

# Report of the Assistant Director Finance and Procurement to the meeting of the Governance and Audit Committee to be held on 27 September 2018.

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**Subject:**

**INTERNAL AUDIT ANNUAL REPORT 2017/18**

**Summary statement:**

This report reviews the service Internal Audit has provided to the Council during the financial year 2017/18.

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**Portfolio**  
**Corporate**

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**Improvement Area:**  
**Corporate**

## **1.0 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 2017/18.

In particular Members are advised of the following:-

- Internal Audit completed 81% of the 2017/18 audit plan which, was below the target of 90%. Whilst a proportion of the shortfall related to a drop in the resources available, the main reason for the percentage completed was the level of unplanned audit work required.
- 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."
- 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 Corporate Resources.

2.2 The Internal Audit Annual Report 2017/18 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 AND GOVERNANCE ISSUES**

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 2017/18 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) 2017, which it does by following the CIPFA Local Government Application Note.

8.2 Standard 2450 of the PSIAS requires the Head of internal Audit to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control. The annual report must also include a statement on conformance with the Public Sector Internal Audit standards and the results of the quality assurance and improvement programme. This requirement is met by the attached (Appendix 1) Internal Audit Annual Report for 2017/18.

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 Equality & Diversity**

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.

#### 9.8 **Implications for Corporate Parenting**

None

#### 9.9 **Issues Arising from Privacy Impact Assessment**

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 2017/18.

### 12. **APPENDICES**

Appendix 1 – Internal Audit Annual Report 2017/18.

### 13. **BACKGROUND DOCUMENTS**

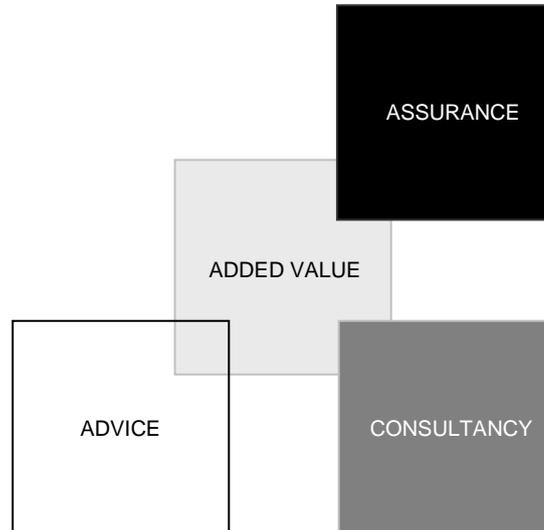
13.1 Accounts and Audit Regulations 2015.

13.2 Public Sector Internal Audit Standards 2017.

13.3 GAC report 25 April 2017 – Internal Audit Plan 2017/18.

13.4 GAC report 30 November 2017 - Internal Audit Plan 2017/18 Monitoring Report as at 30 September 2017.

# INTERNAL AUDIT ANNUAL REPORT 2017/18



## INTRODUCTION

The aim of this report is to provide information on the activities of Internal Audit during the financial year 2017/18 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, its governance processes and risk management systems.

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

July 2018

Circulation:-

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Joanne Hyde  
Mark Kirkham  
All Staff

Governance & Audit Committee  
Assistant Director Finance & Procurement  
Strategic Director Corporate Resources  
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 2016/17
- Internal Audit Plan 2017/18
- Internal Audit Plan 2017/18 Monitoring Report as at 30 September 2017.

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 1,877 audit days (7.2 FTE) were planned to be available in 2017/18, but 1,810 days (6.9 FTE) were actually delivered (1,873 days delivered in 2016/17). This reduction was due to an Assistant Audit Manager leaving in January 2018 and the computer audit services procured from Wakefield Council not being available in the second half of 2017/18.

From 1st September 2014 Wakefield and Bradford Councils shared a Head of Internal Audit. However in September 2017 Wakefield's Council Management Team determined that this was a route they no longer wished to pursue, including the work that was being completed in relation to Counter Fraud.

## **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 2017/18 Internal Audit Plan was shared with External Audit.

## **1.4 Public Sector Internal Audit Standards (PSIAS)**

On 1<sup>st</sup> 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 2017/18 was approved by GAC on 25 April 2017 and was based on 1,877 days of audit resources. The Internal Audit Monitoring Report presented to GAC on 30 November 2017 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 1,513 audit days in 2017/18. 1,446 days were actually 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 2017/18, Internal Audit achieved 81% 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 2017/18 a total of 74 reports were issued, which was a decrease on the 82 reports issued in 2016/17.

The reports issued in 2017/18 recorded that the percentage of controls satisfied was 74%, a decrease of 3% on the 77% satisfied in 2016/17, but is consistent with the five year average of 74% of controls satisfied. As in 2016/17 the service continued to focus on and require responses only in relation to high priority recommendations. 99% of these recommendations were accepted by management.

Chart One below, 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. A listing of audit reports issued in 2017/18 by audit type is shown in Appendix A.

**Chart One: Showing the Breakdown of Total Reports Produced in 2016/17 and 2017/18 by Audit Type**

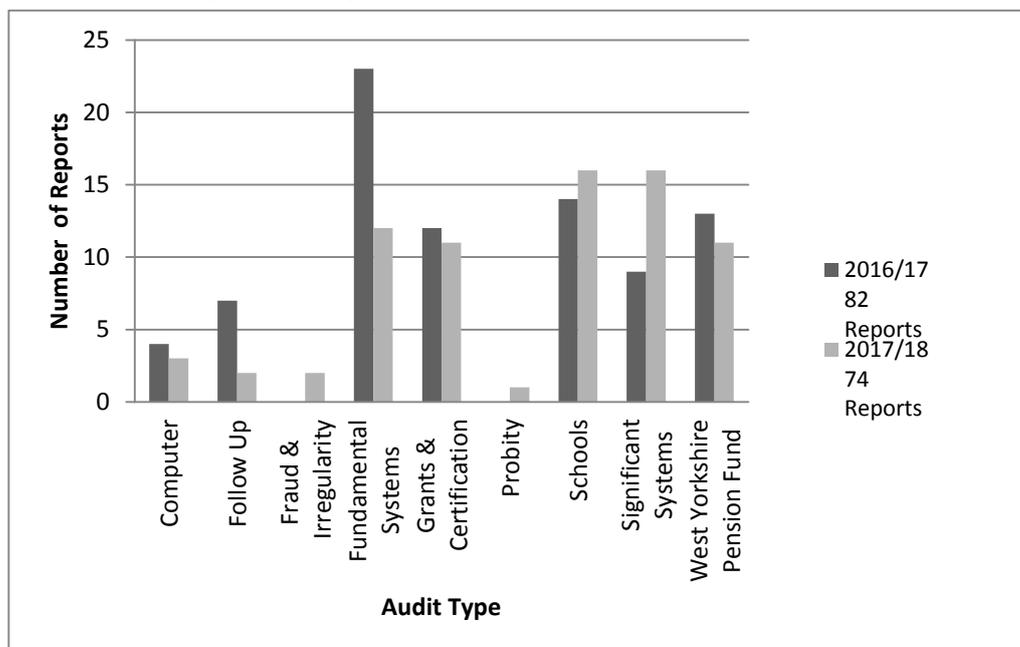


Chart One also shows that in comparison to 2016/17 there was an increase of 7 in the number of significant systems reports issued in 2017/18. Conversely there was a significant reduction of 11 in the number of fundamental systems audit reports

issued in 2017/18. The increase in significant systems audit reports in 2017/18 was due to a payroll variation audit generating seven audit reports. The comparative decrease in fundamental systems report numbers in 2017/18 was mainly due to two fundamental systems audits (Miscellaneous Payments and Purchasing Cards) in 2016/17 generating 11 reports.

Chart Two, below, shows that, from the evaluation of risks and controls in 2017/18, 87% of reports issued that contained an audit opinion had opinions that were satisfactory or above (86% in 2016/17). 76% of the systems examined had either an 'excellent' or 'good' audit opinion (56% in 2016/17). The 'good' opinion becoming the most dominant opinion in 17/18 at 43%.

**Chart Two: Breakdown of Audit Opinions 1 April 2015 to 31 March 2018**

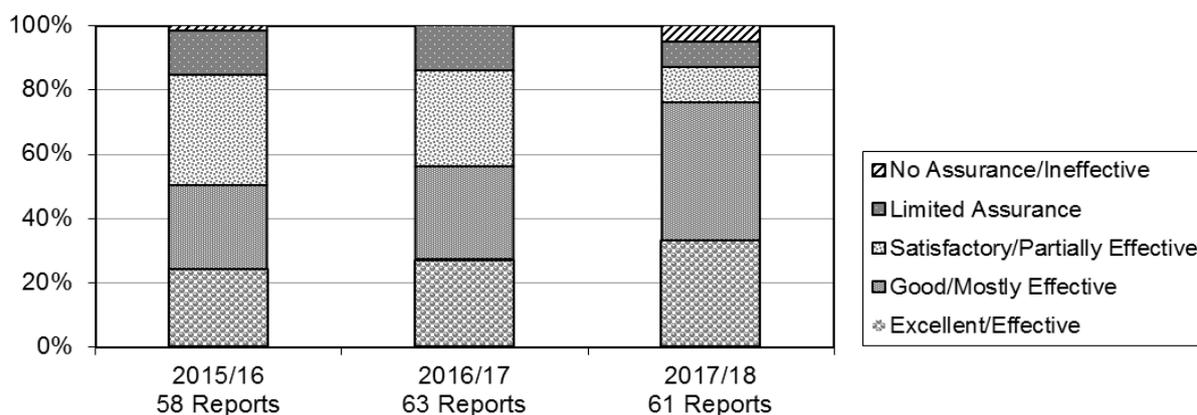


Chart two, also shows that the proportion of reports with less than satisfactory opinions has improved, 13%, being slightly lower than it was in 2016/17 (14%).

The analysis above relates to those reports with opinions. In 2017/18 61 (82%) out of 74 issued reports had an audit opinion, comparing favourably with 63 (77%) out of 82 issued reports in 2016/17.

Opinions are derived from an analysis of the level of control effectiveness in managing the reviewed risks and the 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.

### 2.3 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 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 2017/18 12 fundamental systems reports were issued. This was a significant decrease on the 23 reports issued in 2016/17, which was due to two audits in 2016/17 generating 11 reports.

All 12 audit reports had an audit opinion. There was one ineffective opinion relating to the permanent and temporary variations to pay within a service. Three fundamental systems audit reports had a limited assurance opinion. These all related to the same procurement audit; Quotes, Tenders and Contract Award

Process where the audit identified that requirements of the Council's Contract Standing Orders had not been complied with, with the risk that contracts were being awarded to inappropriate suppliers and value for money might not have been achieved.

Of the remaining 8 fundamental system audits, they all had opinions of 'Good' or 'Excellent'.

## **2.4 Audit Grant and Certification Work**

Certain grants received by the Council require an Internal Audit certification to confirm that the expenditure in the previous financial year i.e. 2016/17 was made in accordance with the Grant Determination Letter from the funding body. The number of grants requiring Audit certification in 2017/18 was 9 with a total of 11 reports issued in respect of these. Five Highways related capital grants and the Disabled Facilities Capital Grant all received 'Excellent' opinions.

Audit work on the Bus Subsidy Revenue Grant revealed that, whilst confirming that the funding had been spent in line with the grant conditions, the officer administering the grant had not received the grant determination letter from the funding body which confirms the conditions applied to the funding. As a result there was a lack of awareness that the 2016/17 expenditure required audit certification.

The Troubled Families Grant certification generated 3 reports. One of these related to Internal Audit's input into the review of inclusion and success criteria (the Outcome Plan) for Phase 2 of the Scheme. The other reports related to verification of Phase 2 claims, which included the identification of the need to make prompt claims once individual cases had achieved relevant success criteria.

The Primary PE and Sports Grant was tested at a sample of schools, which established that monies were being spent in accordance with grant objectives and no significant concerns were identified, however, some schools continue to publish insufficient details of grant expenditure and its impact, thereby not complying absolutely with grant conditions.

## **2.5 Significant Systems**

Internal Audit produced 16 reports relating to significant systems of the Council during 2017/18. 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 2017/18 are shown below:

The audit review of Grants to Voluntary Organisations system gave a 'mostly effective' audit opinion. The audit did however raise one key concern, reported to management, that a cheque for a Community Chest application had been raised in the name of the individual applying, not the name of the Voluntary Organisation.

The review of cash purchasing by Children's Social Care, which spends on average approx. £6800 a week in cash, gave a limited assurance audit opinion and raised 8 high priority recommendations. The audit identified the following key concerns; there was a lack of a process to recover payments made in lieu of benefits; lack of consideration of the use of corporate and other Council contracts

available; alternative payment methods to cash were not considered; loss of the potential to reclaim VAT on cash purchases made.

The audit of the Licensing Service that is responsible for processing, issuing and ensuring compliance with a wide variety of licences and permits resulted in a good audit opinion. The audit did, however, highlight to management the following two key concerns resulting in two high priority recommendations: banking was not confirmed to the SAP Financial and the manual annual fee invoicing process did not provide the necessary assurance that a charge had been made for all income due. In 17/18 invoiced income was £325k.

The review of the risk management arrangements in place for the Corporate Governance Strategic Risk concluded that overall they were mostly effective. The report did highlight to management one key concern, which was that the Executive was not discharging its responsibilities, as stated in the risk management strategy, in respect of monitoring the Council's risk management and internal control arrangements via a reporting process. This issue was initially raised in June 2014 by External Audit and potentially could result in adverse operational, financial and / or reputational consequences for the Council.

The audit of the Housing Options Service that provides a mandatory advice and assistance service to people who are homeless or at risk of homelessness gave a satisfactory audit opinion. The audit identified the following four key audit concerns, which were reported to management: Information held in support of the level of assistance provided to a client may be insufficient and uncorroborated; a privacy impact assessment had not been completed for the service; data sharing agreements were not available for all external partners; strategic success measures are not supported by performance reducing assurance.

## 2.6 Value Added

Internal Audit, where possible, adds value in the work that it undertakes. The following is a sample of instances during 2017/18 where value has been added.

<b>Audit Work</b>	<b>Brief Explanation of Savings Identified or Value Added</b>
ContrOCC / Liquidlogic system implementation and integration	Internal Audit provided ongoing project support to Children's on its implementation of ContrOCC financial management software and integration to existing systems, acting as a 'critical friend', advising on the proposed control environment in advance of implementation in April 2018.
Schools catering contracts	Internal Audit's examination of a Primary school's processes to procure an external catering contract, culminated in the supplier agreeing amendments to the contract, which reduced financial and reputational risks to the school and the Council, and also secured a better transfer under TUPE for the Council staff whom, under the initial contract, were at risk from potential loss of pension rights.  The work on the Primary School catering contract also

	<p>identified that the Council's document, Financial Regulations for Maintained Schools needed updating to embrace the full legal effect of the recently introduced Public Contracts Regulations 2015. Once updated this would have a wider positive impact on mitigating relevant procurement risks at all the maintained schools throughout the Bradford District. The updated Financial Regulations for Maintained Schools will be subject to a consultation exercise during 2018/19 before being released later in the year.</p>
SFVS Training	<p>In 2017, Internal Audit provided training to School Governors and staff to support schools' responsibilities for fulfilling DfE requirements relating to School Financial Value Standard (SFVS), building on a course originally delivered in 2015 and then in subsequent years. SFVS in schools confirms that they are practicing good financial management, which contributes to the optimisation of the use of resources.</p> <p>15 schools that had not previously attended training were represented this year, which means that 97 of the City's schools have attended training since it began. Internal Audit has noted that the quality of the content of SFVS assessment forms completed and submitted to the Council continues to improve each year, particularly in the case of schools who have attended training.</p>
Troubled Families Grant	<p>Internal Audit fully supported the Targeted Early Help Unit when it was subject to a DCLG spot check audit of Payment by Results claims by the Central Government Troubled Families Team, which contributed to the promotion of a better working relationship with this funding body.</p>
Mobile Telephony Follow Up	<p>The audit identified that, across the authority, there were in the region of 2000 unused surplus phones. In some cases (25% of the sample checked) monthly tariffs were still being paid. By applying Audit recommendations for re-use of existing phones and better tariff management the service responsible for telephony management estimated that £70-90k could be saved.</p>

## 2.7 Significant Concerns

The audit of No Recourse to Public Funds gave a no assurance opinion. As reported in the half year monitoring report to Committee, the service lacked high level direction and governance, resulting in service delivery and resultant costs that were not currently subject to the same level of scrutiny as other areas of social care.

A review of Deprivation of Liberties (DoLS) resulted in an ineffective (no assurance) opinion and two Critical recommendations for management action, as Health & Wellbeing was not coping with demand and was failing to comply with many of the legal requirements of the DoLS Code of Practice, including legal time-scales being breached and applications for authorisation left un-assessed. The

backlog of DoLS applications in the system was growing and out of control, with average end to end processing times being in excess of 300 days, with the majority of the backlog being people who were either being deprived of their liberty without legal authority, or not receiving the level of protection considered by the managing authorities as appropriate to their needs.

The audit review of the Quotes, Tenders and Contract award process (also referred to in section 2.3 above) resulted in a limited assurance audit opinion. The audit identified a number of Departmental Service specific concerns and a concern in respect of Procurement, relating to non-compliance with the Council's Contract Standing Orders. There was also a concern that a service had failed to review the appropriateness of its contract specification for at least 16 years, which may have resulted in poor value for money. These issues, which resulted in five high priority recommendations, were reported both separately to the Services concerned and also to Procurement as it has a role in supporting Services through training and monitoring of compliance with the Council's Contract Standing Orders.

## **2.8 Follow Up Audits**

Internal Audit follows up its audit work as described below:

### **a) Follow Up Returns from Strategic Directors**

During 2017/18 a follow up exercise with the Strategic Directors was undertaken for 65 reports, containing 168 high priority recommendations issued up to 31.03.17 which had not previously been confirmed as actioned. The outcome was initially reported to GAC on 30 November 2017 when the Directors' returns showed a significant fall in the level of implementation compared to the previous year. This was largely due to incomplete returns from both Children's Services and Health & Wellbeing. After receiving the full information from both of those Departments the Directors' returns showed that 63% of reports and 68% of recommendations were fully implemented during the year, which is a decrease from last year's figures (70% and 78% respectively). However, if progress is adjusted to reflect overall progress for each report, including partial completion (as shown on the Covalent system which is used to monitor the recommendations) the total progress of implementation of recommendations has improved slightly from last year (94% compared to 93%).

Due to the introduction of the MKI Audit software, 2016/17 was the last year in which Covalent was used to keep track of the implementation of recommendations. Any recommendations which were not fully implemented will be transferred to MKI for future follow up.

### **b) Individual Follow Up Audits Undertaken by Internal Audit**

During the year 2 follow up audits were completed by Internal Audit and a further 3 were underway at the year end.

Of the completed audits one, relating to mobile telephony management, had improved from an original opinion of limited assurance to that of mostly effective, and the level of implementation was found to be broadly in line with that reported within the Director's return.

The second completed follow up related to potential health and safety issues with a facilities management contractor operating at several Bradford schools and the

connected failure by one these schools to comply with the required tendering procedures in procuring their services. Further details of this are given in the section below.

The outcome of the remaining follow up audits will be reported in the 2018/19 Monitoring Report.

### **c) Follow Up of Audits reported in the Opinion of the 2016/17 Annual Report**

The Audit Opinion of the Internal Audit Annual Report 2016/17 listed three individual areas of concern. These were 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. These areas were planned to be followed up in 2017/18.

During the year Internal Audit committed substantial resources to work relating to procurement arrangements. An audit of the Quotes, Tenders & Contract Award Process resulted in three limited assurance reports. In addition the arrangements in place for appointing and paying a number of specific contractors were reviewed. This identified a number of significant concerns which were shared with the Corporate Fraud Unit (CFU) and incorporated into the CFU's own report on procurement irregularities within Facilities Management. Internal Audit also carried out further work, as required, to support the CFU investigation which has continued into the current financial year, and is also involved in multi-disciplinary projects aimed at improving procurement processes going forward.

The direct payments to social care clients concern was followed up in 2017/18, reporting an ineffective audit opinion on 9.4.18. Unsatisfactory progress has been made on implementing the previously agreed critical and high priority recommendations, with payments continuing where there is no assurance that they are being utilised properly and that the client is receiving their assessed care needs, raising both safeguarding and value for money concerns. The audit observations suggested limiting capacity was the constraint underpinning these key concerns.

During the year the concerns with the facilities management contractor to schools were followed up. As reported to GAC in the Internal Audit Monitoring Report on 30 November 2017 there was a health and safety incident at an academy school in the district where the facilities management contractor was working. This caused injury to 12 pupils and two teachers, including one injury which was reported to the Health and Safety Executive. Internal Audit remains concerned about the reputational risk this poses given that the contractor continues to provide its services in the District and that the contractor's registered office is on the same site as a Bradford school.

Schools are free to choose their own contractors but must ensure that any works conducted are in accordance with health and safety regulations. A letter has been issued by the Strategic Director advising schools to exercise caution when choosing contractors, it is expected that schools will take heed of this advice.

With respect to the school that did not comply with tendering procedures, as reported in the Monitoring Report, it has stated to management that it intends to undertake a contract and tender process for a new facilities management contract

which will begin in April 2018. Assurances from the school that this actually occurred have been sought but as yet not received by management.

## **2.9 Schools**

### **a) School Audits**

Reports were issued to nine schools which were visited as part of the 2017/18 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. Opinions varied; one school “Limited Assurance,” another “Satisfactory,” three “Partially Effective,” and four “Mostly Effective.”

Internal Audit also published its newsletter “In Control” to all schools via Bradford Schools Online, giving advice and assistance on topical issues in autumn 2017, which included procurement.

### **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 31st March each year. In turn the Council submits an Assurance Statement signed by the Section 151 Officer 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 31st March 2018 was forwarded to the Education & Skills Funding Agency (ESFA) on 23<sup>rd</sup> May 2018; this reported that 116 of the Council’s 131 schools had made a return. Of the returns made those indicating full compliance was 57%, which was a slight deterioration from 61% in 2017.

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, a course was made available in 2017/18. Attendance was encouraging despite the developing academisation agenda, with 27 schools being represented at the training, 39% of attendees being Governors. To date, 97 individual schools have received SFVS training, a greater coverage than could be achieved through more traditional audit methods at individual schools. The effectiveness of the training has been evident in the latest submission of SFVS forms which is encouraging. Feedback from training continues to be positive.

### **c) Sixth Form Funding Assurance**

Internal Audit provided a high level assurance piece of work over sixth form funding totalling £11m to enable the funding assurance statement to be signed off by the Council's S151 officer and returned to the ESFA.

## **2.10 Computer Audit**

For the first half year computer audit continued to be delivered by a specialist computer auditor from Wakefield as part of the joint working arrangement, and reports were issued which concluded that IT Project Management was good and that the security and super user access of two applications were mostly effective. Due to lack of resources and specialist knowledge no further computer audits were carried out following cessation of the joint working arrangement.

## **2.11 Risk Management**

In relation to risk management the Council has improved its implementation of risk management across the authority over the last financial year. As at the 31<sup>st</sup> March 2018, progress on the Departmental Risk registers had improved. The Place risk register was completed. Work on Childrens was on going and required two further iterations to be completed but the structure of the register has been created. The risk register for Corporate Resources needed to be finalised which was to be arranged shortly. The Better Health and Better Lives Transformation Board had prepared a risk register which was comprehensive and focused in a way which allowed it to be used as the Health and Well Being departmental risk register. This was a significant advance.

The Council had re established the Councils risk champion network as there was now full coverage across the authority with 14 senior officers assigned the role of risk champion. Concerns had been raised around the number of risk regimes across the Council and the need to report them in different places. This was to be reviewed in 2018/19.

## **2.12 Governance**

The internal audit assessment of governance is supported by the annual review undertaken by the Assistant Director – Finance and Procurement as S151 Officer. In conducting the review, reliance was placed upon six main sources of evidence:-

- The Constitution of the Council
- The adequacy of management actions in relation to key risks as identified in the corporate risk register
- Evidence from the regular monitoring and reporting to the Executive and Scrutiny Committees on performance, risk and finance issues
- Key Control and fraud risk self assessments supporting written confirmation from Strategic Directors that all reasonable steps have been taken to ensure compliance with established policies, procedures, laws and regulations.
- The reports of Internal Audit
- External Audit and other external inspection agencies.

Overall as reported in the Council's Annual Governance Statement the Governance Procedures were determined as effective.

### 2.13 West Yorkshire Pension Fund (WYPF)

During 2017/18, Internal Audit carried out a variety of audits within WYPF. These included:

- **Transfers Out** – This was an audit of the risks to the process where individuals cease to be employed by an admitted body of the West Yorkshire Pension Fund and transfer their pension benefits into a new scheme. The control environment was found to be of an effective standard with no recommendations arising from the work carried out.
- **Reimbursement of Agency Payments** - This audit examined the reimbursement of payments made in respect of the administration service provided by the WYPF for Lincolnshire Pension Fund and the payment of West Yorkshire, North Yorkshire, Humberside, South Yorkshire, Lincolnshire, Royal Berkshire and Buckinghamshire and Milton Keynes Fire Officers pensions and also for payment of Teachers Gratuities for Bradford MDC. The work identified that the services provided were not being supported by an appropriate agreement due to a delay in finalising the agreement and therefore a recommendation for improvement was made and accepted.
- **AVC Arrangements** – Members of the Local Government Pension Scheme have the opportunity of paying extra contributions into the West Yorkshire Pension Fund AVC Plan, which can be arranged with two providers, Scottish Widows or Prudential. The standard of control around these arrangements was found to be effective with no issues identified.
- **New Pensions and Lump Sums – Deferred Pensions** - This audit examined the calculation of the deferred pension benefits for those members who have left the employment of a scheme employer. The control environment for this process was found to be fully effective with no issues identified.
- **Review of the West Yorkshire Pension Fund 2016/17 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.
- **Verification of Assets** – This audit ensures that the assets held by the West Yorkshire Pension Fund are as expected. The standard of control in place to achieve this was found to be excellent.

- **UK Fixed and Index Linked Public and Corporate Bonds** – Control of this investment asset class was found to be effective with no issues identified.
- **Stock Lending** – Stock lending of UK and Foreign equities is undertaken by HSBC Bank as part of the custodial arrangements for the West Yorkshire Pension Fund. Controls were examined to ensure that the risks in this process were appropriately managed, these were found to be mostly effective with one recommendation for improvement made.
- **Equities** - These investments are held under the custody of the HSBC, and represent a significant proportion of the West Yorkshire Pension Fund investment portfolio, the audit 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 mostly effective with one recommendation for improvement.
- **UK Property Unit Trusts** – Approximately 4.2% of the West Yorkshire Pension Fund investment portfolio is held in property unit trusts. The control environment surrounding the UK Property Unit Trusts was deemed to be effective with no issues identified in the process.

#### 2.14 Changes to the 2017/18 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, but also Internal Audit capacity constraints. In some cases work had been covered by an alternative. 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 2017/18 Audit Plan over and above those that were reported in the Internal Audit Monitoring Report presented to GAC on 30 November 2017 is shown in Appendix B. Where an audit was removed from the Plan a reason has been given as to why this was.

#### 2.15 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.

The Head of Internal Audit is not involved in audits where he has existing or has previously held operational responsibility. If an audit is undertaken of Risk Management, Information Governance or Insurance the reports are reviewed by an Audit Manager and reported directly to the Assistant Director Finance and Procurement to avoid a conflict of interest.

## 2.16 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. 100% 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 audit has been the most useful process and document in highlighting risk and in helping to give much needed clarity and vision for the service. There has previously been a BPM process but the audit has been much more beneficial.*

*The auditor asked relevant questions and raised issues accordingly. No comments for improvement.*

*The audit was very fairly undertaken with minimum disruption to the school. The auditor was extremely helpful and pleasant throughout the whole process.*

*Very thorough audit. Recommendations are sensible, practical and helpful and help support the business to improve the process and minimise risk. The auditor was professional and thorough and has delivered an effective and robust report and 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 64% 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. 91% 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 identified several areas for further improvement. In February 2018 the Internal Audit Service underwent an external review to determine the level of compliance with Public Sector Internal Audit Standards. This determined that the Internal Audit Service was partially compliant with public sector internal audit standards. The main concern was the level of resources available to the service. In addition a number of technical improvements to management reporting and processes needed to be implemented. This resulted in a Quality Assurance Improvement Plan (QAIP) which will be implemented by December 2018 to ensure the Service is fully compliant with the standards. One of the key aspects of the QAIP will be looking at the skills of the team and ensuring they meet the future demands of the service. It should be noted that both the internal and external assessment recognised the high quality of individual internal audit work and supporting reports.

### **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 taking into account other internal and external assurance processes the overall internal control environment risk management and governance framework of the Council is adequate.

There are three individual areas of concern, Deprivation of Liberty Statements, Procurement and No Recourse to Public Funds. These areas will be reviewed in 2018/19 to assess progress in the implementation of Internal Audit recommendations agreed with management.

It must also be acknowledged, that whilst the overall opinion is adequate, the number of reports produced by Internal Audit in 2017/18 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.

## Details of the Audit Reports Issued in 2017/18 by Audit Type

Audit Category	Client	Opinion	Title	Final Report Issue Date
Computer	Corporate Services	Good	IT Project Management	04/04/2017
Computer	Corporate Services	Mostly Effective	IT Application Security Liquid Logic System	18/09/2017
Computer	Corporate Services	Mostly Effective	IT Application Capita One System	18/09/2017
Follow Up	Children's Services	N/A	FM Contract - Follow Up	30/11/2017
Follow Up	Corporate Services	Mostly Effective	Mobile Telephony Management Follow Up	06/03/2018
Fraud & Irregularity	Dept of Place	N/A	Concerns Relating to Youth Opportunity Funds	08/08/2017
Fraud & Irregularity	Corporate Services	N/A	Concerns Relating to the Use of Mobile Phones	21/03/2018
Fundamental Systems	Corporate Services	Ltd Assurance	Quotes, Tenders and Contract Award Process	03/08/2017
Fundamental Systems	Dept of Place	Ltd Assurance	Quotes, Tenders and Contract Award Process	15/09/2017
Fundamental Systems	Corporate Services	Ltd Assurance	Quotes, Tenders and Contract Award Process	02/11/2017
Fundamental Systems	Corporate Services	Effective	Bank Reconciliation & Unallocated Cash 16/17	27/04/2017
Fundamental Systems	Corporate Services	Mostly Effective	Budgetary Control	11/12/2017
Fundamental Systems	Corporate Services	Effective	Non Domestic Rates - Valuation, Liability & Billing	29/01/2018
Fundamental Systems	Corporate Services	Effective	Council Tax - Valuation, Liability & Billing	02/03/2018
Fundamental Systems	Dept of Place	Ineffective	Audit - Permanent & Temporary Variations to Pay (Sport & Culture)	30/10/2017
Fundamental Systems	Corporate Services	Mostly Effective	Certification of Pension Contributions	17/07/2017
Fundamental Systems	Dept of Place	Mostly Effective	Audit - Permanent & Temporary Variations to Pay (Waste, Fleet & Transport)	30/10/2017
Fundamental Systems	Corporate Services	Mostly Effective	Audit - Permanent & Temporary Variations to Pay (Business Support)	31/10/2017
Fundamental Systems	Corporate Services	Mostly Effective	Audit - Permanent & Temporary Variations to Pay (Internal Payroll)	02/11/2017
Grants & Certificate Work	Dept of Place	Effective	Cycle City Ambition Grant 2016/17	08/06/2017
Grants & Certificate Work	Dept of Place	Effective	Pot Hole Action Fund 2016/17	08/06/2017
Grants & Certificate Work	Dept of Place	Effective	West Yorkshire Plus Transport Fund 2016/17	08/06/2017
Grants & Certificate Work	Dept of Place	Effective	West Yorkshire Combined Authority Local Transport Capital Block Funding 2016/17	08/06/2017
Grants & Certificate Work	Children's Services	Mostly Effective	Primary PE & Sport Premium 2016/17	13/06/2017

Grants & Certificate Work	Dept of Place	Effective	Disabled Facilities Grant 2016/17	26/06/2017
Grants & Certificate Work	Dept of Place	Mostly Effective	Local Authority Bus Subsidy Ring - Fenced (Revenue) Grant 2016/17	05/09/2017
Grants & Certificate Work	Dept of Place	Effective	Highways Challenge Fund Grant	08/09/2017
Grants & Certificate Work	Children's Services	Satisfactory	Troubled Families Funding October 2017	31/10/2017
Grants & Certificate Work	Children's Services	Effective	Troubled Families Funding March 2018 (No 1)	08/03/2018
Grants & Certificate Work	Children's Services	Effective	Troubled Families Funding March 2018 (No 2)	28/03/2018
Probity	Corporate Services	Effective	Register of Births, Death & Marriages Spoiled Certificates	10/05/2017
Schools	Children's Services	Satisfactory	Parkside School	07/04/2017
Schools	Corporate Services	N/A	Analysis of Schools Financial Value Standard Self Assessment Returns 2017	15/05/2017
Schools	Children's Services	Ltd Assurance	Lower Fields Primary School	14/06/2017
Schools	Children's Services	N/A	Concerns relating to Lister Primary School	18/07/2017
Schools	Children's Services	Mostly Effective	Crossflatts Primary School	19/09/2017
Schools	Children's Services	Partially Effective	Farfield Primary School	05/10/2017
Schools	Children's Services	N/A	Six Form Funding 2016/17 Assurance Statement LA Maintained School	18/10/2017
Schools	Children's Services	N/A	Schools incontrol newsletter Autumn 2017	09/11/2017
Schools	Children's Services	N/A	SFVS Training	28/11/2017
Schools	Children's Services	N/A	Concerns relating to a Catering Contract	30/11/2017
Schools	Corporate Services	N/A	Procurement Concerns relating to School Catering Contracts	30/11/2017
Schools	Children's Services	Mostly Effective	Marshfield Primary	01/12/2017
Schools	Children's Services	Mostly Effective	All Saints C of E Primary School Bradford	18/01/2018
Schools	Children's Services	Partially Effective	Ingrow Primary	26/01/2018
Schools	Children's Services	Partially Effective	Grove House Primary School	06/03/2018
Schools	Children's Services	Mostly Effective	Stocks Lane Primary School	29/03/2018
Significant systems	Dept of Place	Effective	Voluntary & Community Sector Infrastructure Support Grant Agreement 17/19 - CABAD	01/02/2018
Significant systems	Dept of Place	Mostly Effective	Grants to Voluntary Organisations - Shipley	01/02/2018
Significant systems	Dept of Place	Mostly Effective	Grants to Voluntary Organisations - Keighley	06/02/2018
Significant systems	Dept of Place	Mostly Effective	Grants to Voluntary Organisations - Bradford East	06/02/2018
Significant systems	Dept of Place	Mostly Effective	Grants to Voluntary Organisations - Bradford West	06/02/2018

Significant systems	Dept of Place	Partially Effective	Grants to Voluntary Organisations - Central	06/02/2018
Significant systems	Dept of Place	Mostly Effective	GrantS to Voluntary Organisations	01/03/2018
Significant systems	Health & Wellbeing	No Assurance	No Recourse to Public Funds	04/04/2017
Significant systems	Children's Services	Ltd Assurance	Review of Cash Purchasing	06/04/2017
Significant systems	Dept of Place	N/A	Concerns relating to Financial Procedures.	04/05/2017
Significant systems	Dept of Place	Good	Licensing	23/05/2017
Significant systems	Dept of Place	Satisfactory	Housing Options	07/07/2017
Significant systems	Dept of Place	Mostly Effective	Planning Applications & Building Regulations Fees	08/08/2017
Significant systems	Children's Services	N/A	Interim report - Out of Area Placements	31/08/2017
Significant systems	Corporate Services	Mostly Effective	Review of Governance Breakdown Corporate Risk	06/11/2017
Significant systems	Health & Wellbeing	Ineffective	Mental Capacity Act 2005 - Deprivation of Liberty Safeguards	22/12/2017
WYPF	WYPF	N/A	Review of West Yorkshire Pension Fund 2016/17 Accounts	09/06/2017
WYPF	WYPF	Effective	West Yorkshire Pension Fund AVC Arrangements	08/09/2017
WYPF	WYPF	Mostly Effective	West Yorkshire Pension Fund Stock Lending	16/10/2017
WYPF	WYPF	Effective	West Yorkshire Pension Fund Transfers Out	02/11/2017
WYPF	WYPF	Effective	West Yorkshire Pension Fund UK Fixed and Index Linked Public and Corporate Bonds	28/11/2017
WYPF	WYPF	Mostly Effective	West Yorkshire Pension Fund Treasury Management	15/01/2018
WYPF	WYPF	Effective	West Yorkshire Pension Fund Verification of Assets	24/01/2018
WYPF	WYPF	Effective	West Yorkshire Pension Fund Equities 2017/18	27/02/2018
WYPF	WYPF	Effective	WYPF New Pensions and Lump Sums Deferred Members	13/03/2018
WYPF	WYPF	Mostly Effective	WYPF Reimbursement of Agency Payments	22/03/2018
WYPF	WYPF	Effective	WYPF UK Property Unit Trusts	27/03/2018

**Amendments to the 2017/18 Audit Plan**

Below is a list of audits that were added or deleted from the 2017/18 Audit Plan over and above those that were reported to GAC in the Internal Audit Monitoring Report on 30 November 2017. Where an audit was removed from the Plan a reason has been given as to why this was.

<b>Additional unplanned audit work done in 2017/18</b>	<b>Audits Removed from the 2017/18 Audit Plan</b>	<b>Reason</b>	<b>2017/18 Planned Audits Ongoing at the 31.3.18</b>
Better Care Fund 17-18 Metric	Contract Management Review	Defer due to capacity reasons	Revenue Enforcement
	Procurement other	Defer due to capacity reasons	Investment and Loans
	Insurance	Low priority and capacity reasons	Apprenticeship Levy
	Capital Asset Additions, Disposals and Valuations	Low priority and capacity reasons	Continuing Healthcare
	ContrOCC & SystemOne	Low priority and capacity reasons	Transitional Planning
	Waste Management	Low priority	Direct Payments
	s106 and Community Infrastructure Levy	Low priority	Transport – vehicle repairs and maintenance
	Safeguarding Children	Defer due to capacity reasons	Museum Artefacts
	Quality accessible & affordable housing	Defer due to capacity reasons	Regeneration and Investment into District