Internal Audit Update Report
1st August 2014 to
30th November 2014

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Section 1

INTRODUCTION

1.1 *The Reporting Process*

1.1.1 This update report provides stakeholders, including the Corporate Governance & Audit Committee, with a summary of internal audit activity for the period 1st August to 30th November 2014.

1.2 *Background*

1.2.1 The changing public sector environment continues to necessitate an ongoing re-evaluation of the type and level of coverage required to give stakeholders the appropriate level of assurance on the control environment of the Council.

1.3 *Progress against the 2014/15 Operational Plan – High Level*

1.3.1 The following table shows the progress against the operational plan for the period 1st August to 30th November 2014.

1.3.2 Achievement against the Total Audit Days element of the audit plan is currently at 68%. At this point in the year, the expected level of achievement would be 67%. Overall, resources during 2014/15 to date have been less than was anticipated when the audit plan was completed, due to factors such as staff absence and more time than anticipated has been spent on staff secondments. Internal Audit will continue to actively manage resources to direct these towards the areas of highest risk to ensure that there is not a negative impact on the ability of the Section to provide the coverage necessary to support the Head of Internal Audit opinion on the authority's control environment.

Assurance Block	Total Days per Audit Plan 2014/15	Days spent at 30th Nov 2014	% completion at November 2014
Financial Resource Risks			
Spending Money Wisely	680	483	71%
Anti-Fraud and Corruption	694	480	69%
Key Financial Systems	755	372	49%
Grants and Other Head of Audit Assurances	89	48	54%
Compliance	257	229	89%
Procurement	322	232	72%
Risk Based Audits	300	251	84%

Assurance Block	Total Days per Audit Plan 2014/15	Days spent at 30th Nov 2014	% completion at November 2014
ICT	230	164	71%
Total Financial Resource Risks	**3,327**	**2259**	**68%**
Other Risks			
Compliance	38	44	116%
Public Sector Internal Audit Standards Compliance	60	21	35%
Total Other Risks	**98**	**65**	**67%**
Continuing Development			
Professional Liaison	18	5	30%
Training and CPD	100	77	77%
Quality Assurance and Improvement Program	20	3	15%
Total Continuing Development	**138**	**85**	**62%**
Contingency			
General Contingency	365	247	68%
Total Contingency	**365**	**247**	**68%**
Total Audit Days	**3,928**	**2656**	**68%**

In addition, the audit plan also included days for the following:

Assurance Block	Total Days per Audit Plan 2014/15	Days spent at 30th Nov 2014	% completion at November 2014
External Contracts (including Housing Leeds)	422	323	77%
Secondments	366	429	117%
Total Days	**788**	**753**	**96%**

1.4 *How Internal Control is reviewed*

1.4.1 The Head of Internal Audit[1] must provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This includes an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

1.4.2 The Public Sector Internal Audit Standards define control as "any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved". In practice, the main types of controls which may be present are:

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[1] The Head of Internal Audit within LCC is the *'Chief Audit Executive' as* defined in the Public Sector Internal Audit Standards.

- Segregation of duties
- Organisational
- Authorisation and approval
- Physical
- Supervision
- Personnel
- Arithmetical and accounting
- Management

1.4.3   There are three elements to each internal audit review. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to give an assurance on the control environment.

1.4.4   However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

1.4.5   Finally, where there are significant control environment weaknesses or where the controls are not being complied with and only limited assurance can be given, internal audit undertakes further substantive testing to ascertain the impact of these control weaknesses.

1.4.6   To ensure consistency in audit reporting, the following definitions of audit assurance are used for all systems and governance audits completed:

Control Environment Assurance		
Level		Definitions
1	SUBSTANTIAL ASSURANCE	There are minimal control weaknesses that present very low risk to the control environment.
2	GOOD ASSURANCE	There are minor control weaknesses that present low risk to the control environment.
3	ACCEPTABLE ASSURANCE	There are some control weaknesses that present a medium risk to the control environment.
4	LIMITED ASSURANCE	There are significant control weaknesses that present a high risk to the control environment
5	NO ASSURANCE	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance		
Level		**Definitions**
1	SUBSTANTIAL ASSURANCE	The control environment has substantially operated as intended although some minor errors have been detected.
2	GOOD ASSURANCE	The control environment has largely operated as intended although some errors have been detected.
3	ACCEPTABLE ASSURANCE	The control environment has mainly operated as intended although errors have been detected.
4	LIMITED ASSURANCE	The control environment has not operated as intended. Significant errors have been detected.
5	NO ASSURANCE	The control environment has fundamentally broken down and is open to significant error or abuse.

1.4.7 Organisational impact will be reported as either major, moderate or minor. All reports with major organisational impacts will be reported to Corporate Leadership Team along with the relevant directorate's agreed action plan.

Organisational Impact		
Level		**Definitions**
1	MAJOR	The weaknesses identified during the review have left the council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
2	MODERATE	The weaknesses identified during the review have left the council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
3	MINOR	The weaknesses identified during the review have left the council open to low risk. This could have a minor impact on the organisation as a whole.

1.4.8 Specifically for the compliance reviews undertaken, the following definitions have been used to assess the level of compliance in each individual area reviewed:

Opinion for Compliance Audits – Levels of Compliance		
Level		**Definitions**
1	HIGH	There was significant compliance with agreed policy and/or procedure with only minor errors identified.
2	MEDIUM	There was general compliance with the agreed policy and/or procedure. Although errors have been identified these are not considered to be material.
3	LOW	There was limited compliance with agreed policy and/or procedure. The errors identified are placing system objectives at risk.

1.5 *Progress against the 2014/15 Operational Plan – Individual Reviews*

1.5.1 The individual reports, and the opinions given within those reports, are detailed in the following table. Not all audit reviews will have an opinion in each of the boxes as this is dependant on the type of review undertaken. The following table includes reports issued between 18th August and 30th November 2014. Reports issued between 1st April and 17th August 2014 have been included in previous update reports to Corporate Governance and Audit Committee.

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment Assurance	Compliance Assurance	Organisational Impact		
Key Financial Systems					
Council Tax Year End Reconciliation	Substantial		N/A	Citizens and Communities	02/09/2014
Business Rates Year End Reconciliation	Substantial		N/A	Citizens and Communities	02/09/2014
Reconciliation of Creditors Module Financial Management System (FMS) to Ledger Module (FMS)	Substantial		N/A	Strategy and Resources	15/09/2014
Housing Rents Year End Reconciliation	Substantial		N/A	Environment and Housing	24/10/2014
Year End Reconciliation of Housing Benefit and Council Tax Benefit	Substantial		N/A	Strategy and Resources	05/11/2014
Payroll Year End Reconciliation	Substantial		N/A	Strategy and Resources	19/11/2014
Bank Reconciliation and Cash Book	Substantial	N/A	Minor	Strategy and Resources	21/11/2014
Spending Money Wisely					
Published Payments and Redactions	Good	Good	Moderate	Strategy and Resources	08/10/2014
Adult Social Care Transport	Series of recommendations made with the aim of ensuring that local authority transport is only provided for clients with recorded eligible needs in line with the policy.			Adult Social Care	24/10/2014
Spending Money Wisely Challenge – December 2013 to March 2014	N/A	Medium	N/A	Cross Cutting	19/11/2014
Risk Based Reviews					
Former Aire Valley Homes Leeds - Contractor Data Integrity	Limited	Acceptable	Moderate	Environment and Housing	20/08/2014
Former East North East Homes Leeds – Managed Stores	Limited	Acceptable	Minor	Environment and Housing	25/09/2014

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment Assurance	Compliance Assurance	Organisational Impact		
Former West North West Homes Leeds – Gas Data Accuracy	Acceptable	Good	Moderate	Environment and Housing	08/10/2014
Former East North East Homes Leeds – Direct Labour Organisation	Limited	Acceptable	Minor	Environment and Housing	30/10/2014
Wellbeing Fund – Inner North West Area	Substantial	Substantial	Minor	Citizens and Communities	06/11/2014
Wellbeing Fund – Inner East Area	Substantial	Good	Minor	Citizens and Communities	06/11/2014
Procurement					
Bio Diesel Contract Review	Acceptable	Good	Minor	Civic Enterprise Leeds	04/09/2014
Prevention of Procurement Challenge	Good	N/A	Minor	Strategy and Resources	08/10/2014
Approved Framework Contracts	Substantial	N/A	Minor	Strategy and Resources	08/10/2014
Contract Extensions	N/A	Medium	N/A	Strategy and Resources	06/11/2014
Procurement – Follow Up Review	Good	N/A	Minor	Strategy and Resources	06/11/2014
Housing Leeds Assurance Framework					
Belle Isle Tenant Management Organisation Business Continuity	Substantial	N/A	Minor	Environment and Housing	09/09/2014

Compliance Area	Report Title	Level of Compliance Assurance	Directorate	Date Issued
Compliance Reviews				
Unannounced Visits	Knowle Manor Home for Older Persons	Medium	Adult Social Care	20/08/2014
	Spring Gardens Home for Older Persons	Medium	Adult Social Care	28/08/2014
	Leeds Visitor Centre	High – Banking and Cash/Medium – Stock Controls	City Development	15/09/2014
	Tropical World	High	Environment and Housing	23/09/2014
	Aireborough Leisure Centre	Low	City Development	02/10/2014
	Morley Leisure Centre	High	City Development	05/11/2014
Policies and Procedures	Managing Attendance	Medium	Citizens and Communities	01/10/2014
	Managing Attendance	Medium	Children's Services	08/10/2014
Schools	Allerton Grange School	High	Children's Services	19/11/2014

Report Title	Results/Opinion	Directorate	Date Issued
External Work			
Whitecote Primary School Voluntary Fund	Certification of account balances	Children's Services	07/11/2014

Report Title	Results/Opinion			Directorate	Date Issued
Holy Name Primary School Voluntary Fund	Certification of account balances			Children's Services	18/11/2014
Boston Spa School Voluntary Fund	Certification of account balances			Children's Services	19/11/2014
St Matthews C of E Primary School Voluntary Fund	Certification of account balances			Children's Services	21/11/2014
Leeds Grand Theatre – Budgetary Control	Acceptable	N/A	N/A	External	01/09/2014
Leeds Grand Theatre - Creditors	Acceptable	Acceptable	N/A	External	01/09/2014
Leeds Grand Theatre – Key Policies	Acceptable	N/A	N/A	External	01/09/2014
Grants and Other Chief Audit Executive Assurances					
Troubled Families Grant Claim	Good Assurance that the results detailed on grant claim will satisfy the DCLG requirements of reasonableness			Children's Services	19/08/2014
Building Hope Charity	Independent examination of the Accounts			Strategy and Resources	30/10/2014
Troubled Families Grant Claim	Good Assurance that the results detailed on grant claim will satisfy the DCLG requirements of reasonableness			Children's Services	18/11/2014

Further details of key issues identified within each assurance block are included below in the *Summary of Audit Activity and Key Issues at Section 2.*

Section 2

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SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES

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A summary of reports issued within each assurance block is included in the table in Section 1. The following section highlights any key issues and outcomes within each assurance block.

2.1 Compliance

2.1.1 <u>Unannounced Visits – Aireborough Leisure Centre</u>

Management at Aireborough Leisure Centre requested an Internal Audit review of the controls in place for cash and banking. The cash up undertaken by Internal Audit was satisfactory and no issues were found in relation to the banking records. However, the audit resulted in an opinion of low level compliance mainly due to issues and working practices relating to the computerised system which is used for processing transactions on the tills (the *XN* system):

- The system currently allows amendments during the cash up process with no record of these amendments being retained by the system;
- The system does not comply with the Council's Managing Passwords policy in that passwords are not required to be changed at all;
- It appeared that passwords to the XN system had been shared or for duty officers to log onto the system to allow other staff to use their login to authorise cancellations and refunds for operational reasons.

The recommendations made to address the weakness in respect of the password sharing issue have now been implemented.

Internal Audit is currently working with the administrator to address the XN system weaknesses. The improved controls will then be rolled out to each of the establishments that use this system.

2.1.2 <u>Schools – Follow Up Reviews</u>

At the previous Corporate Governance and Audit Committee meeting, following the inclusion of findings relating to St Matthews and Lawnswood Schools, members requested that the next update report include an update on both schools. The findings reports were issued during July 2014 and a period of time has been allowed to enable the recommendations to be implemented and embedded within the schools. The follow up reviews are planned to be

undertaken during January 2015, after which an update on progress towards implementation of the recommendations made will be provided to the Committee.

2.2   Risk Based Audits

2.2.1   Former Aire Valley Homes Leeds – Contractor Data Integrity

A review was undertaken of the integrity of data between the key systems owned and maintained by the former Aire Valley Homes and the systems and documentation maintained by the contractor. Limited assurance was provided on the control environment as there are significant control weaknesses for the voids and gas servicing processes that present a high risk to the control environment. The following key controls were not in place:

- Reconciliations to identify anomalies in the key performance indicator data for voids;
- Assignment of responsibilities, for both the contractor and the council for actioning error reports produced when uploads to the council's information management system (PS Team) fail;
- Assurance that the properties from the council's information management system have been accurately uploaded into the contractor's system.

Acceptable assurance was provided on compliance with the control environment as it mainly operated as intended although errors were detected. These included gas/electrical certificates not being uploaded into the council's information management system, evidence not being retained of letters sent out regarding gaining access for gas servicing and the lack of information that was available in relation to key performance indicators as information had not migrated from the previous contractor's system to the current contractor's system.

Although the review identified issues in relation to uploading gas certificates into the council's information management system, Internal Audit confirmed that there were valid gas certificates for all the properties in the sample tested.

An action plan was agreed with implementation dates of 28th February 2015.

2.2.2   Former East North East Homes Leeds – Managed Stores

A review of the managed stores contract was undertaken to ensure that the contract is fit for purpose and being managed appropriately, contractors are procured in line with Contract Procedure Rules to ensure value for money is obtained and there are adequate governance arrangements to monitor delivery of the service.

The review provided limited assurance on the control environment as there were key weaknesses including that the expected benefits of the contract were not being monitored and there was no robust procedure in place to check the prices charged. Acceptable assurance was provided for compliance with controls as the control environment had mainly operated as intended although there were errors such as invoices being accepted and paid without a corresponding order being held and materials being overcharged. For the instances where no order was present to support the materials invoiced, the service has confirmed that the work had been completed.

A new managed stores contract is currently being procured and will be mobilised for 1st April 2015. The Head of Service confirmed that where recommendations have been made which would be relevant to the new contract, these will be implemented as appropriate.

2.2.3   Former East North East Homes Leeds – Direct Labour Organisation

Internal Audit undertook a review of Construction Services (alternatively known as the Direct Labour Organisation (DLO)) to obtain assurance that the SWAPs/Dynamic Procurement System is operating as intended, and to determine whether direct costs are covered by the direct income received for it.

The objectives were to ensure that work is allocated to subcontractors in a fair and transparent manner and offers value for money and that the DLO recharges job costs to their clients in a fair and transparent manner. Limited assurance was provided on the control environment due to the lack of segregation of duties in the process (there should be independence between the officer raising the order and approving variations and the officer authorising payment), the methodology for allocating labour costs and weaknesses in the access controls to the SWAPs system.

Acceptable assurance was provided on compliance with controls as testing identified the control environment has mainly operated as intended although errors have been detected, such as the approval for the use of subcontractors not being recorded, and the use of exception reports not being monitored.

2.3   Spending Money Wisely

Ideas Service

2.3.1   The Ideas service was re-launched in July 2014. Since the re-launch, 154 ideas have been submitted by staff. Internal Audit is in the process of gathering further information and assessing these. Staff are being kept up to date on progress for each of the ideas through the Sharepoint site.

2.3.2   As part of the communication strategy, Internal Audit is presenting workshops on the Manager Challenge Events entitled 'Spending Money Wisely – How we can listen to and implement ideas.' The session is designed to be an interactive workshop which focuses on:

- What makes a good idea
- Common drivers for putting ideas into practice, and the forces that hold them back
- A structured process to follow to implement ideas
- How to encourage and listen to ideas from staff

The objective of the workshops is that by the end of the session participants will:

- Be aware of some of the key ideas and efficiencies that have been made by our employees and understand how they have been progressed/ implemented;
- Know how to encourage good spending money wisely ideas from staff;
- Be able to implement ideas generated by their teams and turn them into actions.

Adult Social Care Transport

2.3.3   A review of Adult Social Care (ASC) Transport was completed with the objective of providing assurance that the policies and procedures in place for the provision of transport within ASC are robust. The key areas for improvement included:

- Ensuring that data held between the systems operated by Adult Social Care and Passenger Transport is consistent:
- Revising current assessment documentation to include the specific policy criteria for local authority transport provision to demonstrate and record eligibility prior to commissioning transport for clients; and
- Producing a Service Level Agreement between Adult Social Care and Passenger Transport to define expected requirements from both services and establish minimum level of services, performance indicators and data requirements.

The report also provided an opportunity to incorporate any relevant recommendations into the controls embedded within the new Adult Social Care

Client Information System (CIS) and should be applied alongside the requirements of the assessment and eligibility criteria of the Care Act 2014, which will come into force in 2015/16. These recommendations were agreed to be implemented in line with Care Act timescales and the roll-out of the new CIS system.

Essential Car User Allowances

2.3.4   At the previous Committee meeting on the 19th September 2014, members requested that further information on matters in respect of essential car user allowances be circulated to the Committee. This information was provided to members of the Committee following the meeting.

2.4   Counter Fraud and Corruption

Reports Issued

2.4.1   In accordance with our agreed protocols, a report is issued to the relevant Director and Chief Officer for each investigation conducted by Internal Audit. The reports provide details of the allegations, findings and conclusions as well as value adding recommendations to address any control weaknesses identified during the course of the investigation. Internal Audit has issued 3 such investigation reports during this period.

Data Analytics

2.4.2   Internal Audit undertakes a number of internal data matching exercises as part of the annual assurance framework. In the latest exercise, a comparison of the Council's payroll data to its creditor data was undertaken. The results identified a link between a company and a council employee.

2.4.3   The initial findings supported a clear conflict of interest between the employee's role with the Council and the company that potentially resulted in a loss of income to the Council.

2.4.4   Following the identification of the issue, the employee resigned from his position with the council.

2.5   Other Work

2.5.1   <u>16-19 Bursary Fund Report on findings to Children's Services</u>

Internal Audit undertook a number of school audits that included a review of how the 16-19 Bursary Fund was managed by schools in 2013/14, to determine compliance with the guidance issued by the Education Funding Agency (EFA.) Internal Audit raised a number of queries with the EFA in order to clarify the guidance and confirm recommended practices and procedures. These were summarised in a memo and it was recommended that the 'Guiding principles for the consistent use of the 16-19 Bursary Fund' issued in 2012/13 by Children's Services should be reviewed and updated to enable schools to correctly and consistently manage their allocation. It was also recommended the guidance should include examples of best practice to assist schools.

2.5.2   <u>2014/15 Audit Findings – Report to Children's Services</u>

A memo was issued to Children's Services summarising the main findings from the schools audits undertaken during 2014/15. These relate to imprest bank account, school voluntary fund, procurement, purchasing cards, Schools Financial Value Standard and Post 16 funding. Recommendations were made for Children's Services to consider a number of possible courses of action to remind schools of the correct procedures:

- Re-issue financial regulations to schools;
- Develop and communicate schools financial guidance to run alongside financial regulations, this should include expected controls for each area and examples of best practice;
- Training sessions for schools on financial management and other areas of concern;
- An increase in the number of school compliance visits undertaken by Children's Services.

Children's Services has agreed to implement the recommendations regarding updating the guidance and communicating this with schools. Internal Audit will follow up the recommendations during 2015 to assess progress towards implementation, will continue to liaise with Children's Services in relation to the audit findings and are willing to assist with the development of guidance/training sessions to ensure that they sufficiently address the issues identified during audit visits.

2.5.3   <u>Employee Self Service – Travel and Subsistence</u>

At the request of the Chief Officer – Shared Services, Internal Audit undertook a review of proposed changes to the Travel and Subsistence Claim process with regard to the introduction of Employee Self-Service and has advised the Business Support Centre on controls within the process.

2.6   Corporate support

2.6.1   In order to support corporate priorities, the Section continues to have a number of staff on secondment to various projects and programmes across the authority:

- A member of staff has been providing support on a full time basis to Leeds and Partners since January 2013.
- A member of staff is currently on a 6 month secondment within the Capital Section which is due to end on the 31st March 2015.
- A member of staff commenced a 6 – 9 month secondment to Civic Enterprise Leeds on 10th November 2014.

Section 3

AUDIT PERFORMANCE 2014/15
At 31st July 2014

3.1 PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Internal Audit continues to monitor compliance with the Public Sector Internal Audit Standards on an on-going basis. The Internal Audit Charter is due to be reviewed and updated where necessary and this will be reported to the next Corporate Governance and Audit Committee. A self-assessment review of compliance with the standards (and associated supporting evidence) is currently being undertaken within the Section in readiness for the external assessment process that must be undertaken by 31st March 2018. Proposals for the external assessment process including a methodology and framework for conducting this are currently under consideration. Initial discussions have been held with the Core Cities Chief Auditors Group around undertaking the external assessments within the Group but these need to be progressed further.

3.2 ENSURING QUALITY

Internal Audit is committed to delivering a quality product to the highest professional standards that adds value to our customers. We actively monitor our performance in a number of areas and encourage feedback from customers.

All our work is undertaken in accordance with our quality management system; we have now been ISO accredited for over fourteen years.

A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditees opinion on a range of issues and asks for an assessment ranging from 5 (for excellent) to 1 (for poor). The results are based on the percentage of those assessments that are 3 (satisfactory) or above. The results of the questionnaires are reported to the Audit Leadership Team and used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff. The results are also benchmarked with other core cities who have adopted the same questionnaire.

Results from Customer Satisfaction Questionnaires

Question	2014/15 Actual to date At 30th November 2014 - % Score 3 or above
Notice	100%
Scope	100%
Understanding	100%
Efficiency	100%
Consultation	100%
Professional/Objective	100%
Accuracy of Draft	100%
Opportunity to comment	100%
Final Report - Clarity & Conciseness	100%
Final Report – Prompt	88%
Recommendations	100%
Added Value	100%

The results from the Customer Satisfaction Questionnaires are once again extremely positive. These results are in line with the previous update report in 2014/15 and compare favourably in all areas against the reported results for 2013/14 with the exception of the prompt issue of the final report. In order to address this issue, the Section is progressing a review of its quality procedures and reporting protocols with Directorates to ensure that these reflect current working practices and also identify any improvements required.