

Report of the Director of Finance to the meeting of the Governance and Audit Committee to be held on 31 July 2019.

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Subject:

INTERNAL AUDIT ANNUAL REPORT 2018/19

Summary statement:

This report reviews the service Internal Audit has provided to the Council during the financial year 2018/19.

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Director of Finance

Portfolio

Corporate

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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 2018/19.

In particular Members are advised of the following:-

- Internal Audit completed 93% of the 2018/19 audit plan which, was above the target of 90%.
- Internal Audit's Client satisfaction identified that 98% 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 Resources.
- 2.2 The Internal Audit Annual Report 2018/19 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 2018/19 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 2018/19.
- 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 work carried out by Internal Audit during 2018/19 be recognised and supported.

12. **APPENDICES**

Appendix 1 – Internal Audit Annual Report 2018/19.

13. **BACKGROUND DOCUMENTS**

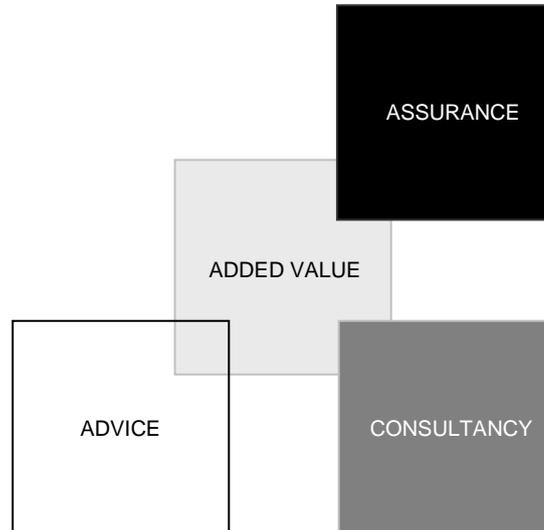
13.1 Accounts and Audit Regulations 2015.

13.2 Public Sector Internal Audit Standards 2017.

13.3 GAC report 28 June 2018 – Internal Audit Plan 2018/19.

13.4 GAC report 29 November 2018 - Internal Audit Plan 2018/19 Monitoring Report as at 30 September 2018.

INTERNAL AUDIT ANNUAL REPORT 2018/19



INTRODUCTION

The aim of this report is to provide information on the activities of Internal Audit during the financial year 2018/19 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 and Risk

July 2019

Circulation:-

Members
Chris Chapman
Joanne Hyde
Senior Management
Cameron Waddell
All Staff

Governance & Audit Committee
Director of Finance
Strategic Director Corporate Resources
Council Management Team
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 2017/18 (GAC 27th Sept 2018)
- Internal Audit Plan 2018/19 (GAC 28th June 2018)
- Internal Audit Plan 2018/19 Monitoring Report as at 30 September 2018.(GAC 29th Nov 2018)

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 2,276 audit days (8.7 FTE) were planned to be available in 2018/19, with 2,206 days (8.5 FTE) delivered. 1,810 days were delivered in 2017/18. This annual increase was due to the recruitment of 4 Senior Auditors (3.35 FTE) in August 2018.

1.3 External Audit

In November 2012 Mazars formally 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 2018/19 Internal Audit Plan was shared with External Audit.

1.4 Public Sector Internal Audit Standards (PSIAS)

Since 1st April 2013 the Council has been required to comply with the Public Sector Internal Audit Standards (PSIAS). These were revised in 2017 and in January 2019 the Governance and Audit Committee approved the Council's Internal Audit Charter which had been revised to be fully compliant with these standards. 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 2018/19 was approved by GAC on 28 June 2018 and was based on 2,276 days of audit resources. The Internal Audit Monitoring

Report presented to GAC on 29 November 2018 noted that after taking into account insurance management and accountancy support to Bradford; its audit provision to West Yorkshire Pension Fund, Bradford Council would receive circa 1,757 audit days in 2018/19. 1,687 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 2018/19, Internal Audit achieved 93% 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 2018/19 a total of 61 reports were issued, which was a decrease on the 74 reports issued in 2017/18.

The reports issued in 2018/19 recorded that the percentage of controls satisfied was 73%, a decrease of 1% on the 74% satisfied in 2017/18, but is consistent with the five year average of 74% of controls satisfied. As in 2017/18 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 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 2018/19 by audit type is shown in Appendix A.

Chart One: Showing the Breakdown of Total Reports Produced in 2017/18 and 2018/19 by Audit Type

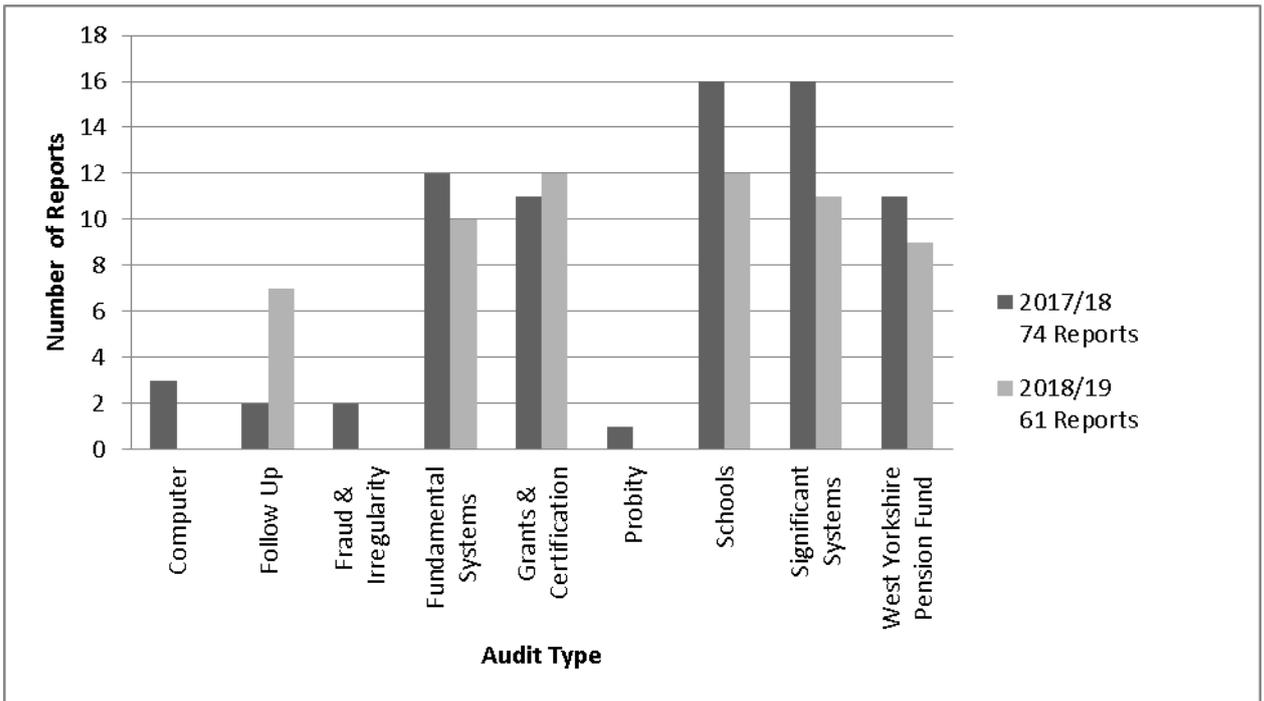


Chart One also shows that in comparison to 2017/18 there was a decrease of 5, 4 and 2 in the respective number of significant systems, school and fundamental systems reports issued in 2018/19. The comparative decrease in significant systems report numbers in 2018/19 was due to a payroll variation audit generating seven audit reports in 2017/18.

Similarly the comparative decrease in fundamental systems report numbers in 2018/19 is due to two fundamental systems audits (Quotes, Tenders and Contract Award Process; and Permanent and Temporary Variations to Payroll) in 2017/18 generating seven reports. In 2018/19 no fundamental system audit generated multiple reports. The comparative decrease in school report numbers in 2018/19 was mainly due to the issue of three reports during 2017/18 highlighting audit concerns relating to schools that had come to Internal Audit’s attention in the year.

Chart Two, below, shows that, from the evaluation of risks and controls in 2018/19, 95% of reports issued contained audit opinions that were satisfactory or above (87% in 2017/18). 76% of the systems examined had either an ‘excellent’ or ‘good’ audit opinion, which was the same as in 2017/18. The ‘good’ opinion remained the most dominant opinion in 18/19 at 43%.

Chart Two: Breakdown of Audit Opinions 1 April 2016 to 31 March 2019

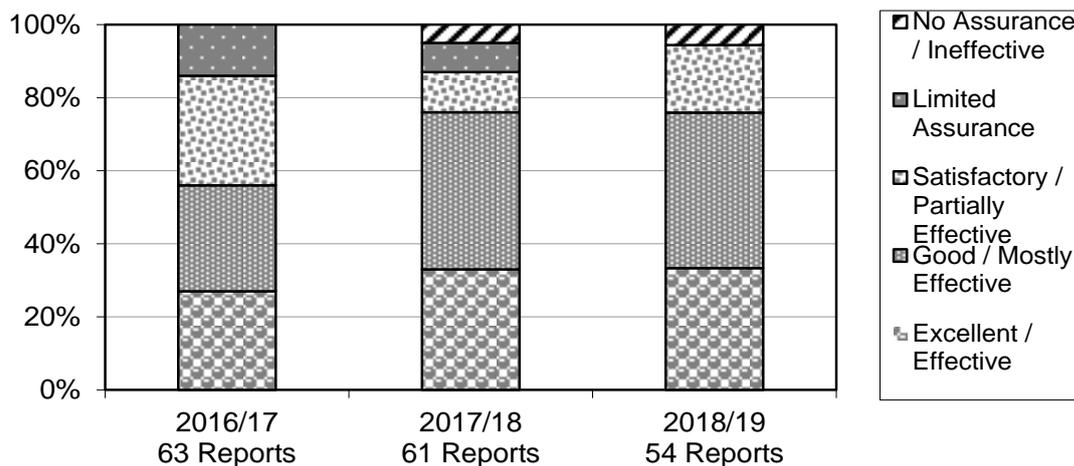


Chart Two, also shows that the proportion of reports with less than satisfactory opinions has improved, 5%, being lower than it was in 2017/18 (13%).

The analysis above relates to those reports with opinions. In 2018/19 54 (89%) out of 61 issued reports had an audit opinion, comparing favourably with 61 (82%) out of 74 issued reports in 2017/18.

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 2018/19 10 fundamental systems reports were issued. This was a slight decrease on the 12 reports issued in 2017/18, which was due to two audits in 2017/18 generating 7 reports.

There was one partially effective opinion relating to IR35 Compliance. Of the remaining 9 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. 2017/18 was made in accordance with the Grant Determination Letter from the funding body. The

number of grants requiring Audit certification in 2018/19 was 10 with a total of 12 reports issued in respect of these. Six Highways related capital grants, the Disabled Facilities Capital Grant and the Bus Subsidy Revenue Grant all received 'Excellent' opinions.

Troubled Families Grant certification generated 3 reports during the year. Claim audits continue to identify an ongoing issue of regression of family status prior to claims being made, necessitating the withdrawal of ineligible cases. Internal Audit's advice continues to be a 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 11 reports relating to significant systems of the Council during 2018/19. 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 2018/19 are shown below:

The audit review of Mental Health Act Section 117 After Care Services which was jointly performed with Audit Yorkshire, the auditors of the three Airedale and Bradford CCGs, gave a 'partially effective' audit opinion and raised 9 high priority recommendations. The audit identified several key concerns including: risk of funding care services for eligible s117 after care in another district; patients may receive s117 after care that is insufficient or excessive to their specific needs due to their care plans being unclear; s117 after care may continue beyond a patient's need due to delays in re-assessments occurring; risk of disputes and inefficiencies due to the joint policy agreement by the CCGs and Bradford Council being out of date.

The audit review of Buckden House and Ingleborough Hall Outdoor Education Centres gave a 'good' audit opinion and raised the same two high priority recommendations at each of the Centres. The reports highlighted concerns to management that staff were not regularly recording a break for lunch on their timesheets when working more than six hours resulting in a potential breach of HR legislation and the Centres were operating a bank account in their own name in contravention of Financial Regulations.

The audit of the Community Care Support, Charging and Payments resulted in a partially effective audit opinion. The audit highlighted to management the following two key concerns resulting in two high priority recommendations: Clients are not receiving an annual review of their package of care provided via the Council, leading to the risk of inappropriate package of care being provided; management

and staff were not receiving all the performance data that they require to manage service provision to clients.

2.6 Value Added

Internal Audit, where possible, adds value in the work that it undertakes. The following is a sample of instances during 2018/19 where value has been added.

Audit Work	Brief Explanation of Savings Identified or Value Added
IR35 Compliance	Internal Audit made 4 high priority recommendations that were accepted by management, which when implemented will help demonstrate that the Council is in compliance with IR35 tax legislation (designed to combat tax avoidance), thereby preventing financial penalties from HMRC.
Community Infrastructure Levy (CIL)	Internal Audit made 4 high priority recommendations that were accepted by management to strengthen the control environment and the effectiveness of administration processes including having policies and procedures in place for the approval of proposed spend of CIL receipts and staff cover arrangements to ensure that CIL can still be collected in the event that the officer responsible for this is unexpectedly absent.
Museum Artefacts	Several recommendations were made in this report to help improve value for money in the service including prioritisation of service objectives; collection rationalisation and storage review to potentially reduce premises costs or give greater public access to collections; review of risk appetite and current insurance levels to ensure alignment and best use of budgeted resource.
SFVS Training	<p>In December 2018, Internal Audit provided training to School Governors and staff to support schools' responsibilities for fulfilling Department for Education (DfE) requirements relating to Schools Financial Value Standard (SFVS), building on a course originally delivered in 2015 and then delivered annually thereafter. Completion of the SFVS process in schools provides assurance that they are practicing good financial management, which contributes to the optimisation of the use of resources.</p> <p>Since 2015, staff and Governors from over 100 of the City's schools have attended training, which has resulted in the Council receiving consistently high quality SFVS returns from a majority of the City's schools.</p>

	<p>It is the case that from 1st April 2019, a new SFVS scheme is being introduced to the entire nation's maintained schools (which includes Bradford), with different questions and now also the need to complete a dashboard of numerical, statistical and financial information. The first returns are required to be made on or before 31st March 2020. The December training included references to both the existing and new schemes, giving those schools attending the best possible opportunity of producing good quality returns for the foreseeable future.</p>
<p>School catering contracts</p>	<p>In May 2018, Internal Audit was advised by a concerned Business Advisor that a Primary School had given written notice to dispense with the services of the Council's catering provision, despite a contract being in place to deliver services until August 2020, and also that there was a strong likelihood that a contract would then be awarded to a specific commercial organisation without considering any other providers. Internal Audit made contact with the Governing Body at the school to advise of the legal position and a reminder of the requirements of the Council's Contract Standing Orders. Internal Audit was subsequently informed that the termination letter had been withdrawn and that the school was engaging with the relevant Council catering manager.</p>

2.7 Significant Concerns

The two follow up audits of Direct Payments reported in April 2018 and March 2019 both gave an ineffective opinion. The March 2019 report acknowledged that some progress had occurred but repeated the same concerns and recommendations made in the April 2018 report for management to action as implementation had been delayed until October 2019. As a consequence the safeguarding and fraud vulnerabilities reported in the direct payments system have not yet been resolved and there is increased exposure to these risks since they were first reported to management in September 2016.

The audit of the Strategic Risk relating to Regeneration and Investment into the District gave an ineffective opinion which was reported in the half year monitoring report to Committee. An officer has now been appointed to review and maintain the Corporate Risk Register entry.

The audit review of Mental Health Act Section 117 After Care Services gave a 'partially effective' audit opinion, highlighting concerns that the systems in place may not adequately support vulnerable people discharged from hospital with s117 eligible care needs.

2.8 Follow Up Audits

Internal Audit follows up its audit work as described below:

a) Follow Up Returns from Strategic Directors

During 2018/19 a follow up exercise with the Strategic Directors was undertaken for 58 reports, containing 168 high priority recommendations issued up to 31.03.18 which had not previously been confirmed as actioned. The outcome was initially reported to GAC on 24 January 2019 when the Directors' returns showed a fall in the level of implementation compared to the previous year, which continues the downward trend in recent years. This was largely due to incomplete returns from Children's Services that did not provide updates from six schools. Three of the school reports were issued several years ago and the outstanding items related to residual actions concerning voluntary funds and benchmarking. No further action was agreed to be taken on these three reports. The other three school reports were issued in 2017/18, and progress updates were pursued and obtained after the conclusion of the follow up exercise.

The Directors' returns follow up exercise showed that 54% of reports and 50% of recommendations were fully implemented during the year, which is a decrease from 2017/18's figures (58% and 68% respectively). However, if progress is adjusted to reflect overall progress for each report, including partial completion (as reported by Directors within the returns) the total overall progress of implementation of recommendations is 76% only slightly lower than the 78% achieved last year.

b) Individual Follow Up Audits Undertaken by Internal Audit

During the year seven follow up audits were completed by Internal Audit. The outcome of five of these was reported in the 2018/19 Internal Audit Follow Up Process report on 24 January 2019. All five confirmed the accuracy of the implementation progress update stated in the Directors' returns.

The other two follow up audits related to No recourse to public funds, which reported a partially effective opinion (see section below for further details) and purchasing cards, which reported a good (mostly effective) opinion as the 6 high priority recommendations in the original report had been largely implemented, thereby resulting in an improvement in the control environment around the administration of purchasing cards.

c) Follow Up of Audits reported in the Opinion of the 2017/18 Annual Report

The Audit Opinion of the Internal Audit Annual Report 2017/18 listed three individual areas of concern. These were the Council's Procurement arrangements, Deprivation of Liberty Safeguards and No Recourse to Public Funds. These areas were planned to be followed up in 2018/19.

In respect of concerns relating to procurement arrangements Internal Audit has continued to do work to support completion of the CFU investigation, support analysis of the impact of contract non-compliance and identify control weaknesses that allowed the non-compliance to occur. In 2019/20 further audits are planned which will evaluate the effectiveness of additional controls and system changes made as a result of the irregularity which should now be fully established and operational.

The No Recourse to Public Funds concerns were followed up in 2018/19, reporting a partially effective opinion on 18.12.18. Progress had been made in implementing the ten recommendations from the original report issued on 4 April 2017, such as closer working with the Home Office to progress immigration cases more quickly. However, work was still required to complete full implementation of the remaining 4 High Priority recommendations.

The Deprivation of Liberty Safeguards concerns were followed up in 2018/19, reporting a good audit opinion on 20.2.19. The audit identified that good progress had been made in implementing the agreed recommendations following the original audit, and the backlog position for DoLS applications awaiting assessment had significantly improved. Management were aiming to fully implement the remaining 4 High Priority agreed recommendations, reduced from 2 Critical and 12 High Priority, by June 2019.

2.9 Schools

a) School Audits

Reports were issued to seven schools which were visited as part of the 2018/19 plan of individual full school audits. Schools are included in the audit plan based on a risk score and by default these schools tend to be those which are already experiencing issues and would benefit most from audit input. Overall control effectiveness was rated at five schools as “Good” and at the other two as “Partially Effective.”

Internal Audit also published its newsletter “In Control” to all schools via Bradford Schools Online, giving advice and assistance on relevant issues in autumn 2018, and included sections on types of fraud, IR35 (review of contractor relationships) and advance notice of the changes to the SFVS scheme from April 2019.

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 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 as at 31st March 2019 was uploaded to the DfE website on 24th May 2019. This reported that 94 of the Council's 105 schools had made a return by the 31st March 2019. Those schools that did not submit before the cut-off date would be pursued. Of the returns made, those indicating full compliance with the requirements of SFVS was 45%, a reduction from 57% reported in 2018.

This fall should be considered in the context of reducing maintained school numbers in the City because of academisation and also that the schools remaining as maintained are willing to identify and undertake actions to meet the requirements of SFVS. Accepting that SFVS is an honest process is a significant message of Internal Audit's SFVS training.

A further requirement of SFVS is that returns are taken into consideration when setting the annual 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 2018/19. Attendance was encouraging despite the developing academisation agenda, with 30 schools being represented at the training, 37% of attendees were Governors. The inclusion of material relating to the changes to SFVS from April 2019 also contributed to interest being shown in the training this time around.

Since Internal Audit's SFVS training began in 2015, over 100 of the City's maintained schools have attended, providing a greater coverage of schools than could be achieved through more traditional audit methods of individual visits. The effectiveness of the training has been evident in the consistently high quality

SFVS returns being received by the Council, 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 £8m in 2018/19 to enable the funding assurance statement to be signed off by the Council's Section 151 officer and returned to the DfE.

2.10 Computer Audit

No computer audits were performed in 2018/19. The service did not have a specialised computer auditor following the cessation, in October 2017, of the joint working arrangement with Wakefield Council. The lack of computer audit coverage and assurance in 2018/19 represents a risk exposure for the Council, which is being addressed in 2019/20, where Salford Council, who provide Computer Audit Services for a number of Councils and organisations in the North West, will be completing an Audit Needs assessment of Bradford's ICT functionality. Once this has been completed a decision will be made how to fulfil this requirement in 2019/20. Salford Council has indicated they would be willing to provide Computer Audit Services for Bradford Council on a Service Level agreement or contractual basis.

2.11 Risk Management

In relation to risk management both CMT and the Council's Executive receive quarterly updates on the Council's Strategic Risks through the Council's Finance and Performance reports. Risk registers have been established and updated for all Departments. There have been two meetings of the Risk Co-ordinators group. Two draft Internal Audit Report has been published, one on Corporate Risk Management and the second on the Corporate Resources Departmental Register. Both reports determined that the control environment was good.

2.12 Governance

The internal audit assessment of governance is supported by the annual review undertaken by the Director of Finance 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. This was supported by review of the Council's compliance with the CIPFA/SOLACE Guidance on Delivering Good Governance in Local Government. An audit review of ethical governance in Legal Services has a draft conclusion of good.

2.13 West Yorkshire Pension Fund (WYPF)

During 2018/19, Internal Audit carried out a variety of audits within WYPF. These included:

- **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 found to be of an excellent standard with no recommendations arising from the work carried out.
- **New Pensions and Lump Sums – Ill Health Pensions** – This audit examined the pension benefit calculations of members who have had to retire as a result of ill health and are entitled to immediate payment of their pension benefits. The control environment was deemed to be of a good standard with only one recommendation for improvement being made.
- **Pensioners Payroll** – The pensioner's payroll process was reviewed, the majority of these payments are made, mainly on a monthly basis, to almost 114,000 pensioners. The process was generally well controlled with a small number of low priority recommendations for improvement being made.
- **New Pensions and Lump Sums – Fire Service** – West Yorkshire Pension Fund provides an administration service for the payment of fourteen fire service' pensions. This audit examined the calculation of the annual pension and the lump sum following a Fire Pension member's decision to retire. The control environment was largely as required.
- **Review of the West Yorkshire Pension Fund 2017/18 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.
- **Global Bonds** – This audit reviewed the arrangements in place for the investment in Global Bonds. Control of this asset class was found to be of an excellent standard with no recommendations arising from the work carried out.
- **Equities** – All quoted 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.
- **Pooling Arrangements** – A piece of work was performed which was a high level review of the arrangements which surround the West Yorkshire Pension Fund's involvement in the Northern LGPS partnership with Greater Manchester and Merseyside Pension Funds. The audit highlighted an area of governance which would improve the arrangements in place.

2.14 Changes to the 2018/19 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 implementation delays, 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 assurance requirements from management.

Details of the audits that were added or deleted from the 2018/19 Audit Plan over and above those that were reported in the Internal Audit Monitoring Report presented to GAC on 29 November 2018 is shown in Appendix B. Where an audit was removed from the Plan a reason has been given as to why this was. Appendix B also shows 2018/19 planned audits that were ongoing as at 31.3.19.

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 had during the year responsibilities for Insurance, Risk Management and Information Governance arrangements. In May 2019 the Head of Internal Audit was no longer responsible for the Information Governance Team.

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 Director of Finance 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. 98% 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:-

Thanks to the whole team supporting WYPF in mitigating and managing risks. I found the audit extremely beneficial, I agreed with all the findings/recommendations.

The audit was not straightforward due to a number of factors but both auditors were patient and took on board management concerns regarding the scope and findings.

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 78% of reports were issued within three weeks of finishing on site, which is just below the target of 80%. 95% of final reports were issued within a week of agreement with management, which is above the target of 90%.

c) Review of the Effectiveness of Internal Audit

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. This resulted in a Quality Assurance Improvement Plan (QAIP). In 2018/19 progress against the QAIP was substantial which is detailed in Appendix C. Further ongoing work in 2019/20 will deal with skills profiling, Internal Audit Apprenticeships and Computer Audit.

An Internal Review of the work completed by Internal Audit was undertaken by the Head of Internal Audit. This reviewed the compliance with Public Sector Internal Audit Standards and the Local Government Application Note. Overall compliance levels were high. This review also included an examination of audit files to ensure these were being completed in accordance with PSIAS. This was confirmed with only some minor queries on the work undertaken.

2.17 Training and Development

To support the competency requirements of the PSIAS as well as personal and professional advancement all staff are encouraged to undertake training and development opportunities. During 2018/19 staff took part in a variety of training days, evening events and lunchtime webinars provided in-house and by the professional bodies (e.g. CIPFA, IIA and CIMA). Topics ranged from personal development (e.g. leadership skills, time management), through council service knowledge (e.g. universal credit, apprenticeships, actuarial training) to professional update (e.g. IT audit, partnership working). In addition all four of the new senior auditors and two existing members of staff attended the CIPFA NW Weekend School, which included a diverse range of training and information sessions, as

well as an opportunity for team building and networking with audit colleagues from across the North of England.

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 satisfactory.

There is one specific area of concern, Direct Payments. This will be reviewed in 2019/20 to assess progress in the implementation of Internal Audit recommendations agreed with management.

Appendix A

Details of the Audit Reports Issued in 2018/19 by Audit Type

Audit Category	Client	Opinion	Title	Final Report Issue Date
Follow Up	Place	Excellent	Permanent and Temporary Variations to Pay - Follow Up	08/01/2019
Follow Up	Health and Wellbeing	Ineffective	Direct Payments Follow Up	09/04/2018
Follow Up	Corporate Resources	Mostly Effective	Purchasing Cards Follow Up	21/05/2018
Follow Up	Childrens Services	Partially Effective	Cash Purchasing Follow Up	22/03/2019
Follow Up	Health & Wellbeing	Good	Deprivation of Liberty Safeguards (DOLS) - Follow Up	20/02/2019
Follow Up	Health & Wellbeing	Ineffective	Direct Payments Follow Up 2018-19	06/03/2019
Follow Up	Health & Wellbeing	Partially Effective	No Recourse to Public Funds Follow Up	18/12/2018
Fundamental Systems	Corporate Resources	Effective	Certification of Pension Contributions 2017/18	04/05/2018
Fundamental Systems	Corporate Resources	Excellent	Benefit Appeals	06/11/2018
Fundamental Systems	Corporate Resources	Excellent	Council Starters and Leavers	22/03/2019
Fundamental Systems	Corporate Resources	Excellent	Council Tax - Enforcement and Write Offs	29/03/2019
Fundamental Systems	Corporate Resources	Good	Non-Domestic Rates Enforcements and Write-offs	17/12/2018
Fundamental Systems	Corporate Resources	Good	Benefits Quality Assurance	15/03/2019
Fundamental Systems	Corporate Resources	Mostly Effective	Payroll Voluntary Deductions	12/04/2018
Fundamental Systems	Chief Executive	Excellent	Bradford Council Treasury Management	25/05/2018
Fundamental Systems	Corporate Resources	Partially Effective	IR35 Compliance	04/02/2019
Fundamental Systems	Corporate Resources	Good	Apprenticeship Levy	22/11/2018
Grants & Certificate Work	Place	Excellent	West Yorkshire Combined Authority Local Transport Block Capital Funding 17/18	12/06/2018
Grants & Certificate Work	Place	Excellent	Cycle City Ambition Grant 2017/18	13/06/2018
Grants & Certificate Work	Place	Excellent	West Yorkshire Plus Transport Funding 2017/18	13/06/2018
Grants & Certificate Work	Place	Excellent	National Productivity Investment Funding 2017/18	13/06/2018
Grants & Certificate Work	Place	Excellent	Disabled Facilities Grant 2017/18	14/06/2018

Grants & Certificate Work	Place	Excellent	Pot Hole Funding 2017/18	12/06/2018
Grants & Certificate Work	Place	Excellent	Highways Challenge Fund Grant 2017/18	30/08/2018
Grants & Certificate Work	Place	Excellent	Local Authority Bus Subsidy Ring-Fenced (Revenue) grant 2017/18	06/09/2018
Grants & Certificate Work	Childrens Services	Good	Troubled Families 2018 - Claim 1	27/09/2018
Grants & Certificate Work	Childrens Services	Good	Troubled Families Submission Dec 2018	14/01/2019
Grants & Certificate Work	Childrens Services	Good	Troubled Families Submission March 2019	27/03/2019
Grants & Certificate Work	Childrens Services	Mostly Effective	PE & Sports Premium 2017/18	13/06/2018
Schools	Childrens Services	Good	The Holy Family Catholic School	20/09/2018
Schools	Childrens Services	Good	Eastburn Junior and Infant School	26/11/2018
Schools	Childrens Services	Good	All Saints' CE Primary School (Ilkley)	10/01/2019
Schools	Childrens Services	Good	Miriam Lord Community Primary School	17/01/2019
Schools	Childrens Services	Good	Sandal Primary School	25/03/2019
Schools	Childrens Services	Mostly Effective	Bingley Grammar School	17/05/2018
Schools	Childrens Services	N/A	Six Form Funding 2016/17 Assurance Statement LA Maintained Schools	18/10/2018
Schools	Childrens Services	N/A	InControl	05/11/2018
Schools	Childrens Services	N/A	SFVS Output Gov Training	04/01/2019
Schools	Corporate Resources	N/A	Analysis of Schools Financial Value Standard Self Assessment Returns 2018	22/05/2018
Schools	Childrens Services	Partially Effective	St Anthony's Catholic Primary School	26/09/2018
Schools	Childrens Services	Partially Effective	St William's Catholic Primary School	07/03/2019
Significant Systems	Corporate Resources	Excellent	Register of Births, Deaths and Marriages - Spoiled Certificates	09/01/2019
Significant Systems	Place	Partially Effective	Community Infrastructure Levy	02/01/2019
Significant Systems	Childrens Services	Good	Ingleborough Hall Outdoor Education Centre	16/11/2018
Significant Systems	Dept of Place	Ineffective	Strategic Risk - Regeneration and Investment into the District	21/08/2018
Significant Systems	Corporate Resources	N/A	Concerns Relating to the Removal/Reduction of Rental Subsidies Provided to Tenants of Community Facilities	26/04/2018
Significant Systems	Health & Wellbeing	Partially Effective	Better Care Fund 17-18	27/06/2018
Significant Systems	Health & Wellbeing	Partially Effective	Community Care Support, Charging and Payments	20/03/2019

Significant Systems	Health & Wellbeing	Partially Effective	Mental Health Act Section 117 - After Care Services	27/03/2019
Significant Systems	Childrens Services	Good	Buckden House Outdoor Education Centre	16/11/2018
Significant Systems	Childrens Services	N/A	ContrOCC implementation advice	30/05/2018
Significant Systems	Place	Partially Effective	Museum Artefacts	05/10/2018
WYPF	Chief Executive	Excellent	West Yorkshire Pension Fund Global Bonds	11/12/2018
WYPF	Chief Executive	Excellent	West Yorkshire Pension Fund Treasury Management 2018/19	13/02/2019
WYPF	Chief Executive	Excellent	West Yorkshire Pension Fund Equities 2018/19	28/03/2019
WYPF	Chief Executive	Good	West Yorkshire Pension Fund - Fire New Pensions and Lump Sums	19/07/2018
WYPF	Chief Executive	Good	Local Government Scheme Contributions	22/11/2018
WYPF	Chief Executive	Good	West Yorkshire Pension Fund New Pension and Lump Sums - Ill Health Pensions	15/02/2019
WYPF	Chief Executive	Good	West Yorkshire Pension Fund Pensioners Payroll	14/03/2019
WYPF	Chief Executive	Good	West Yorkshire Pension Fund Investment Pooling Arrangements	20/03/2019
WYPF	Chief Executive	N/A	Review of West Yorkshire Pension Fund 2017/18 Accounts	16/07/2018

Appendix B

Amendments to the 2018/19 Audit Plan

Below is a list of audits that were added or deleted from the 2018/19 Audit Plan over and above those that were reported to GAC in the Internal Audit Monitoring Report on 29 November 2018. Where an audit was removed from the Plan a reason has been given as to why this was.

Also shown, in the final column, is a list of 2018/19 planned audits that were ongoing as at 31.3.19.

Additional unplanned audit work commenced / done in 2018/19	Planned audit work proposed not doing in 2018/19	Reason	2018/19 Planned Audits Ongoing as at 31.3.19
ContrOCC (Children's)	Leaving Care	Post implementation review of ContrOCC system was requested instead by the Service	Transitional Planning - Preparing for Adulthood
ISAE 3402 Assurance Standard	Building Maintenance Services	Audit not required. BMS system is planned to move onto CAFM with Internal Audit providing advice to the CAFM development project	UK and Overseas Private Equities
Verification of Registrar's Spoiled Certificates	Schools IR35	No need for specific audit as schools financial audit covers this and all schools have been made aware of IR35 regulations	Special Educational Needs Placements (Out of Area)
Troubled Families Grant	Better care Fund	Agreed to defer the audit until 19-20 as the framework for spending and outcomes was to be revised by the Council and CCGs for April 2019	Enforcement & Write Offs - Miscellaneous Revenues
	Continuing Healthcare	Agreed with Strategic Director Health & Wellbeing to defer the audit until 19-20 so that it can be jointly performed with CCG Internal Auditors	Capital Schemes 18/19
	Transformational Change	Audit deferred pending Strategic Director of Corporate Resources decision on Transformational Change Programme	Transport including vehicle repairs and maintenance, fuel recharge
	Swimming Pool and Sports Centre Income	Audit Deferred to 19/20 once new sports centre is operational	Custodial Procurement and Transfer of Custodial Arrangements
	Waste Management	Audit deferred to 19/20 due to resource constraints	Transfer of Data
	Computer Audit Reviews	Audits deferred until 19/20 due to no dedicated computer audit resource	BMS Review

Planned audit work proposed not doing in 2018/19	Reason
Council Plan - A great start and good schools for all our children	Audit not done due to resource constraints.

2018/19 Planned Audits Ongoing as at 31.3.19
ISAE 3402 Assurance Standard
Compliance with Corporate Contracts & Frameworks
Corporate Governance - Ethical Governance

Bradford Council Internal Audit Quality Assurance Improvement Plan 2018-19

Ref	Assessment Recommendations	Lead Officer	Deadline	Actions Taken
1	<p>The Assistant Director Finance and Procurement should look at the future resource requirements for the service, ensuring the review considers:</p> <ul style="list-style-type: none"> The overall level of resources required to fulfil the statutory and professional requirements of the service The extent to which the current Head of Audit's position is conflicted due to a high level of other responsibilities The overall level of non- audit responsibilities performed by the audit team, including the HoIA There is sufficient access to technical ICT audit resources 	Assistant Director Finance and Procurement (ADFP)	Dec 2018	<p>Budgetary Resources Allocated to new recruitment</p> <p>Four Senior Auditors appointed in August 2018</p> <p>Review of IA Traineeship incorporating apprenticeship program underway</p> <p>Salford Council Internal Audit Service contracted to undertake ICT Internal Audit Needs Assessment.</p> <p>Head of Internal Audit no longer has operational responsibility for Information Governance.</p>
2	<p>The Assistant Director Finance and Procurement should ensure there are sufficient safeguards in place to ensure audit independence and objectivity are not compromised by any non- audit responsibilities retained by internal audit, including in particular the HoIA.</p> <p>Safeguards should be reported to, and agreed by, the Governance and Audit Committee.</p>	ADFP	Dec 2018	<p>Internal Audit Charter approved by the Governance and Audit Committee on 24th January 2019</p> <p>Internal Audit Charter includes details how safeguards for Internal Audit independence and objectivity are protected.</p>
3	<p>The Assistant Director Finance and Procurement should consider removing the requirement for the HoIA to deputise for the Chief Finance Officer and amend the job description accordingly.</p>	ADFP	Dec 2018	<p>Operationally this has not occurred in practice.</p> <p>To be reviewed when new Section 151 Officer in post,</p>
4	<p>The HoIA should update the Declarations of Interest form to refer to the current audit Standards.</p>	Head of Internal Audit (HOIA)	March 2018	<p>Declaration of Interest form amended and adopted for 2018/19 declarations by Internal Audit Staff.</p>
5	<p>The Assistant Director Finance and Procurement should determine the required involvement of (1) the Governance and Audit Committee in decisions about the appointment of the HoIA and (2) the Committee and/or the Chief Executive in the HoIA's performance appraisal, and obtain the agreement of the Governance and Audit Committee and Chief Executive as appropriate.</p>	ADFP	Sept 2018	<p>Not undertaken for 2019 HoIA appraisal due to time constraints with departure of previous S151 Officer in March 2019</p> <p>To be reviewed when new Section 151 Officer in post,</p>
6	<p>The HoIA should ensure the wording of his 2017/18 annual report complies with the requirements of the Accounts and Audit Regulations and the Audit Standards</p>	HoIA	July 2018	<p>Report completed and approved at GAC 27th September 2018.</p>

Ref	Assessment Recommendations	Lead Officer	Deadline	Actions Taken
7	The HoIA should ensure future plans show clearly how the work planned will contribute to forming an opinion at the end of the year on the Council's control and/or risk and/or governance arrangements.	HoIA	July 2018	The new five year plan 2018/19 to 2022/23 refers to the requirement to complete work on risk management, internal control and governance. It also identifies which work covers Risk, Internal Control and Governance.
8	The HoIA should update the Audit Charter as a priority.	HoIA	July 2018	Internal Audit Charter approved by the Governance and Audit Committee on 24 th January 2019
9	The HoIA should complete audit procedure notes to supplement the MK Insight process details.	HoIA	Dec 2018	Audit Procedure Notes written and approved.
10	The HoIA should enhance the Quality Assurance and Improvement Programme to include wider development needs that can be derived from, for example: <ul style="list-style-type: none"> • skills assessments against future needs and resulting team development programmes, • occasional client surveys • feedback loops from file reviews, • personal development reviews • feedback from staff on opportunities for improvement 	HoIA	Dec 2018	QAIP 2018/19 has been enhanced to include the wider development needs. Training and development plan prepared and agreed. Institute of Internal Audit Apprenticeship Profile prepared and ready for grading. Revised QAIP 2019/20 will be prepared focusing on Computer Audit and Training and Development
11	The HoIA should undertake an assessment of future service requirements and skills required to meet requirements, and produce a team development plan to deliver the core needs identified.	HoIA	July 2018	Training and Development Plan prepared and ready to be incorporated into the QAIP 2019/20.
12	The HoIA should ensure key audit reports, including the strategic and annual audit plans, and the HoIA annual report are presented to the Corporate Management Team	ADFP	April 2018	Annual Internal Audit 2017/18 report presented to CMT on 29 th August 2018 New 5 Year Internal Audit plan presented to CMT on 17 th April 2019. Internal Audit Plan 2018/19 Half Year Monitoring Report presented to CMT on 7 th November 2018. Annual Internal Audit 2018/19 report presented to CMT on 18 th July 2019
13	The HoIA should ensure all reports confirm work has been done in accordance with the Standards, unless this does not apply.	HoIA	April 2018	All Internal Audit reports include a statement on compliance with Public Sector Internal Audit Standards.