

Report of the Director of Finance to the meeting of the Governance and Audit Committee to be held on 25 July 2014.

Subject:

I

INTERNAL AUDIT ANNUAL REPORT 2013/14

Summary statement:

This report reviews the service Internal Audit has provided to the Council during the financial year 2013/14.

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Director of Finance

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 (G&AC) about the service Internal Audit has provided to the Council during the financial year 2013/14.

In particular Members are advised of the following:-

- Internal Audit can demonstrate compliance with the Public Sector Internal Audit Standards for Internal Audit (PSIAS) and has delivered 98% of the Audit Plan for the year.
- Internal Audit's Client satisfaction identified that 95% of the respondents said that the "recommendations were useful and realistic" and believed that the audit was "of benefit to management."
- Over 99% 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 2013/14 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 2013/14 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 2003 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control'. Standard 2450 of the Public Sector Internal Audit Standards ("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 2013/14.

8.2 The Accounts and Audit (Amendment) Regulations 2006 (as amended by the Accounts and Audit Regulations 2011) requires 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**

There are no direct equal rights implications arising from this report.

9.2 **Sustainability implications**

None.

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 this report.

9.7 **Ward Implications**

None

10 **NOT FOR PUBLICATION DOCUMENTS**

10.1 None.

11. **RECOMMENDATIONS**

That the Committee recognises and supports the work carried out by Internal Audit during 2013/14.

12. **APPENDICES**

Appendix 1 – Internal Audit Annual Report 2013/14.

Appendix 2 – Amendments to the Audit Plan 2013/14

13. **BACKGROUND DOCUMENTS**

13.1 Accounts and Audit (Amendment) Regulations 2006.

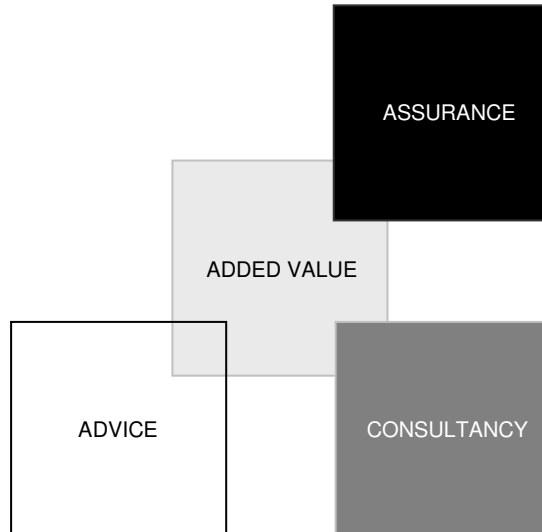
13.2 Accounts and Audit Regulations 2011.

13.3 Public Sector Internal Audit Standards 2013.

13.4 CG&AC report dated 12 July 2013 – Internal Audit Plan 2013/14.

13.5 CG&AC report dated 30 September 2013 Internal Audit Plan 2013/14 Monitoring Report as at 30 September 2013

INTERNAL AUDIT ANNUAL REPORT 2013/14



DEPARTMENT OF FINANCE

INTRODUCTION

The aim of this report is to provide information on the activities of Internal Audit during the financial year 2013/14 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). The PSIAS replaced the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice from 1st April 2013.

MARK ST ROMAINE

Head of Internal Audit and Insurance

July 2014

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 (G&AC)

The Member responsibility for Internal Audit rests primarily with the G&AC.

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

- Internal Audit Annual Report 2012/13
- Internal Audit Plan 2013/14
- Monitoring of the Internal Audit Plan 2013/14.
- Internal Audit Follow Up in respect of the Canal Road Joint Venture

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 and Team Structure

In 2012/13 Internal Audit operated on the basis of a two team structure, however, as a result of reduced resources in 2013/14, Internal Audit moved to a single team structure. These reduced resources occurred as a result of an Audit Manager moving to the Business Finance team within Financial Services and a Trainee Auditor moving to Public Health. Following the two departures there were 14 officers within Internal Audit which equated to 13.16 FTEs.

As a requirement of the new PSIAS the Audit Managers rotated their departmental responsibilities to avoid familiarity and the potential for a lack of objectivity.

1.3 External Audit

In November 2012 Mazars formerly commenced its new 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 2013-14 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 yet taken place, External Audit has no concerns about Internal Audit from the work that has been presented to them.

1.4 PSIAS

On 1st April 2013 the Council was required to comply with the Public Sector Internal Audit Standards (PSIAS). Prior to this, public sector organisations in the UK were covered by different internal audit standards. In central government and health (NHS) sectors, the standards were based on those issued by the Institute of Internal Auditors (IIA), whereas local government organisations complied with the Chartered Institute of Public Finance and Accounting (CIPFA) Code of Practice.

As organisations work more closely together in formal partnership and informal arrangements, and internal auditors work across the public sector, there were concerns about the consistency in practices and standards. Since May 2011 collaboration has taken place between CIPFA and IIA to develop a set of internal audit standards applicable to all areas of the UK public sector. These PSIAS standards came into effect on 1st April 2013.

1.5 Joint Working

During 2013/14 Internal Audit was actively engaged in examining the possibility of forming a joint working arrangement with other Local Authorities across Yorkshire. The options have ranged from sharing best practice through the possibility of a shared Head of Internal Audit to a consolidated team.

A meeting took place between the Heads of Internal Audit from Bradford, Wakefield, Leeds, Kirklees and Calderdale on the 27th January 2014. Following further consultations and discussions, Wakefield Council expressed an interest in joint working.

At the current time Wakefield is undertaking consultations regarding the nature of the joint working arrangements between Bradford and Wakefield and the sharing of a Head of Internal Audit.

An update on the issue of joint working was provided to the Governance and Audit Committee in the Monitoring Report on 29 November 2013.

2. SERVICE DELIVERY

2.1 Audit Coverage

The original audit plan for 2013/14 was approved by the G&AC on 12 July 2013. The G&AC received a monitoring report as at 29 November 2013 showing Internal Audit's performance against the audit plan as at 30 September 2013. The total number of actual days spent during the year was 2,879 against an original plan of 2,767. This represents an increase of 112 days in resource that was available in the year than was originally profiled at the start of the year.

The audit plan was also monitored by assignments during the year. Completion of 90% or more of the plan is a positive indicator of the effectiveness of Internal Audit. 97.7% of the plan had been completed during the year.

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 2013/14 a total of 160 reports were issued which recorded that the percentage of controls satisfied was 72%, a slight increase on the previous year's 70%. This compares with a five year average of 77% of controls satisfied. As in 2012/13 the service continued to focus on and require responses only in relation to high priority recommendations. Over 99% of these recommendations were accepted by management.

Table One below, 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.

Table One: Reports Issued in 2013/14 Analysed by Audit Type

Audit Type	Number of Reports
Fundamental Financial Systems	46
Significant systems	39
Schools	29
Follow Up Audits	14
West Yorkshire Pension Fund	11
Computer Audit	6
Information Governance	5
Probity	5
Grant Work	3
Change Agenda and Added Value	2
TOTAL	160

Table Two below shows that, from the evaluation of risks and controls in 2013/14, 47% of the systems examined had either an 'excellent' or 'good' audit opinion and 27% were classified as 'satisfactory'. A total of 23% of reports had a 'limited assurance' audit opinion and 3% were categorised as 'no assurance'. These opinions have only been applied when the nature of the audit has facilitated an assessment as not all audit reports will contain an opinion. As can be seen from the table the only significant change in the distribution of opinions from last year is that the highest proportion of opinions now fall within the 'good' rather than 'satisfactory' category which would suggest that the control environment has remained at least stable.

Table Two: Analysis of Audit Opinions 1 April 2011 to 31 March 2014

Opinions	2011/12		2012/13		2013/14	
	Total	Proportion	Total	Proportion	Total	Proportion
Excellent	18	13%	20	18%	17	16%
Good	46	32%	24	21%	34	31%
Satisfactory	49	35%	43	38%	30	27%
Limited Assurance	25	18%	21	18%	25	23%
No Assurance	4	3%	6	5%	3	3%
Total Reports with an Opinion	142		114		109	

2.3 Fundamental Systems/ Assurance

A significant element of Internal Audit's work is reviewing the fundamental financial systems in order to provide an adequate level of assurance of the main systems operating within the Council. In 2013/14 our work resulted in 46 reports being issued on fundamental systems. 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 reports have made appropriate recommendations to strengthen the control environment by:

a) Accounts Receivable

- Regarding the effectiveness of debt recovery by ensuring that an annual review of revenue distribution is undertaken to determine where recovery efforts should be targeted.

b) Benefits

- Ensuring that the fulfilment of the Community Care Grants awards by the Family Fund is that which is expected, by checking on a sample basis the invoiced awards to the awards stated on Northgate.

c) Capital

- Enhancing the control over capital expenditure by ensuring that all projects within a £7.2m capital scheme are appraised in their entirety by the Project Appraisal Group (PAG). Providing a clear framework for ensuring that the capital scheme and its contributory projects are appropriately monitored, with necessary actions as a result of this process documented.
- Enhancing the control that appropriate approval is sought for capital disposals by ensuring that appropriate documentation for all disposals is completed, authorised and retained in future. Improving the process for asset valuations by ensuring that the valuations process and associated working practices are agreed and fully embedded, including the requirement to ensure a process exists to capture the factors which trigger the requirement for an in year revaluation, such as acquisitions, disposals, demolitions, part sales, insurance claims etc.

d) Cash & Banking

- Improving management checks within the system by; ensuring that income levels are monitored by management (particularly where staffing resources make it difficult to consistently apply a division of duty between receipting and banking of income) to ensure that income received is in line with expectations.
- Strengthening the control arrangements at Children's Homes, including independent periodic checks of cash held; improving record keeping; requiring Young People to sign for receipt of cash payments; ensuring that cash insurance limits are appropriate and not exceeded.

e) Community Care

- Strengthening the relationship between the Council and CCGs (Clinical Commissioning Groups) in order to manage the key risks and administration for matters relating to Continuing Healthcare. In particular, ensuring that there is a system for resolving disputes between the two organisations allowing for the smooth running of care for service users.
- Enhancing the control over systems in place for the management and administration of section 117 Mental Health Aftercare Services. Some of the recommendations were of a similar nature to the work on Continuing Healthcare. The issues raised within our follow up reports on s117 Mental Aftercare Services and Continuing Healthcare are due to be raised at the Health and Wellbeing Board.
- Ensuring that only eligible claims for Supporting People are processed and that these are in accordance with the correct rates.
- Improving the control environment surrounding the Personalisation of Adult Service Budgets by ensuring that there is a robust process of managing indicative budgets and making them more accurate.

f) Contracting

- Examining the risks associated with the Waste PFI contract to ensure that they are managed effectively particularly in relation to the procurement of the project and having an effective management function. The audit commenced prior to the Government withdrawing the PFI credits.
- Looking to improve Council systems when it fails to utilise corporate contracts and framework agreements in relation to the advertising contract in contravention of Contracts Standing Orders. By procuring goods and services outside of the existing arrangements, the Council is in breach of the agreement and is not able to realise benefits such as agreed standards of service, value for money, commercial benefits through aggregation and consistency of pricing.
- Recommendations were made to improve the procedures regarding the Gateway contract which is an agreement between the Council and registered social landlords and charities who have agreed to perform verification checks on behalf of the Council for customers applying for housing or council tax benefit.

g) Council Tax / NNDR

- Ensuring that independent and regular reviews of council tax accounts, that are suppressed from recovery action, are undertaken to confirm, or otherwise, the need for further suppression from recovery action.
- Working Practices incorporate the performance of these independent reviews of council tax suppressions, including the required frequency of these suppression reviews.

h) General Ledger & Budgetary Control

- Improving control over suspense accounts by recommending that a regular review of the Interface suspense account is performed by an appropriate officer within Financial Services.
- Enhancing control over journal entries made on the general ledger by recommending that guidance on improving the narrative supporting journals is disseminated to all SAP users.

i) Ordering & Payments

- Audit work on the procure to pay process made recommendations to services for enhancing financial control and improving the timeliness of payment of supplier invoices by using the process as designed.
- Recommendations were made for improving the processes for procuring, monitoring and payment of agency staff by the Council.

j) Payroll / Human Resources

- Examining the change over from 4 weekly to monthly pay in 2013/14 and making recommendations to improve communication between Payroll, HR and Finance for any future major changes to employee's pay to ensure full consideration is given to the financial implications of the changes for the whole year.
- Analysing the processes for the recruitment of staff within Children's Services. Recommendations were made to ensure that proper recruitment processes are in place to ensure that statutory requirements and best practice in relation to safeguarding are followed as well as ensuring that the process is fair and that the most appropriate person is appointed.
- Improving the control of and clarifying the position regarding the payment of Occupational Maternity Pay to employees who are on temporary contracts.
- Enhancing control over payroll by making recommendations that only appropriately authorised payroll documentation is processed.
- Enhancing the process for recouping any payroll overpayments made to leaving members of staff by ensuring that there is cover for these processes when a member of Payroll staff is off sick or on holiday so that all relevant leavers are identified and that their details are passed to Miscellaneous Revenues promptly for an invoice to be issued.

k) Treasury Management

- Assurance is provided that surplus cash is invested on behalf of Bradford Council on the basis of appropriate market intelligence and with due regard to the overall risk of investment in financial institutions. This process is examined both in terms of the amounts invested and the length of time for which investments are made.

- Confirming that the Public Works Loans Board verified that a periodic review of borrowing was undertaken by the Director West Yorkshire Pension Fund / Financial Services and that principal and interest schedules are reconciled to the Principal Value of outstanding loans before payment is made.

2.4 Audit Grant and Certification Work

Certain grants received by the Council require an internal audit certification to confirm that the expenditure has been spent in accordance with the Grant Determination Letter. Internal Audit undertook the certification of 2 grant claims during 2013/14. These were:

- West Yorkshire Integrated Authority Grant 2012/13
- Green Deal Go Early

In 2012/13 the Council started work on the Troubled Families programme. In 2013/14 the Council submitted its first Troubled Families claim which has a payment by results financial framework. Internal Audit verified the accuracy of the claim and is required to verify each subsequent claim that is submitted.

2.5 Significant Systems

Internal Audit reviewed 39 significant systems of the Council during 2013/14. The work undertaken resulted in reports that made appropriate recommendations to strengthen the control environment. Significant systems coverage is varied and unique in some cases. In 2013/14 we undertook a review of the processes and procedures for setting and reviewing discretionary fees and charges to provide assurance that they follow best practice in the areas of Planning, Premises Rents, Non Residential Adult care and Markets. Work was performed on examining election duty payments to ensure that they were appropriate and accurate and a review was also performed at Birkslands to ensure that appropriate controls were in place following the relocation of cheque processing systems from Britannia House.

The role and remit of Internal Audit also involves performing audits aimed at Preventing and Detecting (P&D) fraud. In 2013/14 we undertook three pieces of P&D work that covered:

- Duplicate Creditor Payments;
- Building Control; and
- Blue Badge Fraud.

Other work on significant systems included audits on the Pupil Premium, Purchased Placements for Children in Care, Parks and Green Spaces Service Fleet, Home to School Transport and Academies Land and Buildings.

2.6 Value Added

Internal Audit, where possible, adds value in the work that it undertakes. The following is a sample of instances during 2013/14 where value has been added.

Audit title	Brief explanation of savings identified or value added
Birksland cheque processing	Eliminating the need to have separate types of cheques for Housing Benefit payments will reduce cost and waste to the Council.
Accounts Receivable - Trade Waste	Ensuring that its invoices are VAT compliant by containing all information required by legislation.
Utilities Follow Up Audit	Strengthening the control environment relating to the financial control over utility expenditure, thus allowing for effective budget monitoring and ensuring the Council is only paying for legitimate energy supplies, for actual usage and at the correct and most economical rates.
Minimum Building Standards - City Hall	Strengthening the governance structure of information management at the Council by reviewing the draft Minimum Standards for Buildings document and its practical application at City Hall prior to its roll out across all Council operated buildings and ensuring its compliance with ISO27001 an internationally recognised information management standard. By having an effective governance structure the Council is well placed to avoid security incidents and minimise the risk of monetary penalty notices from the ICO for breaches of the Data Protection Act
Information Retention and Disposal	Strengthening the control environment for safeguarding information and ensuring that information can be managed anywhere within the Council. Providing assurance that the Council has procedures in place to ensure that information is not retained longer than is necessary and in so doing demonstrate adequate information governance and compliance with relevant legislation.
Theatres Catering VFM Review	The report includes recommendations which will improve the economy, efficiency and effectiveness of the Theatres Catering function. These include improving the financial and performance reporting framework to allow the profitability of the function to be reviewed regularly by management to aid decision making, recommending that independent overview of financial performance takes place and ensuring that future procurement decisions comply with Contract Standing Orders and ensure best value.
Building Maintenance	Improvements to the system for identifying and programming property maintenance requirements at timely intervals to prevent more costly deterioration and maintenance requirements going forward.

2.7 Follow Up Audits

Internal Audit follows up its audit work in two ways as stated below:

a) Follow Up Returns From Strategic Directors

During 2013/14 a follow up exercise with the Strategic Directors was undertaken for all 97 reports issued up to 31.03.13, which contained High Priority and Critical recommendations that have not previously been confirmed as actioned. The outcome was reported to G&AC on 29 November 2013. Overall the Strategic Directors' returns indicated that good progress had been made in implementing agreed recommendations with 87% reported as being actioned.

b) Individual Follow Up Audits Undertaken by Internal Audit

During the year, 14 follow up audits were completed by Internal Audit to determine the actual level of implementation of agreed recommendations. The outcome of the 14 follow up audits was reported to G&AC on the 29 November 2013.

In summary, of the 83 high priority recommendations followed up in 2013/14, 61% could be confirmed as fully implemented by Internal Audit, which was a significant diminution on 2012/13's performance (87%). The Governance and Audit Committee meeting commissioned further reports from the relevant Strategic Directors to address the specific recommendations.

Internal Audit will reiterate the importance to management that they need to focus enough attention on the implementation of recommendations to ensure, control weakness are being permanently addressed.

Internal Audit will continue to perform follow up audits in 2014/15 and report the outcome to G&AC.

2.8 Schools

a) School Audits

Reports were issued to 10 schools visited as part of the plan of individual school audits, which for the first time included pupil referral units. Most audits followed the standard programme and one was tailored to particular concerns arising during a previous audit of private funds. The plan prioritises schools for individual audits that are considered to be higher risk and this is reflected in the results of the audits as half of the audits resulted in opinions of Limited Assurance, four were Satisfactory and one was found to be Good. All but two of the recommendations made to these schools were accepted.

Reports were issued to a further seven schools in relation to themed audits of Monitoring of School Budgets, Year End Closedown and Sixth Form Funding Assurance with no significant concerns arising. In addition, eight schools were included in a School Financial Value Standard (SFVS) assurance audit, the results of which are discussed further in the following section.

In addition to planned audits advisory work was carried out at Laisterdyke Business and Enterprise College in support of the Local Authority intervention at the school under which the Governing Body was replaced by an Interim Executive Board.

Audits at schools were also undertaken as part of fundamental and significant systems review; Pupil Premium was examined at four schools and Census Data Validation was carried out at five schools. Adherence to the requirements of the Pupil Premium grant funding was good overall, and excellent in two schools, but one school was failing to meet the conditions with a 'no assurance' opinion resulting. All audit recommendations made to this school were accepted. The system in place for ensuring accurate census data was found to be good across all schools.

(b) Schools Financial Value Standard

All maintained schools, excluding those falling within listed exceptions are required to complete and submit this financial self assessment and return it to the Authority by 31 March each year. In turn the Authority must forward an Assurance Statement signed by the Director of Finance to the Department for Education(DfE) before the following 31 May detailing the number of returns received by schools as at the previous year end.

The SFVS Assurance Statement for 31 March 2013 was forwarded to the DfE on 24/05/13. This was the first year in which all schools (excluding pupil referral units), were required to make a submission. Of the 171 assessments received 39% already showed full compliance with the standard.

A further requirement of the SFVS is that returns are taken into consideration when setting the audit plan. This was achieved in 2013/14 by including the two schools failing to make returns within the programme of individual schools audits (referred to above) and by carrying out an assurance audit visiting a sample of eight schools whose returns contained little or no evidence to support the results of the assessment. This audit returned an overall result of Limited Assurance (with opinions for individual schools in the sample ranging from one of 'Excellent' to one of 'No Assurance'), however further reviews will be required before an opinion can be formed as to the overall financial assurance that can be taken from these self assessments.

2.9 Computer Audit

A synopsis of the main computer audit work undertaken in 13/14 is detailed below.

Following the theft of a number of computers allocated for disposal the new procedures developed for the movement and disposal of ICT assets were examined with recommendations made for improving the asset records relating to this process. All collection and movement of unencrypted data devices e.g. PCs is now performed under the supervision of the Client Services Team or by the Industrial Services Group.

The Egress solution acquired by the Council to encrypt information sent via email was reviewed. The audit reviewed both the management of the software and the rollout to users. One thousand licences were initially acquired and as at 25/02/14, 603 had been issued to users and 7,169 emails had been sent using Egress.

Internal Audit has continued to review project implementation and delivery of the IT Disaster Recovery (DR) Project. In June 2013 DR testing was performed by Bradford-ICT with the objective of establishing proof of concept that the site could be used to recover critical IT services. Internal Audit was provided with and

reviewed a copy of the IT DR Post Test Report and is of the opinion that management can be assured that the IT DR Project has been successfully delivered.

The concern with regard to the temporary suspension of the automatic network password change feature continued to be monitored. Internal Audit can now report this has now been resolved and re-invoked.

2.10 Information Assurance

Once again Internal Audit has continued to proactively support the Assistant Director Information Assurance to identify improvements for managing information securely. Monthly meetings are held to assist in this process.

Internal Audit reviewed the effectiveness of the guidance for Information Security contained within the draft Minimum Standards for Buildings document, comparing this against the relevant requirements of ISO27001, an international standard of information security management and examining the relevant daily activities occurring in City Hall to assess the extent of compliance with these expected controls. This resulted in a number of recommendations for improving information security arrangements within the Council estate.

An audit was performed with regard to information retention and disposal. The audit focussed on the new archive paper records store at Birksland and the ICT procedures for electronic data. Whilst procedures for paper records have been established it was identified that considerable work is still required before electronic information governance can be considered adequate.

Contractual arrangements were examined for external data processing of Council owned data. The audit identified that these arrangements and the management thereof need to be improved to ensure that the appropriate level of information assurance is provided. In addition it was identified that there are also numerous data sharing agreements and protocols with partner organisations for the legitimate purpose of sharing data. It is planned these will be examined separately in 2014/15.

To support both ICT governance and security, investigative reviews were also performed on request of the AD Information Services. These included network administration, network suspicious activity and leaver management of Councillor email.

2.11 West Yorkshire Pension Fund (WYPF)

During 2013/14, Internal Audit carried out a variety of audits within WYPF. These included:

- **New Pensions and Lump Sum Payments - Ill Health Retirements** – This annual audit looks at the calculation of new pensions and lump sums. In 2013/14 the audit focused on looking at ill health retirements. We found that the control environment was largely as expected, however, an issue was identified during the course of this work with respect to obtaining current authorisation lists from a new employer. This issue has since been rectified.

- **Transfers In** – Our work looked at individuals who had built up previous pension benefits in their former employments and now wished to amalgamate them with their new West Yorkshire Pension Fund contributions. The standard of control in this area was found to be excellent.
- **Pensioners Payroll** – We found that a good standard of control was in place and that no significant concerns were identified with regards to making payments to pensioners.
- **Annual Benefits Statements** – This work covered the annual benefits statements issued to all pension fund members and which detail the current value of their benefits. A good standard of control was found to be in place with no significant concerns.
- **Compliance with Investment Advisory Panel Decisions** - New money coming into the Fund is available for investment each quarter and the Investment Advisory Panel decide how this amount is to be invested across the Fund's investment portfolio. The Investment Managers are then required to report back to the IAP at the end of the next quarter to verify that they have complied with the IAP's decisions. No issues were identified with this process.
- **Foreign Equities** – Internal Audit is pleased to note that the identified risks in this system are well controlled.
- **Global Bonds** – This audit covers all investments in Global Bonds (foreign corporate bonds and foreign public sector bonds, both fixed and index linked). The standard of control in this system was found to be excellent.
- **Treasury Management** – This audit provided assurance that surplus cash is invested on behalf of the West Yorkshire Pension Fund on the basis of appropriate market intelligence and with due regard to the overall risk of investment in financial institutions, both in terms of the amounts invested and the length of time for which investments are made.
- **Review of WYPF 2012/13 Accounts** – The purpose of this piece of consultancy work is to assist the Financial Controller in improving the quality of the financial statements. This work was carried out at the request of the Financial Controller.

2.12 Changes to the 2013/14 Plan

During the financial year some of the audits in the original plan were not performed. This can be due to a number of factors such as a delay in system implementation or the availability of staff. In some cases work may be completed by another service or covered by an alternative audit. Audits can also be completed that were not in the original plan due to a concern from management or as a result of control weaknesses identified in other systems.

Details of the audits that were taken out of the audit plan for 2013/14, together with the reason why, are shown in Appendix 2. In addition, the audits that were added during the year are also detailed.

2.13 Non audit work Performed

During the year Internal Audit has performed some non-audit work. Two noticeable examples of this are the co-ordination of the writing of the Annual Governance Statement and facilitating the implementation of the agreed recommendations in the Financial Control of Utility Expenditure audit report issued in November 2012. This work was in part required as a consequence of the reduction in resources within other services.

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 six 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 extremely professional and helpful. Who sought to work with officers in a constructive way, in a new and complex area of developing work and was only interested in producing a report that would help managers develop a more purposeful process that would reduce the risks that the council was exposed to in the future. The report was clear and specific'.

'The audit was carried out in a thorough and professional way and I considered the purpose of the audit was focussing both on, reviewing working practices as well as providing practical advice'.

'The auditor was positive and supportive throughout the process and provided useful advice and guidance whilst being sensitive of our inexperience of some areas'.

'The auditor was very helpful and we had discussions over the implications of the recommendations'.

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 89% of reports were issued within three weeks of finishing on site, which exceeds the target of 80%. 99% of final reports were issued within a week of agreement with management, which is in excess of the target of 90%.

3. PSIAS AND ACCOUNTS & AUDIT REGULATIONS REQUIREMENTS

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.

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 arrangements for an external assessment are yet to be agreed. The outcome of the internal assessment is shown in 3.3 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, with the exception of the concerns outlined below, appear to be adequate. However there are areas which do require particular attention.

a) Financial Control of Utilities

The 2012/13 Annual Report included concerns surrounding the financial administration of utilities which had arisen from our audit review performed in November 2012. Two follow up audits have since been performed, the first in August 2013 and the second in June 2014. The purpose of these was to assess the level of implementation of recommendations arising from the previous audit review, the most recent of which had implementation dates of 30.11.13.

The key findings of this work were as follows:-

- The number of high priority recommendations outstanding has reduced from 13 in the original audit report to 3. However, further action is required to fully action all of the issues raised in the original audit report.
- Notable areas of improvement are that the Energy and Climate Change Unit (ECCU) has made progress in implementing Team Sigma, a dedicated utilities monitoring system which identifies all sites on which the Council has a utility billing liability. Uploading of electronic bills from utility companies allows an automated bill validation process to take place, based primarily on site/property information (i.e. actual liability), consumption and cost.
- To ensure that relevant sites are listed on Team Sigma, ECCU staff now have access to the Council's asset register TF (CAFM), which includes information on disposed assets. Due to inaccuracies identified through audit testing of disposed assets, a regular reconciliation of Team Sigma to TF (CAFM) should be performed. This will ensure that the Council only pays for its utility liability.
- To enable accurate automated validation of utility bills, tariffs are electronically loaded onto Team Sigma annually from information supplied by the utility companies. Internal Audit found a number of inaccuracies in this process resulting in incorrect tariff data being held. Checks need to be introduced to ensure that accurate upload of tariff data takes place.
- A documented methodology has recently been developed and used by ECCU to predict the utility budget for 2014/15. The accuracy of the methodology's forecasting, however, needs to be proven and this should be done during 2014/15 in conjunction with Financial Services, so that it can be used confidently to inform the 2015/16 budget setting process.

b) Miscellaneous Rents

The 2012/13 Annual Report also included concerns which had arisen from our audit of Miscellaneous Rents which was performed in March 2013. Follow up work to assess the level of implementation of recommendations due for implementation by 31.12.13 commenced in May 2014. Initial follow up audit findings concluded that the level of changes which were recommended had not been actioned and project managed to a satisfactory conclusion. As a result the follow up audit work has been suspended.

Audit found that particularly the testing and implementation of the technical system changes which were necessary to address some of the problems identified in the original audit report were still outstanding.

Subsequent to the follow up audit, Asset Management have reported some progress in meeting audit requirements. The service has also informed Internal Audit that they have commenced a revised approach to programme management which is intended to ensure effective implementation of the remaining work required.

As a result it has now been agreed that a follow up audit will be undertaken in November 2014 on receipt of assurance from the Assistant Director that all recommendations have been fully implemented. Internal Audit are willing to review any action planning processes the service wishes to implement in the interim period.

c) Asset Disposals

During 2013/14 Internal Audit undertook five pieces of work within the Department of Regeneration and Culture which had not been included within the original audit plan. The key issue in three of these cases was the compliance with the Council's Disposal of Assets Procedures for land that had been sold by the Authority. This included evidencing whether the Council could demonstrate that it had achieved best consideration for the sale.

Discussions have taken place between Internal Audit and Estate Management to improve existing practices. The Head of Internal Audit and Insurance jointly with the Council's Operational Estate Manager, provided training to officers within Estates Management on the compliance with the Disposals Policy. A further two sessions are planned with teams from Regeneration & Culture. The disposals policy has also been reviewed and updated as a result of engagement with the Audit Service.

We examined a write off of rental arrears, due by a company trading in Bradford, which was experiencing financial difficulties. The write off contravened the Council's Financial Regulations which required the write off to be approved by the Director of Finance. The debtor was later bought by another company.

d) Museum Collections – Safeguarding, Loans and Insurance

Museums and Collections issues were raised in the half yearly monitoring report. Progress has been made with the implementation of improvements to the asset

recording systems and changes to the insurance coverage. There has also been a strengthening of the loans system into and out of the museums service. However due to the size of the collections there will be an ongoing need to constantly review the records supporting the museums artworks and artefacts.

e) Continuing Healthcare/ s117 Mental Health Aftercare

The concerns raised in the Monitoring Report issued as at 30th September 2013 relating to Continuing Healthcare and s117 Mental Health Aftercare Services are due to go to the Health and Wellbeing Board. The main concern has been the lack of progress made in formulating an agreement between the Council and the CCGs in the pooling of budgets and the sharing of risks. A follow up audit of s117 Mental Health Aftercare is planned to be undertaken in 2014/15.

3.3 Internal assessment

In order to satisfy the PSIAS requirement for an internal assessment, The Head of Internal Audit and Insurance undertook a quality review of Internal Audit's procedures. The outcome of the review was satisfactory in that the review did not identify any significant issues that compromised the outcome of the original audit work undertaken. The minor concerns that were identified have been brought to the attention of the relevant staff in Internal Audit.

3.4 Review of the Effectiveness of Internal Audit

The Accounts and Audit (Amendment) Regulations 2006 requires the Council to "conduct a review into the effectiveness of the system of internal audit." The Service has developed a self assessment questionnaire with internal and external indicators. The questionnaire had been amended to take into account the requirements of PSIAS. This was completed by the Head of Internal Audit and Insurance.

There were two issues arising from the review which will be addressed in 2014/15.

- (i) An audit review of risk management processes will be undertaken to see what improvements are needed.
- (ii) The Audit Plan for 2015/16 will include a quantitative review to ensure audit coverage is supported by a systematic analysis of financial and other risks.

Amendments to the Audit Plan

Below is a list of audits that were added or deleted from the 2013/14 Audit Plan over and above those that were reported in the Internal Audit Monitoring Report as at 30th September 2013. Where an audit was removed from the Plan a reason has been given as to why this was.

Additional unplanned audit work done in 2013/14	Audits removed from the 2013/14 Audit Plan.	Reason
Miscellaneous Rents Write Off	SAP Asset Register Data Transfer to CAFM	No longer required.
Third Party Data Access	Capital Assurance 2012/13	Assurance was provided by other audits.
Network Suspicious Activity	CAFM 2013/14	Deferred to 2014/15
WYPF Tell Us Once	Adults Partnership Agreements	Deferred to 2014/15
	Council Tax/ NNDR Assurance 2013/14	Deferred to 2014/15
	Risk Management	Deferred to 2014/15
	SEN/ AP funding	Deferred to 2014/15
	Information Governance Toolkit - compliance	Deferred at the request of the Assistant Director
	Application Rationalisation	Deferred to 2014/15