

Report of the Director of Corporate Services to the meeting of the Governance and Audit Committee to be held on 27 June 2017.

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Subject:

INTERNAL AUDIT ANNUAL REPORT 2016/17

Summary statement:

This report reviews the service Internal Audit has provided to the Council during the financial year 2016/17.

Stuart McKinnon Evans
Director of Corporate Services

Portfolio

Corporate

Report Contact: Mark St Romaine
Phone: (01274) 432888
E-mail:
mark.stromaine@bradford.gov.uk

Improvement Area:

Corporate

1. **SUMMARY**

- 1.1 The purpose of this report is to inform members of the Governance and Audit Committee (GAC) about the service Internal Audit has provided to the Council during the financial year 2016/17.

In particular Members are advised of the following:-

- Internal Audit completed 88% of the 2016/17 audit plan which, is just below the target of 90%.
- Internal Audit's Client satisfaction identified that 100% of the respondents said that the "recommendations were useful and realistic" and believed that the audit was "of benefit to management."
- 100% of all high priority recommendations made from the work undertaken were accepted by management.

2. **BACKGROUND**

- 2.1 Internal Audit is part of the Department of Corporate Services.
- 2.2 The Internal Audit Annual Report 2016/17 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 2016/17 was drawn up and any issues on the risk register that relate to an individual audit are included within the scope of the assignment.

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

8. LEGAL APPRAISAL

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

- 8.2 Standard 2450 of the PSIAS requires an annual report to be submitted which includes an opinion on the overall adequacy and effectiveness of the organisation's control environment. This requirement is met by the attached (Appendix 1) Internal Audit Annual Report for 2016/17.

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

9. OTHER IMPLICATIONS

9.1 Equal Rights

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

9.2 Sustainability Implications

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

9.3 Greenhouse Gas Emissions Impacts

There are no impacts on Gas Emissions.

9.4 Community Safety Implications

There are no direct community safety implications.

9.5 Human Rights Act

There are no direct Human Rights Act implications.

9.6 **Trade Union**

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

9.7 **Ward Implications**

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

10 **NOT FOR PUBLICATION DOCUMENTS**

10.1 None.

11. **RECOMMENDATIONS**

That the Committee recognises and supports the work carried out by Internal Audit during 2016/17.

12. **APPENDICES**

Appendix 1 – Internal Audit Annual Report 2016/17.

13. **BACKGROUND DOCUMENTS**

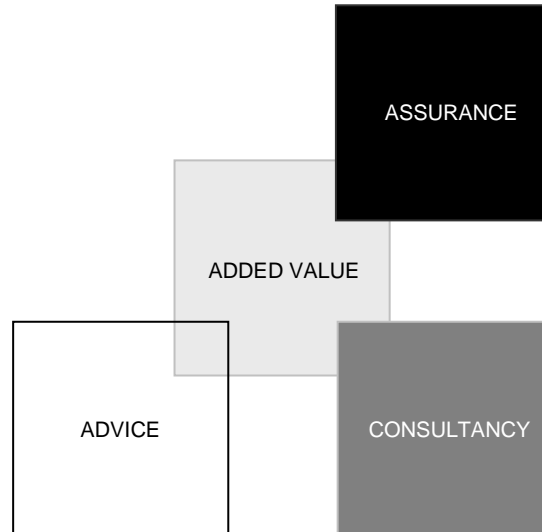
13.1 Accounts and Audit Regulations 2015.

13.2 Public Sector Internal Audit Standards 2013.

13.3 GAC report dated 15 April 2016 – Internal Audit Plan 2016/17.

13.4 GAC report dated 1 December 2016 Internal Audit Plan 2016/17 Monitoring Report as at 30 September 2016.

INTERNAL AUDIT ANNUAL REPORT 2016/17



INTRODUCTION

The aim of this report is to provide information on the activities of Internal Audit during the financial year 2016/17 and to support the Council's Annual Governance Statement by providing an "Audit Opinion" on the overall adequacy and effectiveness of the Council's internal control environment.

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

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

Mark St Romaine

Head of Internal Audit, Insurance, Information Governance and Risk

June 2017

Circulation:-

Members
Stuart McKinnon Evans
Mark Kirkham
All Staff

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

1 INTERNAL AUDIT'S RESPONSIBILITIES AND RELATIONSHIPS

1.1 Governance and Audit Committee (GAC)

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

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

- Internal Audit Annual Report 2015/16
- Internal Audit Plan 2016/17
- Internal Audit Plan 2016/17 Monitoring Report as at 30 September 2016.

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

1.2 Staffing & Resources

In total 1,873 audit days (7.2 FTE) were available in 2016/17. This represented a resourcing gap of 0.7 FTE from the original audit resource planned in April 2014. This resource gap is attributable to the Service absorbing a net reduction of 3 FTEs in 2015/16, when it was planned for this reduction to be phased over 3 years, with a 10% (1 FTE) reduction per annum in resources planned from its 2014/15 establishment base of 9.9 FTE.

From September 2014 the Head of Internal Audit commenced as the Head of Internal Audit at Wakefield in support of the joint working arrangement spending 40% of his time at that authority. This arrangement continued during 2016/17. One member of staff continued to give 50% of their time to provide support to the Insurance function. In addition, from September 2015 the Service entered into an arrangement to purchase 60 days per annum of computer audit services from Wakefield Council. This arrangement continued during 2016/17.

1.3 External Audit

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

The 2016/17 Internal Audit Plan was shared with External Audit as were a number of Internal Audit Reports. Whilst no formal review of Internal Audit by External Audit has taken place, External Audit has no concerns about Internal Audit from the work that has been presented to them.

1.4 Public Sector Internal Audit Standards (PSIAS)

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

2. SERVICE DELIVERY

2.1 Audit Resources and Coverage

The original audit plan for 2016/17 was approved by GAC on 15 April 2016 and was based on 1,873 days of audit resources. The Internal Audit Monitoring Report presented to GAC on 1 December 2016 noted that after taking into account Internal Audit's SLA commitment to Wakefield; insurance management and accountancy support to Bradford; its audit provision to West Yorkshire Pension Fund; and its buying in of computer audit service days from Wakefield, Bradford Council would receive circa 1,519 audit days in 2016/17. These days were delivered.

The audit plan was also monitored by assignments completed during the year. Completion of 90% or more of the plan is a positive indicator of the effectiveness of Internal Audit. In 2016/17, Internal Audit achieved 88% of the original plan.

2.2 Reports Issued and Control Environment

All Internal Audit assignments result in an Audit Report which identifies the audit coverage, findings from the audit, risks arising from identified control weaknesses and prioritised audit recommendations. In 2016/17 a total of 82 reports were issued, which was a marginal increase on the 81 reports issued in 2015/16.

The reports issued in 2016/17 recorded that the percentage of controls satisfied was 77%, an increase of 2% on the 75% satisfied in 2015/16. This also compares favourably with the five year average of 73% of controls satisfied. As in 2015/16 the service continued to focus on and require responses only in relation to high priority recommendations. 100% of these recommendations were accepted by management.

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

Chart One: Showing the Breakdown of Total Reports Produced in 2015/16 and 2016/17 by Audit Type

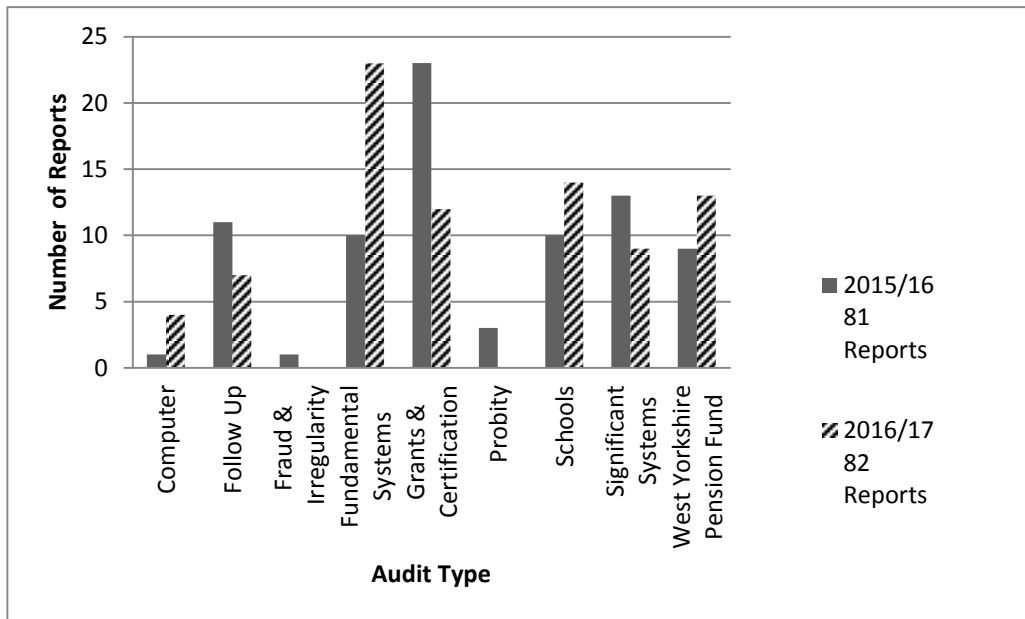


Chart One also shows that in comparison to 2015/16 there was a significant increase (of 13) in the number of fundamental systems audit reports issued in 2016/17. Conversely there was a significant reduction (of 11) in the number of grant certification reports issued in 2016/17. The increase in fundamental systems report numbers in 2016/17 was mainly due to two audits generating 11 reports. The decrease in grant certification audit reports in 2016/17 was due to the change in audit approach for one specific grant that resulted in one consolidated report being produced (in 15/16, by contrast, the same audit generated 11 reports).

Chart Two, below, shows that, from the evaluation of risks and controls in 2016/17, 86% of reports issued that contained an audit opinion, had opinions that were satisfactory or above (84% in 2015/16). 56% of the systems examined had either an ‘excellent’ or ‘good’ audit opinion and 30% were classified as ‘satisfactory’, which continued to be the most dominant opinion, indicating that the overall control of risk within the Council remains adequate.

Chart Two: Breakdown of Audit Opinions 1 April 2014 to 31 March 2017

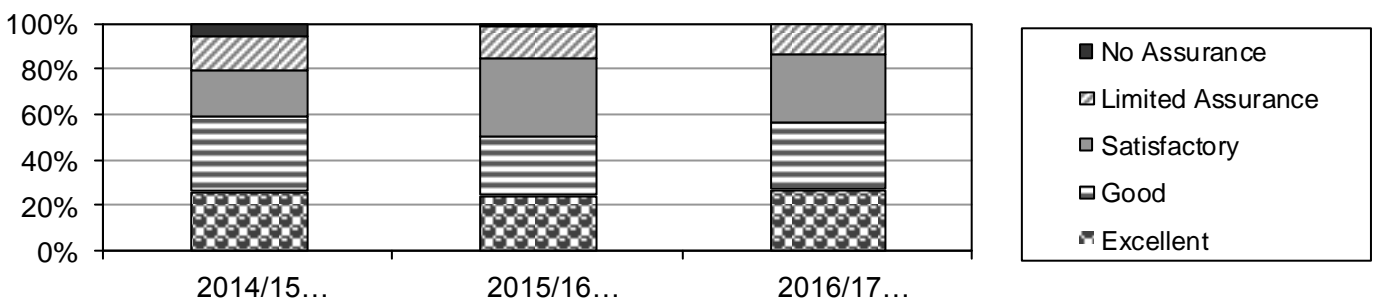


Chart two, also shows that the proportion of reports with less than satisfactory opinions has improved, 14%, being lower than it was in 2015/16 (16%).

The analysis above relates to those reports with opinions. In 2016/17 63 (77%) out of 82 issued reports had an audit opinion, compared with 58 (72%) out of 81 issued reports in 2015/16.

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

In 2016/17, 19 (23%) of all reports issued had no opinion and accounted for 10% of the High Priority recommendations made during the year. This is a favourable comparison to 2015/16 where 23 (28%) of all reports issued in 2015/16 has no audit opinion and accounted for over 9% of the High Priority recommendations made during the year. In order to minimise the number of reports without an opinion, the methodology for applying a more subjective opinion to reports that was introduced in 2015/16 will continue to be applied wherever possible, so as to provide a fuller analysis of the control environment.

2.3 Fundamental Systems/ Assurance

Fundamental financial systems are those that are material to the Council and have a significant impact on the Council's internal control systems and the Council's accounts. The review of these systems provides assurance relating to the main systems operating within the Council and remains a significant part of the audit plan. In 2016/17, 23 fundamental systems reports were issued. This was a significant increase on the 10 reports issued in 2015/16, which was due to two audits in 2016/17 generating 11 reports.

17 of the 23 audit reports had an audit opinion. The 6 reports that did not have an opinion, all related to the audit of purchase cards, which were reporting service specific findings. A summary report of the audit's findings was also produced that gave a limited assurance opinion on the control of purchase card use in the Council and gave rise to 6 high priority recommendations.

In total there were three fundamental systems audits that had a limited assurance opinion. The other two audits that gave this opinion were in respect of certification of contributions to the West Yorkshire Pension Fund (WYPF), where incorrect employer contribution rates were found to have been applied to six academies the Council provides payroll services to resulting in the wrong amounts being paid to the pension fund for bodies in 2015/16; and concerns relating to the contract for replacement windows where the audit identified that requirements of the Public Contracts Regulations 2015 had not been complied with.

Of the remaining 14 fundamental system audits, half of them had opinions of 'Good' or 'Excellent', and half reported a 'Satisfactory' opinion.

2.4 Audit Grant and Certification Work

Certain grants received by the Council require an Internal Audit certification to confirm that the expenditure was made in accordance with the Grant Determination Letter. The number of grants requiring Audit certification has seen a decrease. Internal Audit certified 11 grant claims during 2015/16. In 2016/17 this reduced to 9

grants with a total of 12 reports issued. Five Highways related Grants, the Disabled Facilities Grant and Bus Subsidy Grant, all received Excellent opinions.

The Troubled Families Grant certification generated four reports. One of these related to Internal Audit's input into the creation of the inclusion and success criteria (the Outcome Plan) for Phase 2 of the Scheme. The others related to verification of Phase 2 claims, and also identified the need for improvements in the quality of data used for making claims, particularly in relation to cases carried forward from Phase 1 of the scheme.

Testing at a sample of schools highlighted that the Primary PE and Sports Grant had been spent in accordance with the grant objectives, but that a number of schools were failing to adequately comply with the grant conditions relating to publishing details of the grant expenditure and its impact, therefore a high priority recommendation was made as a result of this.

2.5 Significant Systems

Internal Audit produced 9 reports relating to significant systems of the Council during 2016/17. Significant systems coverage is varied and unique in some cases, and can often result from concerns raised by management.

Examples of the work carried out on significant systems in 2016/17 are shown below:

The audit review of Youth Services' expenditure by Bradford East Youth Services and Keighley Youth Services confirmed that it was appropriate. However a number of concerns arose with respect to the control procedures in place. These were: purchase orders had not been raised in advance of the supply of goods, services or works; miscellaneous payments had not been used appropriately; non compliance with the Council's Corporate Cash Advance Procedures/Purchasing Card General Guidelines. Management accepted the recommendations to address these concerns.

The audit of the risk management arrangements in place for the Quality, Accessible and Affordable Housing Strategic Risk concluded that overall they were satisfactory. A number of concerns were identified and reported to management in respect of: lack of monitoring of external issues which may affect the management of the strategic risk; lack of evidence of an appropriate record of the review of the strategic risk at Departmental Management Team level; and lack of an annual review of the 2014 - 2019 Housing and Homelessness Strategy which would ensure the strategy remains current and inclusive of developing issues. Management accepted the recommendations to address these concerns.

A review of the risk management arrangements in place for preventing an Adult's safeguarding risk concluded that overall they were of a good standard. A number of minor areas for improvement were identified and reported to management in respect of ensuring that the content of the Corporate Risk register entry is accurately and completely recorded.

The audit of the system in place for distributing funding to Early Years' Private, Voluntary and Independent providers identified the following control weaknesses which could result in incorrect or inappropriate payments being made. No reconciliation was being performed of total payments made per SAP to the

payments calculated through the funding formula; 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. Corrective action is being taken by management to address these issues.

2.6 Value Added

Internal Audit, where possible, adds value in the work that it undertakes. The following is a sample of instances during 2016/17 where value has been added.

Audit Work	Brief Explanation of Savings Identified or Value Added
Travel Assistance Programme	<p>The audit highlighted to Programme Management and the then Director of Finance observations, comments, risks and concerns regarding the delivery of the programme's objectives to enable appropriate action plans to be put in place. Concerns raised 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. In 2017, Internal Audit is to seek an update on the actions taken and the current status of the programme.</p>
Direct Payments	<p>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.</p> <p>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.</p> <p>Internal Audit is to review in 2017 the level of progress</p>

	made in implementing the agreed recommendations.
Payroll Services Provided to Full Budget Share Schools and External Bodies – Follow Up	This audit followed up concerns raised in 2015/16 regarding the debt management controls surrounding the Payroll Services provided to full budget share schools and external bodies. The audit concluded that financial control had improved, specifically with the introduction in April 2016 of a monthly reconciliation of payroll costs invoiced to those posted in the financial ledger, but further action is still required. The main audit concern surrounded the adequacy of the associated bad debt provision, which at the time stood at £1.2m. Finance has subsequently increased the provision to £1.5m, which is now expected to fully cover the outstanding legacy debtor balance.
Purchasing cards	The audit of the use of purchasing cards across the Council highlighted a number concerns, which management agreed to action. These included: lack of training to users; a security breach that had occurred on one card; inconsistent scanning in of receipts by cardholders, which could result in a lack of evidence for the approver and incomplete VAT records; lack of review or timely approval of transactions; inconsistencies in accounting for VAT; no overall monitoring of the use of cards by Commissioning & Procurement.
SFVS Training	Internal Audit developed a training course covering all the principles of the Schools Financial Value Standard in 2014/15 and has continued to offer SFVS training to all governors and school staff during 2016/17. To date, 82 schools have been represented at the training since it began. In 2016, 14 new schools were represented at the training which has further widened our audit coverage in this area. The aim of the training was to equip Governing Bodies with the skills needed to produce a good quality SFVS return. It was pleasing that improvement was evident in the returns provided by schools that had attended the SFVS training.
Troubled Families Grant	The critical feedback provided during the audit of claims has supported Phase 2 of the scheme, clarifying criteria definitions and promoting the quality of information, which has improved the process of identifying cases which can be claimed for.

2.7 Special Investigatory Reviews

Internal Audit was commissioned during 2016/17 to perform a number of special investigatory reviews. Most of these took place in the first half of the year and were reported to Governance and Audit Committee on 1 December 2016 in the monitoring report. In brief these included:

- Internal Audit examining the arrangements involving a school owned company and 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.

- At the request of the Chief Executive, Internal Audit were requested to perform a comprehensive review and chronology 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.

Two investigatory reviews that commenced in the second half of 2016/7 were on going as at the 31.3.17. These related to:

- Health and Safety concerns with a facilities management contractor that was operating at a school in the district. These concerns initially came to light during a routine school audit when Internal Audit reviewed the process the school followed in procuring facilities management services from the contractor. The process followed was found to be non compliant with the required tendering procedures and audit recommendations to address this were raised in the ensuing audit report.

However, since the audit took place further potential health and safety concerns have been raised at additional schools where the contractor is also working. These Health and Safety concerns, together with concerns that the contractor's registered office is on the same site as a Bradford school (for which no rental agreement is in place), have been notified to relevant senior management on an on going basis since February 2017. To date Internal Audit is awaiting assurances that appropriate action has been taken to address these risks and concerns.

- Procurement concerns relating to Facilities Management have been raised. This investigation was carried out jointly with the Council's Corporate Fraud Unit in response to the receipt of an anonymous allegation. The focus of Audit's involvement was in relation to assessing whether correct procurement procedures had been followed and significant procedural concerns were identified. A key area of concern related to the incorrect application of a measured term contract intended for small value works to much larger value contracts. A report on the findings of the joint investigation is currently being prepared.

2.8 Follow Up Audits

Internal Audit follows up its audit work as described below:

a) Follow Up Returns from Strategic Directors

During 2016/17 a follow up exercise with the Strategic Directors was undertaken for 76 reports, containing 218 high priority recommendations issued up to 31.03.16 which had not previously been confirmed as actioned. The outcome was reported to GAC on 1 December 2016. The Strategic Directors' returns showed that the level of implementation was broadly in line with 2015/16 with 70% of reports and 78% of recommendations being fully actioned compared with 75% of reports and 81% of recommendations in the previous year.

b) Individual Follow Up Audits Undertaken by Internal Audit

During the year, 7 follow up audits were completed by Internal Audit to determine the actual level of implementation of agreed recommendations. The outcomes of these were reported to GAC on the 1 December 2016.

In summary, 72% of the high priority recommendations followed up in 2016/17 could be confirmed as fully implemented by Internal Audit. This is an increase in the confirmed implementation rate of 56% which resulted from the 2015/16 follow ups. By contrast, whilst remaining slightly higher than the rate found during audits, the implementation rate for these recommendations reported by Strategic Management had actually decreased from 89% in 2015/16 to 78% in 2016/17.

Therefore it would appear that follow up monitoring and reporting is becoming increasingly accurate, as there is a narrowing gap between the follow up implementation rate reported by senior management and the actual rate independently confirmed by Internal Audit. This improved position was also highlighted in the monitoring report to GAC issued on the 1 December 2016.

In response to this Internal Audit will continue to perform follow up audits in 2017/18; monitor the position and report the outcome to GAC.

c) Follow Up of Audits reported in the Opinion of the 2015/16 Annual Report

The Audit Opinion of the Internal Audit Annual Report 2015/16 listed two individual areas of concern. These were the debt management controls surrounding the Payroll Services provided to full budget share schools and external providers and the progress on Continuing Health Care (CHC). Both these areas were planned to be followed up in 2016/17.

The follow up of Payroll Services provided to full budget share schools and external bodies was performed in 2016/17 and reported that from April 2016 debt management procedures had strengthened. However, the audit challenged the adequacy of the bad debt provision for the legacy debtor balances, which was subsequently increased to an appropriate level.

The audit of CHC did not take place as planned. This was due to Service delays in introducing, and operational issues with, new key IT systems, Controcc and SystemOne. The audit of CHC is now planned to commence in 2017/18 and will benefit from lessons learned from a recently concluded audit at Wakefield Council, which Internal Audit assisted Wakefield audit colleagues on (as part of the joint working initiative).

2.9 Schools

a) School Audits

Reports were issued to nine schools which were visited as part of the 2016/17 plan of individual school audits. Schools are included in the audit plan based on their risk score and by default these schools tend to be those which are already experiencing issues and would benefit most from audit input. Therefore it was pleasing to note that one of the schools received a 'Good' audit opinion and four were rated 'Satisfactory'.

All of the remaining four schools had 'Limited Assurance' opinions. One of these schools was audited in response to an anonymous letter that was received relating

to alleged unauthorised overtime payments. Although no evidence was found to suggest any fraudulent activity, weaknesses were found in the processes surrounding overtime which should be rectified by the school implementing the recommendations in the audit report.

Internal Audit also published its Newsletter to all schools via Bradford Schools Online giving advice and assistance on topical issues in Autumn 2016.

b) Schools Financial Value Standard (SFVS)

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

The SFVS Assurance Statement for 31 March 2017 was forwarded to the EFA on 17th May 2017, this reported that 125 of the Council's 168 schools had made a return. Of the returns made those indicating full compliance with the standard was 61% which is an improvement in compliance from the previous year.

A further requirement of the SFVS is that returns are taken into consideration when setting the audit plan. The risk model used to prioritise schools for inclusion in the audit plan includes non submission of SFVS as one of a number of risk factors. Schools are selected for audit on the results of the risk model which is used to rank schools by their gross risk score. Those schools showing the highest risk score are given priority. As part of the analysis of returns, Internal Audit also considers the contents of each SFVS return and if there are any comments that raise concerns, this will further inform audit planning for the schools audit programme for the coming year. Internal Audit and the School Funding Team liaise continuously to share knowledge and information about schools.

In addition, SFVS returns are considered as part of the full school audits conducted. The audit testing programme for schools requires auditors to review a school's SFVS return as part of the planning process prior to an audit and compare the schools self assessment judgements to their findings during the audit. A judgement is then made by the auditor on the level of correlation that can be identified between the SFVS assessment and the audit findings and advises the school to review their responses to specific questions where necessary. This position is highlighted to the school, Chair of Governors and authority recipients in the ensuing audit report.

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

Following the success of the SFVS training offered in previous years, further courses were made available in 2016/17. Attendance was encouraging despite the developing academisation agenda, with 14 schools being represented at the training, 45% of attendees being Governors. To date, 82 individual schools have received SFVS training a much wider coverage than can be achieved through more traditional audit methods. The effectiveness of the training has been evident

in the latest submission of SFVS forms which is encouraging and feedback from the training was very positive.

c) Sixth form funding assurance Internal Audit provided a high level assurance piece of work over sixth form funding totalling £16m to enable the funding assurance statement to be signed off by the S151 officer and returned to the Education Funding Agency.

2.10 Computer Audit

Computer Audit coverage in 2016/17 was delivered entirely through the joint working arrangements with Wakefield Council with 60 days computer audit services provision bought during the year.

This allowed two reviews to take place. The first was a review of Telephony Management & Mobile Device Provision, which resulted in a limited assurance opinion, with raised concerns including a lack of a documented strategy, no monitoring of phone usage for unusual activity and lack of password/PIN security on handsets. The second was a review of the Systems Development / Project Management which was at draft report stage at the year end and was reporting a good opinion.

2.11 West Yorkshire Pension Fund (WYPF)

During 2016/17, Internal Audit carried out a variety of audits within WYPF. These included:

- **Annual Benefit Statements** – All active members of West Yorkshire Pension Fund receive an Annual Benefit Statement, this provides a number of pension details which demonstrate the value of their current benefits calculated from information provided by the member's employer on their monthly returns. No issues were identified during the course of this audit.
- **Local Government Scheme Contributions** – This audit looked at both the employer and employee contributions remitted by each employer on a monthly basis, and also income received in respect of early retirements and unfunded benefits. The control environment was largely as expected with two suggested actions for improvement provided.
- **Transfers In** - This 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 of a good standard, however, a recommendation was made to improve the accuracy of the relevant transfer in dates and the quality control checking process.
- **Review of the West Yorkshire Pension Fund 2015/16 Accounts** - This is an annual account review process, that ensures the final account is consistent with internal control reviews carried out by our Internal Audit Team during the year.
- **Purchase of Additional Pension** – Active members of the West Yorkshire Pension Fund are able to choose to increase their future pension benefits by

purchasing additional pension to a maximum amount of £6,755 over a flexible number of years. The standard of control of risks in this process was found to be good, however, a recommendation was made as a result of an error identified which should ensure future accuracy of the process.

- **New Pensions and Lump Sums – Death Benefits** - This audit examined the calculation of the death benefits following the death of an active/deferred member or pensioner. The control environment for this process was found to be excellent.
- **Fund of Hedge Funds** – At the time of the audit, the Fund of Hedge Funds made up approximately 2% of the investment portfolio. The control of risks in this process were largely as expected and therefore of a good standard.
- **UK and Foreign Private Equity Funds** – Control of this asset class was found to be satisfactory, however, a recommendation was made to improve control over electronic communication and the independent verification of capital cash flow statements, received from Private Equity Fund Managers, to WYPF records.
- **Compliance with Investment Advisory Panel Decisions and WYPF Policies** – This audit looks to ensure that investments are made in compliance with the decisions of the Investment Advisory Panel and in accordance with WYPF Policies. No issues were identified with this process which was therefore deemed to be excellent.
- **Equities** - These investments are held under the custody of the HSBC, and represent a significant proportion of the West Yorkshire Pension Fund investment portfolio, the audit review found the process to be well controlled.
- **Treasury Management** - This audit reviewed the arrangements in place for treasury management, to ensure that surplus cash is invested in the most appropriate ways. Controls in this area were found to be excellent.
- **Direct Property** – The investment in Direct Property was examined for the first time, as this is a relatively new asset class in the WYPF investment portfolio. The control environment was deemed to be of a good standard with a suggested action being provided for future improvement.
- **Follow Up Audit – Reimbursement of Agency Payments** - A follow up of the Reimbursement of Agency Payments audit, carried out in 2015, was undertaken to determine the level of implementation of outstanding agreed High Priority recommendations. The result of this process was deemed to be excellent with High Priority recommendations from the original audit found to have been fully implemented.

2.12 Changes to the 2016/17 Plan

During the financial year some of the audits in the original plan were not performed. As in previous years this was due to factors such as a delay in system implementation, or the availability of service staff and in some cases work had been covered by an alternative audit. Audits were also completed that were not in the original plan due to in year concerns/assurance requirements from management, or as a result of control weaknesses identified in other systems.

Details of the audits that were added or deleted from the 2016/17 Audit Plan over and above those that were reported in the Internal Audit Monitoring Report as at 1 December 2016 is shown in Appendix A. Where an audit was removed from the Plan a reason has been given as to why this was.

2.13 Non Audit Work Performed

During the year Internal Audit has performed some non-audit work in relation to the co-ordination of the writing of the Annual Governance Statement. The Head of Internal Audit and Insurance has ongoing responsibilities for Insurance, Risk Management and Information Governance arrangements. Whilst from an Internal Audit perspective this impacts on the level of independence, it does give Internal Audit an increased awareness of operational arrangements and the levels of governance compliance across the Council. It is becoming apparent that the Council is finding it difficult to sustain in a comprehensive and timely manner a variety of procedures and arrangements supporting corporate governance. This includes risk management, health and safety, procurement and the code of corporate governance as examples. This is often due to the availability of resources available both in the corporate centre and service management priorities.

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 nine 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 good at helping us pinpoint why we required an audit, and kept us informed throughout asking very relevant questions
I felt the audit was very thorough, very useful, and has definitely added value to the school;*

The entire audit was carried out very competently and professionally.

The audit was really helpful in shining a light on this area of work, the detail of the review has provided the service with some clear areas for immediate action.

The auditor was extremely thorough and personable.

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 67% of reports were issued within three weeks of finishing on site, which is below the target of 80% and is mainly due to one audit that generated seven reports missing the target. 100% of final reports were issued within a week of agreement with management, which is in excess of the target of 90%.

c) Review of the Effectiveness of Internal Audit

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

3. ANNUAL INTERNAL AUDIT OPINION

3.1 Public Sector Internal Audit Standards (PSIAS)

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

3.2 Audit Opinion

From the work undertaken by Internal Audit throughout the year and after taking into consideration the work undertaken by Mazars, the overall internal control environment throughout the Council appears to be adequate. There are three individual areas of concern. These are the Council's procurement arrangements, direct payments to social care clients, and potential health and safety issues with a facilities management contractor operating at several Bradford schools. All of these areas will continue to be monitored in 2017/18.

It must also be acknowledged, that whilst the overall opinion is adequate the number of reports produced by Internal Audit in 2016/17, as in 2015/16, is approximately half the number produced in 2014/15. This limits the quantity of evidence which the Head of Internal Audit can rely on, to support the assurance statements concerning the governance of the Authority. The Service now has capacity issues and can find it difficult to respond to specific management concerns when internal audit contributions would be advisable.

Internal Audit is also becoming aware and concerned that there is a general dilution in the effectiveness of the Council's governance arrangements. Procedures and policies are not being maintained in a timely manner and levels of compliance with standard council processes are being stretched. This needs to be closely monitored in 2017/18.

Amendments to the Audit Plan

Below is a list of audits that were added or deleted from the 2016/17 Audit Plan over and above those that were reported in the Internal Audit Monitoring Report as at 1 December 2016. Where an audit was removed from the Plan a reason has been given as to why this was.

Additional Unplanned Audit Work done in 2016/17	Audits Removed from the 2016/17 Audit Plan.	Reason
Concerns Relating to the Appointment of Contractors	Capital Accounting – Highways Infrastructure	No longer a need for audit assurance, as requirement to revalue highways infrastructure was cancelled
Troubled Families Claim	Enforcement (all revenue)	Audit deferred to 17/18 due to capacity reasons
In Control (Schools)	Expenses and Allowances	Audit removed from audit plan as relatively immaterial expenditure
Primary School Payroll Procedures	Transitional Planning	Deferred audit to 17/18 as awaiting the new manager to be appointed in Q1 of 17/18.
	Commissioned Care (Health & Wellbeing)	Capacity reasons and the scope of audit is yet to be clarified.
	Regeneration & Investment into District (Corporate Risk)	Capacity reasons.
	Grants to Voluntary Bodies	Defer audit to 17/18 as some assurance provided in 16/17 by Keighley Youth Services Review