to further audit work in 2016/17.

Of the remaining fundamental system audits, more than half resulted in opinions of 'Good' or 'Excellent', however High Priority recommendations were made to strengthen the control environment in a number of the systems by:

- ensuring that, within the 'Accounts Receivable' system, credit notes are supported, authorised and used appropriately and that any residual debts are raised and issued.
- ensuring that, within 'Procure to Pay, periodic reviews of low value requisitions are carried out and that supporting documents are in place to ensure that purchases are approved by authorised staff.
- strengthening pension opt out checks, within the 'Payroll / Human Resources' system to ensure that employees' pension decisions are correctly acted on.

2.4 Audit Grant and Certification Work

Certain grants received by the Council require an Internal Audit certification to confirm that the expenditure was made in accordance with the Grant Determination Letter. The number of grants requiring Audit certification has seen an increase. Internal Audit certified 9 grant claims during 2014/15. In 2015/16 this rose to 10 grants with a total of 23 reports issued. Six Highways related Grants and the Disabled Facilities Grant, all received Excellent or Good opinions. Testing at a sample of schools highlighted that the Primary PE and Sports Grant had been spent in accordance with the grant objectives, but that a significant number of schools were failing to adequately comply with the grant conditions relating to publishing details of the grant expenditure and its impact, therefore an advisory letter was sent to all authority primary schools as a result of this. In respect of the Green Deal Communities Funding, audit testing revealed that VAT had been incorrectly accounted for which required an adjustment to be made to correct this.

2.5 Significant Systems

Internal Audit produced 13 reports relating to significant systems of the Council during 2015/16. Significant systems coverage is varied and unique in some cases, and can often result from concerns raised by management.

Examples of the work carried out on significant systems are shown below:

The audit of the charging system for bulky residential waste and new bins identified that the VAT on the sale of a significant proportion of wheelie bins was not being paid over to Her Majesties Revenues & Customs which could result in fines being levied on the Council.

The review of Artists Fees processes identified that there were no documented service specific procedures for the negotiation and agreement of contracts. This could lead to poor negotiation practice increasing the risk of missed opportunities, lack of transparency, adverse financial performance and poor succession planning.

A review of Bradford West and Shipley Youth Service identified several control issues including: the method of time recording for two categories of staff was inconsistent and often incomplete; car mileage claims were not being certified as correct on the relevant form before being submitted for payment; absences for Part-time Youth Support Workers were not being recorded on ESS/MSS; and the financial monitoring of employee costs was not taking place.

The audit of the corporate risk, a Children’s Safeguarding Incident occurs, found that there was good control of the corporate risk, however a number of minor areas for improving the accuracy and completeness of the corporate risk register entry were identified.

Review of the emergency planning corporate risk determined that there was a satisfactory level of control, but there was room for improvement. At the time of report, September 2015, the Council had not put in place adequate business continuity management plans for all Service areas. There was evidence that expected regular annual reviews of plans, training of staff and exercises to test plans were not taking place, resulting in an increased risk that Services would fail to continue the delivery of identified critical functions to a minimum standard in the event of Service disruption.

2.6 Value Added

Internal Audit, where possible, adds value in the work that it undertakes. The following is a sample of instances during 2015/16 where value has been added.

Audit Work	Brief Explanation of Savings Identified or Value Added
IT Transition Programme Management	Internal Audit reviewed the management of the programme to transition the IT service from an outsourced model to an in-house delivered service. The review which included discussions with the project manager, project leads and attendance at various programme governance boards was completed before cessation of the strategic partnership and provided assurance that the IT Transition Programme was effectively managed.
Youth Service Transfer to Neighbourhoods	The audit that was carried out at the request of the Interim Assistant Director for Neighbourhoods highlighted several audit concerns regarding adherence with the Council’s financial regulations and due HR processes at the Authority’s Youth Service area offices.
Payroll Services Provided to Full Budget Share Schools and External Bodies	The audit highlighted concerns regarding the timeliness and accuracy of the invoicing to full budget share schools and external bodies for the recovery of payroll costs incurred by the Council on their behalf. Also highlighted were legacy balances on the SAP ledger, some dating back to 2006-7 that management needed to resolve, which potentially could lead to the non-recovery of payroll costs. At the time of the audit it was not possible to quantify the full amount of the legacy balances, but it was indicated that it was likely to be

	more than £250k. At the 2015/16 year end it has been decided to establish an exceptional £1m provision relating to school based staff pay bill balances
Use and Production of Credit Notes	The audit added value by highlighting that there was room to improve the efficiency and effectiveness of the credit note process by the provision of information to management on a regular basis of the value and volume of credit notes being raised by their service. The audit identified that c9000 credit notes were raised annually by the Council. Service management were, however, unaware of how their service contributed to this and therefore were unable to review the appropriateness of the credits and the effectiveness of the associated invoicing processes.
Affordable Housing	A review of the 2011-2015 Affordable Housing Programme resulted in a number of recommendations relating to the management and governance of the programme which can now be applied to the 2015-2018 Programme.
Schools Direct Salaried Grant	Internal Audit performed a Schools Direct Salaried Grant funding audit at three schools. These audits were carried out at the request of the schools in order for them to sign off a government return. These audits could have been undertaken by external auditors however, it was pleasing that schools chose the Council's Internal Audit Service to carry out this verification work.
SFVS Training	Internal Audit developed a training course covering all the principles of the Schools Financial Value Standard in 2014/15. Following the success of this training, further courses were made available in 2015/16, this time with a focus on Governors attending rather than School Business Managers. Attendance was encouraging with 31 schools being represented at the training, 73% of attendees being Governors. To date, 68 individual schools have received SFVS training, representing 40% of schools in the district. The effectiveness of the training has been evident in the latest submission of SFVS forms which is encouraging and feedback from the training was very positive.

2.7 Follow Up Audits

Internal Audit follows up its audit work as described below:

a) Follow Up Returns from Strategic Directors

During 2015/16 a follow up exercise with the Strategic Directors was undertaken for 125 reports, containing 341 high priority recommendations issued up to 31.03.15 which had not previously been confirmed as actioned. The outcome was reported to GAC on 27 November 2015. The Strategic Directors' returns showed that the level of implementation was broadly in line with 2014/15 with 75% of reports and 81% of recommendations being fully actioned compared with 71% of reports and 80% of recommendations in the previous year.

b) Individual Follow Up Audits Undertaken by Internal Audit

During the year, 10 follow up audits were completed by Internal Audit to determine the actual level of implementation of agreed recommendations. The outcomes of the 9 of these were reported to GAC on the 27 November 2015. The tenth follow up (of Sickness Monitoring) was concluded after the date of the monitoring report.

In summary, 56% of the high priority recommendations followed up in 2015/16 could be confirmed as fully implemented by Internal Audit. This is a reduction in the confirmed implementation rate of 72% which resulted from the 2014/15 follow ups. Conversely, whilst remaining significantly higher than the rate found during audits, the implementation rate for these recommendations reported by Strategic Management had actually increased slightly from 87% in 2014/15 to 89% in 2015/16.

Therefore it would appear that there is a widening gap between the follow up implementation rate reported by senior management and the actual rate independently confirmed by Internal Audit. This is of concern to Internal Audit and was also highlighted in its monitoring report to GAC issued on the 27 November 2015.

In response to this issue Internal Audit is revising its follow up processes in 2016/17 to support management in implementing agreed recommendations; it will continue to perform follow up audits in 2016/17; monitor the position and report the outcome to GAC.

c) Follow Up of Audits reported in the Opinion of the 2014/15 Annual Report

The Audit Opinion of the Internal Audit Annual Report 2014/15 highlighted Continuous Health Care (CHC) as an area of concern due to none of the high priority recommendations raised in a no assurance report issued in September 2012, being implemented when followed up and subsequently reported as a no assurance audit opinion in July 2014.

Concern was raised that identified weaknesses within the system may be resulting in potentially eligible patients in the District not being identified and assessed for CHC. At the time of the follow up audit the number of people receiving CHC nationally (England total) had risen by over 30% between the start of 2009/10 and end of 2012/13. Locally, this trend was the reverse having reduced by around 38% in the same period.

A full audit of the system was agreed to be performed in 2015/16 but this, however, did not occur due to Service delays in introducing new key IT systems, Controcc and SystemOne. The audit is now planned to commence in Quarter 3 of 2016/17, once the new systems are operational and will take account of the changes to the national CHC operating model that came in to effect in 2014/15. This audit will also benefit from lessons learned from a recent audit of CHC in Wakefield Council that Internal Audit has assisted Wakefield audit colleagues on (as part of the joint working initiative).

In 2015/16 Internal Audit did, however, obtain high level assurances from management that the identified weaknesses in the system were being progressed

through joint working with Health side colleagues. Independent review of key performance data since the follow up audit supports these management assurances showing that the number of patients eligible for CHC within the Bradford District has steadily risen. At Quarter 1 in 2013/14 this figure was 431 (or 46.92 per 50,000) but had increased to 527 (or 56.38 per 50,000) at Quarter 4 2015/16. The gap with wider area comparators had also significantly reduced over the same period. Therefore Internal Audit are partially assured that the system has improved since it was previously reported upon in July 2014.

2.8 Schools

a) School Audits

Reports were issued to eight schools which were visited as part of the 2015/16 plan of individual school audits. Schools are included in the audit plan based on their risk score and by default these schools tend to be those which are already experiencing issues and would benefit most from audit input. Therefore it was pleasing to note that one of the schools received a 'Good' audit opinion and three were rated 'Satisfactory' which is an improvement on previous years' results.

Of the remaining four schools three had 'Limited Assurance' opinions and one school was given a 'No Assurance' opinion. This particular school is one which Internal Audit was asked to visit due to concerns about governance and financial management practices. Further support is now being given to this school to enable it to address these concerns. All the audit recommendations raised in the ensuing audit reports were accepted.

Internal Audit also published its Newsletter to all schools via Bradford Schools Online giving advice and assistance on topical issues in Autumn 2015.

b) Schools Financial Value Standard (SFVS)

All maintained schools, excluding those falling within listed exceptions, are required to complete and submit the SFVS self assessment form by the 31 March each year. In turn the Council submits an Assurance Statement signed by the Director of Finance to the Department for Education (DfE) before the 31st May. This return details the number of returns received by schools and the number who have not complied.

The SFVS Assurance Statement for 31 March 2016 was forwarded to the DfE on 27th May 2016, this reported that 158 of the Council's 170 schools had made a return. Of the returns made those indicating full compliance with the standard was 53%.

A further requirement of the SFVS is that returns are taken into consideration when setting the audit plan. The risk model used to prioritise schools for inclusion in the audit plan includes non submission of SFVS as one of a number of risk factors. Schools are selected for audit on the results of the risk model which is used to rank schools by their gross risk score. Those schools showing the highest risk score are given priority.

In addition, SFVS returns are considered as part of the full school audits conducted. The audit testing programme for schools requires auditors to review a school's SFVS return as part of the planning process prior to an audit and compare the schools self assessment judgements to their findings during the audit. A

judgement is then made by the auditor on the level of correlation that can be identified between the SFVS assessment and the audit findings and advises the school to review their responses to specific questions where necessary. This position is highlighted to the school, Chair of Governors and authority recipients in the ensuing audit report.

Audit recommendations that are linked to the SFVS have been tracked as part of the audit follow up process, thus ensuring that schools are taking necessary action on all recommendations to improve their control environment and financial management practices in a timely manner.

Following the success of the training offered in 2014/15, further courses were made available in 2015/16, this time with a focus on Governors attending rather than School Business Managers. Attendance was encouraging with 31 schools being represented at the training, 73% of attendees being Governors. To date, 68 individual schools have received SFVS training, representing 40% of schools in the district. The effectiveness of the training has been evident in the latest submission of SFVS forms which is encouraging and feedback from the training was very positive.

2.9 Computer Audit

Until March 2015 computer audit work was carried out by a specialist computer auditor employed directly by the Council. The departure of this auditor also resulted in a loss to the section of the knowledge and experience required to effectively undertake technical audits in this area. However, through the joint working arrangements with Wakefield Council the section was able to obtain 30 days of Computer Audit provision during 2015/16. This allowed two reviews to take place. The first was a review of WiFi provision, which resulted in an excellent opinion. The second was a review of the IT Service Desk which was satisfactory overall, but did result in recommendations to improve the visibility of service standards and ensure that all new starters have access to the provision.

In September 2015 the Council's strategic partnership with IBM came to an end and IT services were returned to the Council. Internal Audit supported this significant change by carrying out a review of the management of the process which provided assurance that the IT Transition Programme was being effectively managed.

2.11 West Yorkshire Pension Fund (WYPF)

During 2015/16, Internal Audit carried out a variety of audits within WYPF. These included:

- **Monthly Contribution Data Usage** - In April 2014 the West Yorkshire Pension Fund introduced a new system for the monthly collection of data in respect of the contributions received from participating employers. Amongst the aims of this project was to ensure the accuracy of member records, by making the process more data efficient, to allow changes to be made to member records and to reduce the number of year end queries on the data supplied. The audit informed management as to the current position of the Monthly Contribution Data project, identified areas for improvement and assisted management to take decisions with regards to future development opportunities.

- **Reimbursement of Agency Payments** – This audit examined the reimbursement of payments made in respect of the administration service provided by the WYPF for the payment of West Yorkshire, North Yorkshire, Humberside and South Yorkshire Fire Officers pensions and also for payment of Teachers Gratuities for Bradford MDC. The work identified a number of issues and recommendations for improvement were made and accepted.
- **AVC Arrangements** - Members of the Local Government Pension Scheme have the opportunity of paying extra contributions into the West Yorkshire Pension Fund AVC Plan, which can be arranged with two providers, Scottish Widows or Prudential. The standard of control around these arrangements was found to be excellent.
- **Review of the West Yorkshire Pension Fund 2014/15 Accounts** - This work was carried out at the request of the Financial Controller with the aim of assisting in ensuring the quality of the financial statements.
- **Life Certificates** - This process assists in confirming the continuing existence of pensioners being paid a monthly pension. WYPF aims to send Life Certificates for completion to all its pensioners at least once every seven years. Pensioners identified as “high risk,” in relation to Life Certificates, are required to complete a life certificate each year. The audit found the standard of control around this process to be excellent.
- **New Pensions and Lump Sums – Fire Pensions** - West Yorkshire Pension Fund provides an administration service for the payment of West Yorkshire, North Yorkshire, Humberside and South Yorkshire Fire Officers’ pensions. This audit examined the calculation of the annual pension and the lump sum following a Fire Pension member’s decision to retire. The control environment was largely as required.
- **Pensioner’s Payroll** – This audit examined the pensioner’s payroll process, the majority of these payments are made, mainly on a monthly basis, to approximately 82,000 pensioners. The process was generally well controlled with a small number of suggested actions for improvement made.
- **Equities** - These investments are held under the custody of the HSBC, and represent a significant proportion of the West Yorkshire Pension Fund investment portfolio, the audit found the process to be well controlled.
- **Treasury Management** - This audit reviewed the arrangements in place to ensure that surplus cash is invested in the most appropriate ways and found control of this process to be excellent.
- **Follow Up Audit – West Yorkshire Pension Fund Access to Data** - A follow up of the Access to Data audit, carried out in 2014, was undertaken to determine the level of implementation of outstanding agreed High Priority recommendations. The result of this process was deemed to be satisfactory, however, further work was required to ensure full implementation of two high priority recommendations resulting from the original audit.

2.12 Changes to the 2015/16 Plan

During the financial year some of the audits in the original plan were not performed. As in previous years this was due to factors such as a delay in system

implementation or the availability of service staff and in some cases work had been completed by another service or covered by an alternative audit. Audits were also completed that were not in the original plan due to in year concerns from management or as a result of control weaknesses identified in other systems.

Details of the audits that were added or deleted from the 2015/16 Audit Plan over and above those that were reported in the Internal Audit Monitoring Report as at 27 November 2015 is shown in Appendix A. Where an audit was removed from the Plan a reason has been given as to why this was.

2.13 Non Audit Work Performed

During the year Internal Audit has performed some non-audit work in relation to the co-ordination of the writing of the Annual Governance Statement. The Head of Internal Audit and Insurance has ongoing responsibilities for Insurance, Risk Management and Information Governance arrangements.

2.14 Internal Audit's Performance Indicators

a) Client Feedback

After each audit a client feedback questionnaire is issued for the auditee to obtain their views on the different aspects of the audit they have received. Ninety eight percent of the feedback that we received from clients was positive.

As part of the feedback process the auditees are invited to give comments and below is a sample of some of the comments received:-

The auditor was thorough, but was very helpful as took the time to understand our systems.

Very efficient audit and very personable.

A useful contribution was internal audits' attendance at the various programme governance boards.

The audit was carried out with courtesy and the message was robust and rigorous adding value to school systems.

The auditor was very thorough and his comments were constructive and very helpful for the service.

b) Timeliness of Reporting

The timeliness of issuing draft and final reports is important as it allows the audit clients the earliest opportunity to action report recommendations and forms part of Internal Audit's performance indicators. During the year 88% of reports were issued within three weeks of finishing on site, which exceeds the target of 80%, and 98% of final reports were issued within a week of agreement with management, which is in excess of the target of 90%.

c) Review of the Effectiveness of Internal Audit

A further requirement of the PSIAS is that there must be a quality assurance and improvement programme which includes both an internal and external assessment. The internal assessment completed has not currently identified any areas of concern. The external assessment of Bradford Internal Audit has not yet been performed but it is planned that Doncaster's Head of Internal Audit will undertake the peer review in 2017/18.

3. ANNUAL INTERNAL AUDIT OPINION

3.1 Public Sector Internal Audit Standards (PSIAS)

Standard 2450 of the PSIAS requires Internal Audit to state within the Internal Audit Annual Report, the annual internal audit opinion which “must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control”. This is also used, as evidence, to support the “Annual Governance Statement.” The opinion is shown in 3.2 below.

3.2 Audit Opinion

From the work undertaken by Internal Audit throughout the year and after taking into consideration the work undertaken by Mazars, the overall internal control environment throughout the Council appears to be adequate. There are two individual areas of concern. These are the debt management controls surrounding the Payroll Services provided to full budget share schools and external providers and the progress on Continuing Health Care. Both these areas will continue to be monitored in 2016/17.

In 2016/17, Internal Audit plans to perform further audit work to follow up on the level of implementation of agreed recommendations as it appears departments are finding it difficult to resource improvements where control weaknesses are identified. Whilst overall the Council has the required policies and procedures in place, when there is a breakdown, it is of concern that corrective action can often take significantly longer to implement than would have historically been the case.

It must also be acknowledged, that whilst the overall opinion is adequate the number of reports produced by Internal Audit in 2015/16 has significantly reduced from the total in 2014/15. This limits the quantity of evidence which the Head of Internal Audit can rely on, to support the assurance statements concerning the governance of the Authority. The Service now has capacity issues and can find it difficult to respond to specific management concerns when internal audit contributions would be advisable.

Amendments to the Audit Plan

Below is a list of audits that were added or deleted from the 2015/16 Audit Plan over and above those that were reported in the Internal Audit Monitoring Report as at 27 November 2015. Where an audit was removed from the Plan a reason has been given as to why this was.

Additional Unplanned Audit Work done in 2015/16	Audits Removed from the 2015/16 Audit Plan.	Reason
National College of Teachers and Leadership grant	Safeguarding Children	Audit coverage provided by review of the strategic risk in 15/16
Early Years Service - provision of early years childcare	Care Trust Contract	Agreed with Public Health to refocus audit resources on the review of the Dental contract in 16/17.
Egress email encryption	Strategic Risk - Quality Accessible & Affordable Housing	Audit deferred to 16/17 as duplication of coverage through review of affordable housing / new homes bonus in 15/16
Barnsley External PSIAS Assessment	s256 payments	No longer a requirement for audit certification
	Strategic Risk - Regeneration & investment into District	Scope of audit was not clarified until late 15/16. Audit deferred until 16/17 to focus on the Keighley Bid.
	Financial Monitoring / Budget Forecasting (schools)	Service requires more time to scope the potential audit which was proposed to be cross cutting in nature.