

Report of the Director of Finance to the meeting of the Governance and Audit Committee to be held on 1 December 2016.

Subject:

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INTERNAL AUDIT PLAN 2016/17 – MONITORING REPORT AS AT 30 SEPTEMBER 2016

Summary statement:

This report monitors the progress made by Internal Audit against the Internal Audit Plan for 2016/17 as at 30 September 2016.

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Director of Finance

Portfolio

Leader of Council and Corporate Portfolio

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Improvement Area:

Corporate

SUMMARY

- 1.1 The purpose of this report is to bring to the attention of members of the Governance and Audit Committee (G&AC) any significant issues arising from the audit work undertaken to date and to inform them about the progress made up to 30 September 2016, against the Internal Audit Plan, which was approved by the Committee on 15 April 2016.

2. BACKGROUND

- 2.1 Internal Audit is part of Financial Services within the Department of Finance. This is the half year monitoring report on the Internal Audit Plan for 2016/17. This is detailed in Appendix 1. The overall Audit Opinion is that from the audit work performed to date, Internal Audit concludes that the Council's overall control framework is satisfactory.

- 2.2 The report enables the Council to demonstrate compliance with the Public Sector Internal Audit Standards (PSIAS). These require the Head of Internal Audit to report periodically to the Governance and Audit Committee on Internal Audit's activity, purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested either by senior management or the Governance and Audit Committee.

The PSIAS also require the Head of Internal Audit to communicate the Internal Audit activity's plans and resource requirements, including significant interim changes, to the Governance and Audit Committee, including any impact of resource limitations.

- 2.3 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. From 1st September 2014 Wakefield and Bradford Councils have shared a Head of Internal Audit. This has been undertaken through a Service Level Agreement and a business case is to be written by the 31st December 2016 to determine future service arrangements.

Bradford has also brought in 60 days per annum of computer audit service from Wakefield. Opportunities to increase joint working in the future are actively being explored by both audit teams including both teams operating the same Audit Software, MKinsight, from October 2016.

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 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 and deal with financial uncertainty.

7. RISK MANAGEMENT

- 7.1 The work undertaken by 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 2016/17 was drawn up and any issues on the risk register that relate to an individual audit are included within the scope.
- 7.2 The key risks examined in our audits are discussed with management at the start of the audit and the implementation of recommendations is followed up with 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. These standards are detailed in the Public Sector Internal Audit Standards supported by CIPFA's Local Government Application Note.

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 Governance and Audit Committee:

11.1 Takes assurance from the results to date that show that the control environment of the authority is overall satisfactory.

11.2 Endorse the anticipated coverage and changes of Internal Audit work during the year.

11.3 Requires Internal Audit to monitor the control environment and continues to assess areas of control weakness and the ability of management to deliver improvements to the control environment when required.

11.4 Requires Internal Audit to monitor its resourcing levels to ensure that they are sufficient and appropriate to support an effective Internal Audit function.

12. APPENDICES

Appendix 1 – Internal Audit Plan for 2016/17 – Monitoring Report as at 30th September 2016.

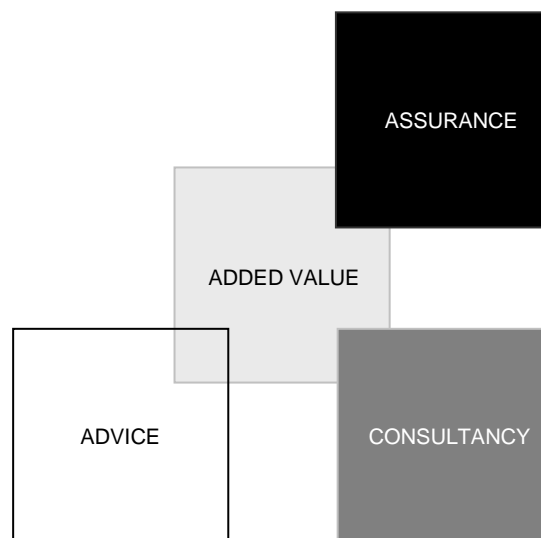
13. BACKGROUND DOCUMENTS

13.1 G&AC report dated 15 April 2016 – Internal Audit Plan 2016/17.

INTERNAL AUDIT PLAN 2016/17

MONITORING REPORT

AS AT 30.09.16.



DEPARTMENT OF FINANCE

1 INTRODUCTION

- 1.1 The Internal Audit Annual Plan for 2016/17 was approved by the Governance and Audit Committee (G&AC) at its meeting on 15 April 2016. This report is the half year monitoring report for this financial year. It identifies the progress made against the Internal Audit Plan up until 30 September 2016 and identifies any significant audit issues arising.
- 1.2 The report enables the Council to demonstrate compliance with the Public Sector Internal Audit Standards (PSIAS). These require the Head of Internal Audit to report periodically to the Governance and Audit Committee on Internal Audit's activity, purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested either by senior management or the Governance and Audit Committee.
- 1.3 The PSIAS also require the Head of Internal Audit to communicate the Internal Audit activity's plans and resource requirements, including significant interim changes, to the Governance and Audit Committee, including any impact of resource limitations

2 RESOURCES

2.1 Reduction in Audit Resources

The Internal Audit Plan for 2016/17 has 5% more capacity than in 2015/16 (1873 days v 1795 days) and 27% less capacity than in 2014/15 (2567 days). This net reduction has required the Service in conjunction with the s151 officer to consider and prioritise the use of these resources. The main core delivery of Internal Audit in 2016/17 was planned to be the provision of assurance on the Council's fundamental financial systems.

Further, in September 2014 the Council entered into a Service Level Agreement (SLA) with Wakefield Council, for Bradford to provide its Head of Internal Audit and Insurance to manage Wakefield's Internal Audit & Risk Service. The SLA also requires a Business Plan to be prepared, which will be written by December 2016, to determine an option appraisal for future service delivery.

This SLA commitment, together with insurance management and accountancy support to Bradford, absorb 184 days (10%) of the available planned 1873 days. In addition, a further 170 days are provided to West Yorkshire Pension Fund. The net audit days currently provided to Bradford Council in 2016/17 is 1519 days.

2.2 MK Insight

The 2016/17 plan contains a provision for time to introduce MK Insight which is an integrated Internal Audit ICT package produced by Morgan Kai that delivers the full range of Internal Audit functionality from planning, to reporting, including time recording and working paper preparation. This will replace the collection of manual and Microsoft based documents and out of date in house packages currently in use.

A business case for its introduction was presented in 2015/16, which was approved and licences for the system were purchased. During the early part of the year Audit Management worked with representatives from Morgan Kai to set the configuration which will tailor the package to Bradford's requirements. Towards the end of the half

year all staff were trained in the use of the package and user testing has been carried out. Morgan Kai is currently using feedback from this to make final amendments to the configuration. Once this is complete staff will begin to use the system to perform new audits in the second half year, with a view to making full use of the system from 1 April 2017.

3 SERVICE DELIVERY

3.1 Audit Coverage

As at 30 September 2016, 44% of the 2016/17 audit plan has been completed compared to last year when 48% of the 2015/16 audit plan had been completed by this time.

Internal Audit faces a challenge in the second half of 2016/17 to deliver the audit plan. This challenge is due to the available resources of the function, which now has very limited capacity to absorb unforeseen audit issues and unplanned work, without it affecting the delivery of planned core audit work.

During the year to date there have been some revisions to the 2016/17 audit plan to reflect the priorities of the service and that several audits are taking more time to complete than was anticipated. These plan changes are detailed in section 3.7. The net effect of the proposed changes is that the section will focus marginally less on significant and fundamental systems than planned.

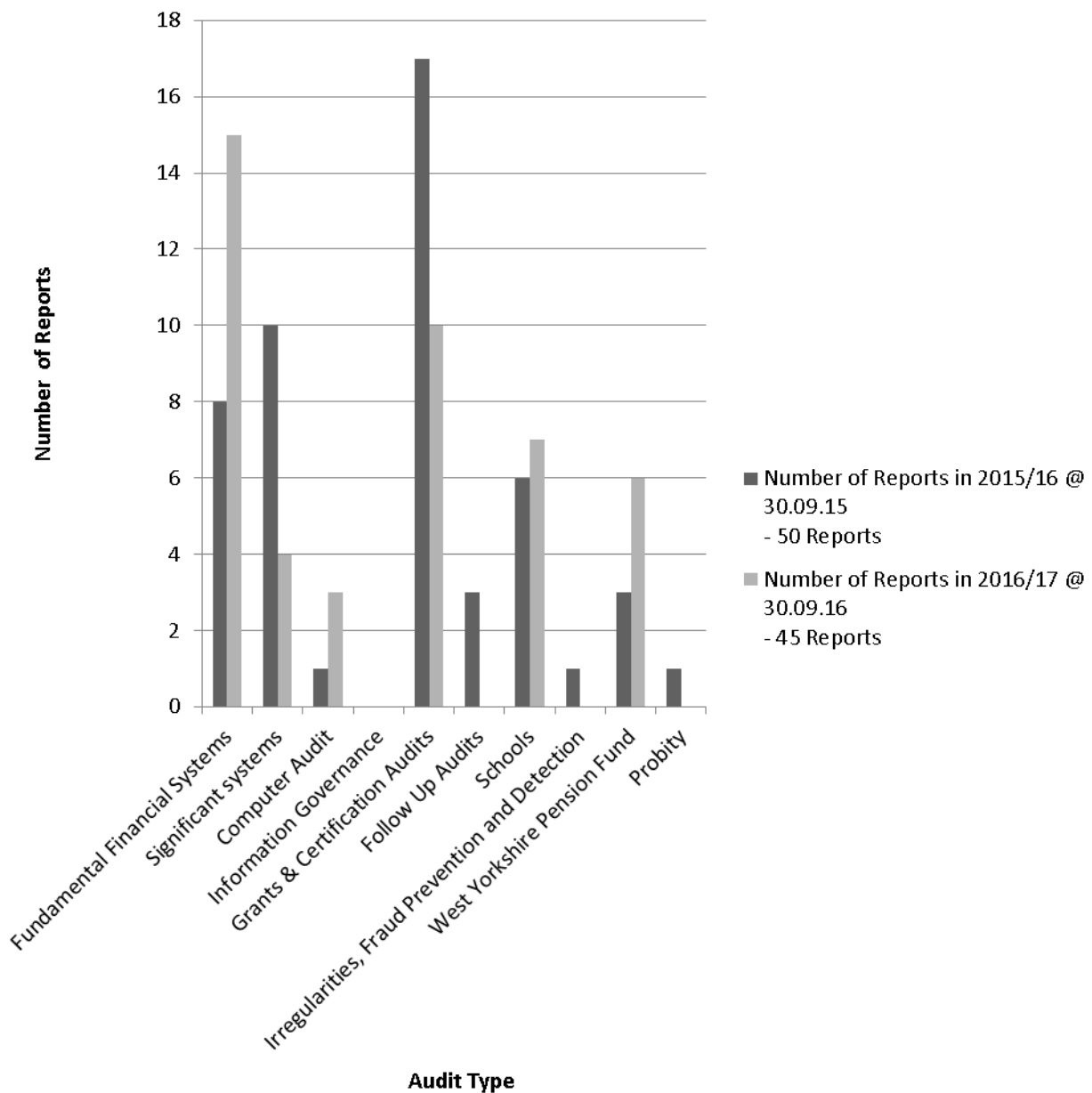
Currently it is forecast that 90% of the audit plan will be delivered by the end of the financial year which is the target level of completion. However, due to its relatively low resourcing levels, this forecast is more sensitive to changes in available resources than in prior years.

3.2 Reports Issued

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. Chart One below shows that as at 30 September 2016 a total of 45 reports have been issued, which compares with 50 at this time last year. The chart shows a breakdown of the reports by audit type, with grant and certification audits generating the highest number of reports to date in each year.

The reduction in the number of reports issued is due to the reduction in available resources.

Chart One: Showing the Breakdown by Audit Type of Audit Reports Produced As At 30 September 2016 and 2015



3.3 Control Environment

The following table details the opinions from those audits over the last two years where an appraisal of the overall system could be obtained. As can be seen the proportion of reports assessed as either adequate, good or excellent opinions are increasing over time and account for approximately 80% of the opinions reached. Whilst reassuring this may be expected as Internal Audit's core focus is on fundamental and significant systems.

Table One: Six Monthly Analysis of Audit Opinions raised in Internal Audit Reports issued in the Period 1 October 2014 to 30 September 2016

	1 Oct 2014 and 31 March 2015		1 April 2015 and 30 Sept 2015		1 Oct 2015 and 31 March 2016		1 April 2016 and 30 Sept 2016	
Opinions	Total	Proportion	Total	Proportion	Total	Proportion	Total	Proportion
Excellent	13	28%	10	31%	4	15%	9	29%
Good	14	30%	9	28%	6	23%	8	26%
Adequate	9	19%	7	22%	13	50%	9	29%
Limited Assurance	6	13%	5	16%	3	12%	5	16%
No Assurance	5	11%	1	3%	0	0%	0	0%
Total Relevant Reports	47		32		26		31	
Not applicable**	29		18		5		14	
Total Reports	76		50		31		45	

** Internal Audit gives an opinion on the control environment whenever it is appropriate to do so. However, traditionally audit reports that provide advice, review specific control concerns or investigate irregularities generally do not have an opinion as they are too limited in scope.

Conversely the proportion of reports classified as limited assurance and no assurance have decreased over time.

The analysis above relates to those reports with opinions. 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.

The proportion of reports issued without an opinion being expressed is decreasing over time, but is still high representing 31% (14) of all reports issued over the period 1.4.16 to 30.09.16. In future, Internal Audit will continue to try and increase the proportion of reports issued that include an audit opinion.

The audit work has identified that 79% of controls examined were operating satisfactorily. All concerns arising from the audit assignments result in an audit recommendation. To date, 100% of our audit recommendations have been accepted by management. This is consistent with the 2015/16 outcome (100%).

3.4 Follow Up Audits

3.4.1 Internal Audit currently follows up its audit work in two ways – Annual follow up returns from Strategic Directors and performing individual follow up audits. The purpose of this section is to report the progress that Strategic Directors have confirmed as being made in implementing previously agreed Internal Audit recommendations and also to inform G&AC of the outcome of the Internal Audit follow up audits undertaken in the period 01.04.16 to 31.10.16.

3.4.2 Annual Returns From Strategic Directors

Analysis of the Annual Returns from Strategic Directors is shown in Table Two below.

Table Two: Analysis of Strategic Director's Reported Rate of Implementation of Agreed Recommendations for Reports issued up to 31.03.16

Department	Total in Follow Up		Overall Progress of Implementation		Outstanding Reports & Rec's Carried Forward		No Progress in Level of Implementation During Year	
	Reports	Rec's	2016/17	2015/16	Reports	Rec's	Reports	Rec's
Adult Services	9	21	98%	42%	1	1	-	-
Chief Executive	4	6	100%	100%	0	0	-	-
Children's Services	24	107	90%	96%	5	13	1	1
City Solicitor	-	-	-	-	-	-	-	-
Environment & Sport	10	25	97%	97%	6	14	-	-
Finance	15	31	87%	88%	7	13	2	2
Human Resources	6	11	81%	92%	1	2	-	-
Public Health	1	2	100%	67%	0	0	-	-
Regeneration	7	15	93%	97%	3	6	-	-
Total for all Departments	76	218	94%	85%	23	49	3	3

The total of 76 reports containing 218 High Priority recommendations which were followed up with Strategic Directors included 30 reports and 66 agreed recommendations that were carried forward as not fully implemented at the time of last year's follow up, and 46 reports and 152 agreed recommendations issued during the 2015/16 financial year. All recommendations included in the follow up had passed their agreed implementation date. The Strategic Directors' returns showed that 70% of reports and 78% of recommendations were fully implemented during the year, which is a slight decrease from last year's figures (75% and 81% respectively). However, if progress is adjusted to reflect overall progress for each report, including partial completion, as shown on the Covalent system (used to monitor the recommendations) then total overall progress of implementation of recommendations rises to 95% which is significantly higher than last year's position of 85%.

The Strategic Director's returns showed that 23 reports and 49 recommendations were not fully implemented, at the time of the sign off. Around half of these, 12 reports and 23 recommendations, were brought forward from the previous year (i.e. reports issued in or before 2014/15), and 3 of these (containing 3 recommendations) showed no further progress in implementing the recommendations had been made in the year since the last return.

One of these reports related to Children's Services and two to Finance. These reports are detailed below.

This reported absence of progress has been brought to the attention of the relevant Directors to allow them to reconfirm that the progress shown in Covalent is accurate and/or prompt corrective action to be taken as appropriate.

List of Reports Where No Further Progress Has Been Made in Implementing Agreed Recommendations

Finance

Audit of Risk Management: Issued 21.01.15

Information Retention & Disposal: Issued 28.03.14

Children's Services

Follow up of Concerns Relating to Compliance with Council's Procure to Pay Process: Issued 05.11.14

3.4.3 Individual Follow Up Audits Undertaken by Internal Audit

During the year Internal Audit has carried out 7 follow up Audits to determine the level of implementation of agreed recommendations. One of the follow ups formed part of the original audit plan and was selected due to the significance of the concerns in that area. This audit commenced before the Strategic Directors returns were received. Following receipt of the Strategic Directors' returns Internal Audit subsequently followed up a further sample of 6 reports where the returns showed that the recommendations were fully implemented. The purpose of all the follow up audits was to independently validate the reported implementation rates of agreed recommendations and these, together with the audit results are shown in Appendix A.

In total 18 high priority recommendations were followed up, with 16 of these being reported by Directors as fully implemented within their returns. The follow up testing concluded that, in fact, 13 of the high priority recommendations had been fully implemented which is lower than the reported rate, however none of the residual recommendations were considered to be high priority in terms of the risk remaining, and all required only minor improvement to comply fully.

This is a significant improvement on the position found in follow up audits carried out in 2015 where a third of recommendations which directors had deemed fully implemented were found to have high priority concerns still outstanding.

All follow up audits resulted in a report, and where necessary further recommendations have been made, to ensure that the original control weaknesses are addressed in their entirety.

3.5 Special Investigatory Reviews

Internal Audit was commissioned in the first half of the 2016/17 to perform a number of special investigatory reviews. In brief these reviews were as follows:

- 3.5.1 Internal Audit examined the arrangements involving a school owned company. The purpose of the audit was to consider the appropriateness of the tender process in the awarding of school catering contracts to this company and the levels of competition that were evident in this process. This audit concluded that schools should not continue to procure their catering services from the company and recommended that they seek an alternative provider with immediate effect. A report detailing this concern and recommendation was issued to the respective Governing Body's of the schools involved

- 3.5.2 At the request of the Chief Executive, Internal Audit were requested to perform a comprehensive review of the Council's action against a former employee following a complaint from a member of the public regarding inappropriate content being held on his Facebook page. Internal Audit's review was to include preparation of a chronology of events relating to this action, clarity regarding the investigation of information governance issues around the case.
- 3.5.3 The 2015/16 Internal Audit Annual Report, which was reported to Governance and Audit Committee on 29 September 2016, highlighted concerns regarding the debt management controls surrounding the Payroll Services provided to full budget share schools and external bodies. Internal Audit gave a commitment to monitor the position and performed a follow up audit in the first half of 2016/17.

The audit concluded that some progress had been made in implementing the four previously agreed high priority recommendations, specifically the introduction in April 2016 of a monthly reconciliation of payroll costs invoiced to those posted in the financial ledger. This has improved financial control, but further action is still required for full implementation.

The main issue was the recovery of £2.124m payroll costs that the Council has incurred over a number of previous years, dating back to 2006/7, but not recovered as at 31.3.16. As at August 2016, invoices with a total value of £833,145, 39% of the 31.3.16 balance, had been issued. Of these, £346,017 had been paid. The bad debt provision, currently £1.2m, needs to be reviewed for adequacy as the outcome from recovery action progresses.

3.6 Summary of Audit Reports and Findings

A summary of the routine audits undertaken and the recommendations identified is reported in Appendix B.

3.7 Overall Opinion

From the audit work performed to date Internal Audit concludes that the Council's overall control framework is satisfactory, though this is based upon a reduced level of coverage in comparison to prior years.

3.8 Existing and Planned Changes to Internal Audit Coverage in 2016/17

During the year the audit plan is subject to revision in light of requests for, or the need to do additional unplanned audit work and also to reflect any in year changes in available resources. Action is taken as appropriate to ensure that audit resources are efficiently and effectively deployed. The 2016/17 audit plan has been revised. Appendix C indicates those audits added to the plan and those that have been replaced. Those audits replaced will be considered when establishing the 2017/18 audit plan, but in a number of cases it is anticipated that there will no longer be a need for the audit work in 2017/18.

In determining these plan changes, Internal Audit has considered a number of relevant factors including risk and impact of control failure, external funding

requirements, prior audit assurance, maturity of the control environment, appropriate timing for the review, Corporate and Directors' priorities.

It is proposed that the section continues to focus on Fundamental and Significant Systems work in the second half of the financial year as these areas of work materially contribute to audit's opinion on the Council's control environment. In addition, as significant system work takes longer to prepare and complete, this reduces the ability of the service to reach its 90% audit plan completion target.

The fundamental and significant systems planned to be covered in the second half of the year include the following.

Fundamental systems

Capital Asset Additions, Disposals and Valuations
Capital accounting - Highways Infrastructure Revaluation
Capital Schemes Review
Cash Systems
Bank Reconciliation
Enforcement (all revenue streams)
Budgetary Control
Quotes, Tenders, Contract Award
Supplier Setup, Maintenance & Payments (P2P)
Miscellaneous payments (P2P)
Starters and Leavers Schools
Temporary and Permanent Payroll Variations
Expenses and allowances (Payroll)

Significant systems

Continuing Healthcare
Transitional Planning
Housing Options Transformation
Strategic Risk - Governance Resilience
Resource Allocation System implementation (Adults)
Purchased care (Adults)
Strategic risk - Quality accessible & affordable housing
Strategic risk - Regeneration & investment into District: focusing on Keighley bid
Public Health – Dental
Grants to Voluntary Organisations
Licensing (Taxi etc)
Planning Applications and Building Regulations Fees
Direct Payments
Strategic Risks - Adults safeguarding incident
Youth Service Expenditure Review
ContrOCC Liquidlogic Integration (Children's)
Wyke Community & Childrens Ltd
No Recourse to Public Funds

3.8 Internal Audit's Performance Indicators

Client Feedback

After each audit a client feedback questionnaire is issued to the appropriate officer to obtain feedback from them about the audit. 100% of the officers that responded said

that the audit recommendations made were useful, realistic and overall the audit was of benefit to management.

Timeliness of Audits

During the first 6 months, 69% of draft reports were issued within 3 weeks of finishing the site work, this is below the target of 80% and is due to one audit generating seven reports that missed the target. 100% of final reports were issued within a week of the post audit meeting, exceeding that target of 90%. The timeliness of issuing draft and final reports is crucial to providing a good service to officers, enabling them to deal with the issues raised and consider the recommendation made.

Appendix A Follow Up Audits Performed 1.4.16. to 31.10.16

Appendix B Summary of Audit Reports and Findings

Appendix C Unplanned Audit Work Included in or Deleted from the Revised 2016/17 Internal Audit Plan as at 31.10.16

Follow Up Audits Performed 1.4.16 to 31.10.

Department	Audit	Agreed High Priority Recs in Original Report	Confirmed as Fully Implemented in Directors Return	Audit Results		
				Fully Implemented	Partially Implemented	
					Residual Action High Priority	Residual Action Requires Attention
Finance	Schools External Payroll	4	2	2	2	
	13-14 Discretionary Fees & Charges	2	2	1		1
Environment & Sport	Charging System – Customer Contact Centre	1	1	1		
	Charging System - Bulky Residential Waste & New Bins	1	1	1		
Chief Executive - WYPF	WYPF Reimbursement of Agency Payments	2	2	2		
Children's Services	Concerns Relating to The Innovation Centre	6	6	5		1
Human Resources	Requisitioning, Ordering and Receipting:	2	2	1		1
Totals		18	16	13	2	3
% of Total Agreed Recommendations		100%	89%	72%	11%	17%

Appendix B

Summary of Audit Reports and Findings

1. Fundamental Systems

- 1.1 Audit work carried out in the first half of 2016/17 supported the strategy of moving away from high level annual assurance audits to more detailed cyclical audits of the systems. During the period to 30.09.16 15 reports were issued relating to fundamental systems.
- 1.2 Reviews of Accounts Receivable, Capital, Benefits, Council Tax and NNDR resulted in opinions ranging from Excellent to Satisfactory, however audits of elements of the procurement and payroll systems resulted in three reports with Limited Assurance opinions as detailed below:
- Each year the Director of Finance is required to sign a statement confirming that amounts paid over to the West Yorkshire Pension Fund are correct. Although not material in context of total contributions, an audit carried out to support this certification found that incorrect employer contribution rates had been applied to a number of external bodies which the council provides payroll services to, potentially damaging the council's reputation as a service provider and resulting in the Director of Finance having to provide a qualified year end certificate.
 - In October 2014 the council introduced purchase cards to improve the efficiency of low value procurement and Internal Audit provided systems advice at that time. This audit found that take up of the cards had been greater than anticipated, but that there were significant weaknesses in the application of expected controls (as documented within card guidance) at both service and corporate level, increasing the risk of inappropriate usage.
 - Whilst undertaking a review of tendering procedures Internal Audit was asked for advice regarding an ongoing process. Audit's enquiries identified that a service department had failed to follow advice from Procurement leaving them in breach of both Contract Standing Orders and legislation. As a result of the audit the closing date for the submission of tender bids was extended. Failure to do this could have resulted in a process which could not demonstrate value for money, and may have been subject to legal challenge.

2. Significant Systems

- 2.1 During the first half of the year, four reports relating to significant systems were issued, each of which are summarised below.
- 2.2 Following a successful prosecution by the Council for fraud involving around £134,000 in direct payments, an audit was performed to provide an overview of the direct payments system, its key metrics and review the current level of implementation of the outstanding audit recommendations previously raised and consider whether this is leading to an unreasonable level of exposure to direct payment fraud. The report raised a number of key messages and concerns. The key audit concerns, stated below, resulted in a Critical recommendation that required immediate remedial action, which management accepted. Management have

subsequently confirmed that they have initiated action to address these concerns.

- 2.3 The recent prosecution identified clients who were not receiving the assessed level of care due to fraud by their “suitable person”. The audit highlighted that there were 32 clients in receipt of direct payments into their bank accounts, totalling £431k per annum, who were overdue a financial review by more than a year due to non-provision of their accounts, a characteristic shared with the prosecuted case. A further, 25% of these have not had their care needs reassessed in over 3 years. The Council therefore has no assurance that the direct payments to these clients are being used appropriately. Consequently similar safeguarding and fraud issues may exist within this cohort and possibly others.
- 2.4 The audit of the Early Years Funding of Private, Voluntary & Independent Settings identified that there was no reconciliation performed of total payments made per SAP to the payments calculated through the funding formula. Consequently incorrect or inappropriate payments may be made and not detected. Audit visits to ensure compliance with the funding agreement were not being performed and there was no independent validation of the eligibility and accuracy of the census data input by providers, for example by reference to health data. Thus there is the risk that providers do not comply and receive payments for which they are not entitled. Corrective action is being taken by management to address these issues.
- 2.5 Internal Audit performed a high level review of the Council’s Travel Assistance Programme, which was based upon a desk top review of programme documentation and discussions with key staff. The review highlighted to Programme Management and the Director of Finance, Internal Audit’s concerns regarding the delivery of the programme’s objectives to enable appropriate actions to be taken. The Director of Finance agreed to take the concerns highlighted in the report forward.

The concerns surrounded a number of key areas such as the realism of the achievable cost savings, the successful implementation of the new process for reassessment, the reliability of the pilot exercise and the level of change required to meet the proposed budget savings. Internal Audit will be seeking an update from Programme Management on the actions taken and the current status of the programme in 2017.

- 2.3 Adult & Community Services are undertaking a major transformation programme, part of which includes the intention to introduce Individual Service Funds (ISF’s). As part of the development of ISF’s a “100 day Challenge” (Direct Payments Delivery Model) was initiated to develop a working model for an ISF and run a pilot to test out the effectiveness of the model. CMT received a report detailing the outcome of the challenge in September 2016.

Internal Audit met with officers involved in developing the framework for ISF’s to establish the nature of expected controls being designed into the new system. Additionally, a small number of expected programme controls were included to gain assurance that programme objectives would be delivered on time. At the time of the audit the framework was still under development therefore much of the work relied upon the assertions of officers interviewed as part of the process.

The audit culminated in a report showing the key control expectations and a summary of the key observations and suggested actions for inclusion in the

developed ISF working model. The report issued was intended for information, discussion and challenge to help the project identify and incorporate the key control requirements for delivering ISF's and managing the risks and opportunities.

3. Schools

3.1 School Audits

During the first half of the year, seven reports relating to schools were issued (six reports in 2015/16). Of these, five related to individual school audits and included recommendations to improve the control environment at all schools visited. The remaining report provided a summary of the Schools Financial Value Standard process.

Two of the schools audited were the subject of limited assurance audit opinions, and further details are shown below.

St James Church Primary School

A limited assurance opinion was given following the audit of St James Church Primary School. This was due to concerns in the following areas:

Budgeting – the audit concluded that there was inadequate internal budget monitoring and a lack of budgetary information in the Raising Achievement Plan.

Purchasing and procurement – evidence was found of purchases being made without an order being raised in advance, and a lack of segregation of duties in the procurement process.

Personnel issues – the audit found a lack of adequate supporting documentation contained in personnel files to support the appointment of staff.

Payroll – there was insufficient segregation of duties in the checking of payroll reports and the self employed status of individuals was not being checked by the school.

Wycliffe Primary School

A limited assurance was also given at Wycliffe Primary School and the key concerns arising from this audit are detailed below:

Governance - the minutes of Governing Body and Resources Committee meetings indicated a lack of action and continuity, which could result in ineffective financial stewardship.

Benchmarking - there was no evidence of Governors and staff comparing the school's financial performance with that of similar schools, meaning that potential efficiency savings may not be identified.

Budgeting - There was no costed School Development Plan in place with links to the budget, which could result in the school's development priorities not being achieved.

Purchasing - Orders were not always placed in advance of purchases, which could result in a lack of proper authorisation and unknown commitments

3.2 Schools Financial Value Standard

At the 2016/17 year end all maintained schools were required to complete a self assessment against the Department for Education's Schools Financial Value Standard (SFVS). As at 31 March 2016 SFVS self assessments had been completed by 158 of the Council's 170 schools. The returns received for 2016 show an overall improvement in the standard of completion of the returns and the quality of action plans. The number of late returns also decreased, giving assurance that more schools are engaging with the SFVS process and complying with its requirements.

Further SFVS training will be offered in early December 2016 following the success of previous training sessions. Despite the increasing number of schools converting to academy status, Internal Audit are pleased that schools are continuing to attend training and engage with SFVS, thus recognising the benefits that it provides in ensuring effective financial management in schools. Internal Audit's continued approach of focussing on training rather than auditing individual schools' SFVS returns is a more efficient use of resources achieving greater coverage across the district.

4. Grants

Grant certification work is carried out in response to conditions placed on central government targeting of funding to local authorities, for example funding for road repairs following the damage caused by flooding.

The grants requiring certification can vary and change each year. The audit plan for 2016/17 has seen the number of grants requiring review remain the same, however, one grant has ceased while one new grant was required to be reviewed. To date 10 reports have been issued relating to 9 capital and revenue grants which required Internal Audit certification.

The values of the grants varied considerably and conditions also varied and included confirming that targets had been met, that funds had been appropriately spent and that other requirements, such as publication of how the grant had been used, had been complied with.

Overall Internal Audit has been able to give a positive opinion for all grants and consequently no funding has been lost.

5 Computer Audit

Computer audits are delivered by a specialist computer auditor from Wakefield as part of the joint working arrangements. Two reports were issued in relation to Computer Audits in the first half year which concluded that arrangements for WiFi provision were excellent, but that improvements relating to access and performance were required to the Service Desk provision. A further report was issued in relation to concerns that arose in relation to e-mail security identified during an audit of significant systems.

6. West Yorkshire Pension Fund (WYPF)

During 2016/17 Internal Audit has carried out a variety of audits in the West Yorkshire Pension Fund (WYPF). Reports issued to the 30 September 2016 include:-

- **Review of WYPF 2015/16 Accounts.** This audit is carried out at the request of the Financial Controller to assist in producing accurate, easy to read information within the financial accounts.
- **Local Government Pension Scheme Contributions.** Employers pay combined contributions to the WYPF, being employers and employees contributions, on a monthly basis. This audit ensured that there are adequate processes in place to provide reasonable assurance that the contributions system is effectively managed. The control environment was found to be of a good standard.
- **Transfers in.** This audit reviews the process for transferring in pension benefits for new employees, which have been built up in their former employment, in order to amalgamate them with their new West Yorkshire Pension Fund contributions. One issue identified led to a high priority recommendation for improvement being made which was accepted by management.
- **New Pensions and Lump Sums – Flexible Retirements.** Provided that their employer gives consent a member has the option to reduce their hours or move to a less senior position and can draw some or all of their pension benefits built up. This audit determines whether the West Yorkshire Pension Fund has appropriate procedures in place to provide reasonable assurance that the new pension and lump sum payments in respect of Flexible Retirements is effectively managed. The standard of control of new pensions and lumps sums in respect of flexible retirements was found to be good.
- **Fund of Hedge Funds.** This audit reviews the control and monitoring of investments made in Fund of Hedge Funds. Whilst this has been a reducing area of investment, a recommendation was made in the event that transactional activity in this area increased. Otherwise the control environment was of a good standard.
- **UK and Foreign Private Equity.** This audit reviews the purchase, sale and receipt of dividends, in respect of both UK and foreign private equities, which form 4.6% of the market value of the investment portfolio. The control environment was found to be satisfactory, however, an issue was identified leading to a high priority recommendation for improvement which was accepted by management

Unplanned Audit Work Included in and Planned Audit Work Deleted from the Revised 2016/17 Internal Audit Plan as at 30.09.16

Additional unplanned audit work done / propose doing in 2016/17	Reason
No Recourse to Public Funds	Funding that requires audit assurance that it is being used appropriately
Concerns relating to Contract for Replacement windows	Concerns raised regarding possible non-compliance with procurement procedures for this contract
Highway Flood Recovery Grant 15-16	One-off grant which required an audit certificate for the funding body.
Implementation of ContrOCC financial management system by ContrOCC	New system due to be implemented in late 16/17 to replace existing systems to manage payment and allowances made by Childrens' Specialist Services
6th Form Funding	Audit work required to provide assurance to the s151 officer over funds received by the LA from the Education Funding Agency, for subsequent transfer to LA controlled learning providers and maintained school sixth form, have been paid in full to them and expended in accordance with the terms and conditions of funding.
Wyke Community and Childrens Ltd	Audit work required over an issue with eligibility of expenditure and governance arrangements of this Centre which is in receipt of Council funding.

Planned audit work proposed not doing in 2016/17	Reason
Bank Reconciliation and Unallocated Cash - 15/16	Removed audit as duplication of coverage is provided by 66111 cash collection and banking audit and 16-17 bank reconciliation audit
Payment of Fostering Fees and Allowances	Implementation of ContrOCC system by the service will probably defer the planned audit until 17/18. Internal Audit's priority is to support the implementation of ContrOCC by Children's Specialist Services Fostering Service
Leaving Care	Same reason as Payment of Fostering Fees and Allowances.
Benefit Payments	Remove as not priority with some audit coverage provided by External Audit's annual review of benefit grant
HR Reserve	Remove this contingency item, which has not been allocated.
Statutory Sick Pay / Statutory Maternity Pay	Defer audit until 17/18 as not priority

Youth Services Expenditure Review	Councillor concerns that included allegations of inappropriate spending
Staffing Issue	Audit work was required to ascertain the appropriateness of the arrangements surrounding the contract of a School Business Manager.
Concerns Relating to Mail Distribution	Advisory work following a request from staff at Birksland.
Review of information gathered by the Council when investigating and taking action against a former employee	Audit work undertaken at the request of the Chief Executive.

Insurance	Defer audit until 17/18 as not priority. It should be noted the Head of Internal Audit is also responsible for Insurance
School Catering - electronic payment system	Defer audit until 17/18 as not priority.
Academisation Audit Advice/Work	Specific contingency removed from plan, with any required work in this area to come from general school advice allocation
School audit reserve	Contingency to perform school audits removed as not priority that reduces the planned audit coverage from 10 to 8 schools.
Pinch Point Funding Grant	This grant has now finished and therefore did not require an audit certificate relating to 2015/16