



**Internal Audit Update Report
1st December 2014 to
31st January 2015**

CONTENTS

Section

1. INTRODUCTION

The reporting Process

Background

Progress against the 2014/15 Operational Plan

How Internal Control is Reviewed

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

2. SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES

3. AUDIT PERFORMANCE

Section 1

INTRODUCTION

1.1 The Reporting Process

1.1.1 This update report provides stakeholders, including the Corporate Governance and Audit Committee, with a summary of internal audit activity for the period 1st December 2014 to 31st January 2015.

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 April 2014 to 31st January 2015.

1.3.2 Achievement against the Total Audit Days element of the audit plan is currently at 82% against an expected 83.3%. Overall resources during 2014/15 have been less than was anticipated when the audit plan was compiled, due to factors such as staff secondments and absence. Internal Audit is actively managing 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 31 st January 2015	% completion at January 2015
<u>Financial Resource Risks</u>			
Spending Money Wisely	680	540	79%
Anti-Fraud and Corruption	694	554	80%
Key Financial Systems	755	565	75%
Grants and Other Head of Audit Assurances	89	71	80%
Compliance	257	283	110%
Procurement	322	252	78%
Risk Based Audits	300	279	93%
ICT	230	199	87%
Total Financial Resource Risks	3,327	2,743	82%

Assurance Block	Total Days per Audit Plan 2014/15	Days spent at 31 st January 2015	% completion at January 2015
<u>Other Risks</u>			
Compliance	38	49	130%
Public Sector Internal Audit Standards Compliance	60	31	52%
Total Other Risks	98	80	82%
<u>Continuing Development</u>			
Professional Liaison	18	5	32%
Training and CPD	100	79	79%
Quality Assurance and Improvement Program	20	17	84%
Total Continuing Development	138	101	73%
<u>Contingency</u>			
General Contingency	365	308	84%
Total Contingency	365	308	84%
Total Audit Days	3,928	3,232	82%

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

Assurance Block	Total Days per Audit Plan 2014/15	Days spent at 31 st January 2015	% completion at January 2015
Housing Leeds	250	123	49%
External Contracts	172	240	140%
Secondments	366	556	152%
Total Days	788	919	117%

1.4 *How Internal Control is reviewed*

- 1.4.1 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.
- 1.4.2 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.

1.4.3 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.

1.4.4 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.

1.4.5 Organisational impact will be reported as either major, moderate or minor. All reports with major organisational impacts will be reported to CLT along with the appropriate 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.

Organisational Impact		
Level		Definitions
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.

1.4.6 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 1st December 2014 and 31st January 2015 (reports issued up to 30th November 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					
Capital Programme Central Controls	Good	Good	Minor	Strategy and Resources	15/12/2014
Central Sundry Income	Substantial	Substantial	Minor	Strategy and Resources	16/01/2015
Income Management System	Substantial	N/A	Minor	Strategy and Resources	16/01/2015
Risk Based Reviews					
Leaving Care Payments – Follow Up Review	Acceptable	N/A	Minor	Children's Services	18/12/2014
Blue Badge Eligibility Review	Substantial	N/A	Minor	Citizens and Communities/	13/01/2015

Internal Audit Update Report - 1st December 2014 to 31st January 2015

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment Assurance	Compliance Assurance	Organisational Impact		
				Adult Social Care	
Governance Arrangements	Acceptable	Good	Moderate	Public Health	22/01/2015
ICT					
Information Governance – Contracts and Commissioning	Limited	Acceptable	Moderate	Strategy and Resources	15/01/2015
Housing Leeds Assurance Framework					
Commercial Contracts Management – Procurement 2011 Operational Contract Manual	N/A	N/A	N/A	Environment and Housing	22/12/2014
Commercial Contracts Management Review	Acceptable	N/A	Minor	Environment and Housing	22/12/2014

Compliance Area	Report Title	Level of Compliance Assurance	Directorate	Date Issued
Compliance Reviews				
Income	Income from Park Mobile	High	Environment and Housing	13/01/2015

Report Title	Results/Opinion	Directorate	Date Issued
Head of Audit Assurances			
Temple Moor High School Science College Voluntary Fund 2014/15	Certification of Account Balances	Children's Services	02/12/2014
Templenewsam Halton Primary School Voluntary Fund 2013/14	Certification of Account Balances	Children's Services	03/12/2014
Lawnswood School Voluntary Fund 2014/15	Certification of Account Balances	Children's Services	13/01/2015

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

SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES

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 Key Financial Systems

2.1.1 The reviews of the key financial systems are usually undertaken between November and March so are currently in progress. A number of these reviews have been completed and reported already as shown in the table at 1.5 above. These are: Central Sundry Income and Income Management System. The level of assurance provided for these key financial systems reviews was good or substantial. Action plans have been agreed with the appropriate officers that, if implemented, will give substantial control environment assurance. Results from the remaining reviews in this assurance block will be reported in the next Internal Audit update report to the Corporate Governance and Audit Committee.

2.2 ICT

Information Governance – Contracts and Commissioning

2.2.1 The scope of the review was to obtain assurance that there is a robust system in place to ensure that information governance requirements are specified within council contracts as stipulated in the recommendations of the Information Commissioner's Office (ICO) audit in 2013.

2.2.2 The audit confirmed that there is a process for identifying contracts that require data protection and information governance clauses. However, the audit resulted in a limited assurance opinion for the control environment as the controls in place are currently not sufficient to ensure that all appropriate information governance and data protection requirements are included and managed within contracts. Recommendations were made in the following areas:

- The level of detail within the clauses of the contracts to cover all the aspects in which the Council and the contractor share information;
- Monitoring of the data protection and information governance aspects of the contracts;

- Clauses and compliance checks in respect of data cleansing and access to data once a contract has been completed; and
- Training for all officers in contracts and commissioning teams in line with the ICO action plan.

2.2.3 Acceptable assurance was provided on compliance with controls as the control environment has mainly operated as intended although the following issues were identified:

- A copy of one contract could not be found as there was no systematic filing system for both physical and electronic copies of contracts; and
- The audit found that not all members of staff within the contracts and commissioning teams had completed the level 1 training at the time of reporting (January 2015). All members of staff should have completed this training by the end of August 2014.

2.2.4 The organisational impact was assessed as moderate. The recommendations contained within the report have been set in line with those stipulated in the ICO audit action plan and have been agreed with the Corporate Information Governance team, Public Private Partnership and Procurement Unit and Housing Leeds Contracts team. The timescales specified within the report must be met to ensure the targets agreed in the ICO audit action plan are achieved. The majority of the recommendations are due to be implemented by 31st March 2015 with further improvements on information governance training agreed to be implemented by 31st December 2015. A follow up review will be undertaken during 2015/16 to ensure that the recommendations have been implemented.

2.3 *Spending Money Wisely*

2.3.1 Internal Audit presented a number of workshops on the Manager Challenge Autumn Event 2014 on Spending Money Wisely – how we can listen to and implement ideas. The interactive workshops focused on ideas that challenge change, the process for making suggestions, how to engage with staff ideas and the implementation of them. The outcomes of the session were that the participants would gain an understanding of:

- Some of the key ideas and efficiencies that have been suggested by staff and how they have been progressed/implemented;
- How to encourage good spending money wisely ideas from staff;
- How to implement ideas generated by staff and turn them into actions.

2.3.2 The workshops were well attended and the feedback received was very positive.

2.3.3 In addition, in order to promote awareness of Spending Money Wisely and the work that is happening across the council to meet this Value, the Spending Money Wisely blog has been playing videos of staff in different services talking about examples where they have made a real difference in saving money for the council.

2.4 Corporate Support

2.4.1 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.

- One of the Section's trainees is currently on a 9-month secondment to Civic Enterprise Leeds.
- Another of the Section's trainees is on secondment to the Capital Team which is due to end at the end of April 2015.
- A member of staff has been providing support on a full time basis to Leeds and Partners since January 2013.

Section 3

AUDIT PERFORMANCE 2014/15

At 31st January 2015

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 currently being reviewed and updated where necessary and this will be reported to a future Corporate Governance and Audit Committee. The results of the self-assessment review of compliance with the standards will also be reported to the Committee. This exercise is being undertaken in readiness for the external assessment process that must be undertaken by 31st March 2018.

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 auditee's 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.

As at 31st January 2015, 26 completed Customer Satisfaction Questionnaires had been received in relation to audit reports issued since 1st April 2014:

Results from Customer Satisfaction Questionnaires

Question	2014/15	2014/15
	Actual to date At 31 st January 2015 - % Score 3 or above	Average Score At 31 st January 2015
Notice	100%	4.77
Scope	100%	4.73
Understanding	100%	4.50
Efficiency	100%	4.73
Consultation	100%	4.62
Professional/Objective	100%	4.85
Accuracy of Draft	100%	4.77
Opportunity to comment	100%	4.92
Final Report - Clarity & Conciseness	100%	4.88
Final Report – Prompt	92%	4.23
Recommendations	100%	4.65
Added Value	100%	4.62
Overall Average Score		4.69

The results from the Customer Satisfaction Questionnaires are once again extremely encouraging. Overall, 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. However, this has improved from 88% (scoring 3 or above) in the previous update report to 92% covering the period from 1st April 2014 to 31st January 2015. As reported in the previous update 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.