



Leeds
CITY COUNCIL

Internal Audit

**Annual Report and Opinion
2014 / 2015**

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Section 1

INTRODUCTION

1.1 The Annual Reporting Process

1.1.1 Management is responsible for the system of internal control and must set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Corporate Governance & Audit Committee and the Deputy Chief Executive, Internal Audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.¹

1.1.2 The Corporate Governance and Audit Committee's terms of reference include the consideration of the Council's arrangements relating to internal audit requirements including considering the annual internal audit report and monitoring the performance of the Internal Audit Section.

1.1.3 This report is the culmination of the work during the course of the year and seeks to provide an 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. In accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit² must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. This annual report incorporates:

- The Head of Internal Audit's opinion on the organisation's control environment;
- A summary of the work that supports the opinion; and
- A statement on conformance with the PSIAS and the results of the Quality Assurance and Improvement Programme.

1.2 Requirement for Internal Audit and Internal Audit Standards

1.2.1 A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

¹ Public Sector Internal Audit Standards definition of Internal Auditing.

² The Head of Internal Audit within LCC is the 'Chief Audit Executive' as defined in the Public Sector Internal Audit Standards. *The Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the 'Definition of Internal Auditing', the 'Code of Ethics' and the 'Standards.'* (PSIAS.)

- 1.2.2 In accordance with the Accounts and Audit Regulations 2015 (which came into force on 1st April 2015), the authority has a duty to ensure that it has a sound system of internal control (Part 2 [3]) and that it undertakes an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector auditing standards or guidance (Part 2 [5(1)].)
- 1.2.3 The authority also has a duty to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement (Part 2[6(1)].)
- 1.2.4 1st April 2013 saw the introduction of the United Kingdom Public Sector Internal Audit Standards that apply across the whole of the public sector. PSIAS are based on the Chartered Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow PSIAS to be adapted for the public sector.
- 1.2.5 The objectives of the PSIAS are to define the nature of internal auditing and set basic principles for carrying out this work in the UK public sector; to establish a framework for providing internal audit services and establish the basis for evaluation of performance and drive improvement planning.
- 1.2.6 The requirements of the PSIAS in relation to the annual report are detailed above at 1.1. In addition, the PSIAS require that the Head of Internal Audit must confirm to the Corporate Governance and Audit Committee at least annually, the organisational independence of internal audit activity.
- 1.2.7 The PSIAS require the responsibility for the management of Internal Audit to be set with the Board. In practical terms, this Board responsibility is vested in the Corporate Governance and Audit Committee and Section 151 Officer who exercise their Board responsibility via the Constitution and the associated policies and procedures of the Council.
- 1.2.8 The Committee were presented with an initial report on the PSIAS during November 2013. This informed members of the new standards, the Internal Audit Quality Assurance and Improvement Programme and the Internal Audit Charter as defined by the Standard. A review of the Internal Audit Charter and the Internal Audit Quality Assurance and Improvement Programme has recently been undertaken and the updated documents are due to be presented to the Committee at the July 2015 meeting.

1.3 Organisational Independence

- 1.3.1 As detailed in the Internal Audit Charter, the Head of Internal Audit must report to a level within the Council that allows Internal Audit to fulfil its responsibilities. Organisational independence is effectively achieved at LCC in that the Head of Internal Audit reports functionally to the Corporate Governance and Audit

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Committee. The Head of Internal Audit reports administratively (i.e. day to day operations) to the Chief Officer (Financial Services.)

1.3.2 Examples of functional reporting to the Corporate Governance and Audit Committee include:

- Approval of the Internal Audit Charter;
- The Head of Internal Audit having direct and unrestricted access to the Audit Committee and its Chair;
- Receiving communications from the Head of Internal Audit on Internal Audit's performance and activity.

1.3.3 As set out in the authority's Financial Regulations, Internal Audit is responsible for conducting its work in accordance with professional standards. Financial Regulations state that: *'The Head of Internal Audit must be able to report without fear or favour, in their own name to the Chief Executive, the Executive Board, the Corporate Governance and Audit Committee and the scrutiny function.'*

Section 2

REVIEW OF INTERNAL CONTROL AND OPINION

2.1 Opinion 2014/15

- 2.1.1 The Public Sector Internal Audit Standards (Performance Standard 2450) state that *'the Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.'* This must be based on an objective assessment of the framework of governance, risk management and control and include an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems:

On the basis of the audit work undertaken during the 2014/15 financial year, there are no outstanding significant issues arising from the work undertaken by Internal Audit.

Furthermore, on the basis of the audit work undertaken during the 2014/15 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice.

However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

The Internal Audit activity conforms with the International Standards for the Professional Practice of Internal Auditing.³

2.2 How Internal Control is reviewed

- 2.2.1 Internal Audit continues to embrace the risk assessment approach to audit. During the course of the year, the risk map of the Authority has been continually challenged and used to form the basis of Internal Audit's annual audit plan for the coming year. The review process draws on key indicators of risks to the organisation and attempts to ensure that suitable audit time and resources are devoted to review the more significant areas. The Corporate Risk Register is used as a key source of information during this process. The audit plan contains a contingency provision that is utilised during the year in response to unforeseen work demands.

³ The Public Sector Internal Audit Standards is the application of the Institute of Internal Auditors (IIA) International Standards to the UK Public Sector

This risk based approach to audit planning results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the control environment.

2.2.2 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:

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

2.2.3 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.

2.2.4 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.

2.2.5 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.

2.2.6 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	There are significant control weaknesses that present a high risk to

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Control Environment Assurance		
Level		Definitions
	Assurance	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.

2.2.7 Organisational impact is reported as either major, moderate or minor. Any reports with major organisational impacts are reported to Corporate Leadership Team along with the appropriate directorate’s agreed action plan and then to Corporate Governance & Audit Committee as part of the regular update reports.

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.

2.2.8 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.

Opinion for Compliance Audits – Levels of Compliance		
Level		Definitions
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.

2.3 Basis of Assurance

2.3.1 The annual opinion on the adequacy and effectiveness of the control environment for 2014/15 is based on the findings and assurance provided by the schedule of reviews undertaken throughout the year. The 2014/15 plan and audit coverage has followed the same principles as agreed in previous years, i.e. based on assurance blocks that each give an opinion on the key control environment elements, targeted towards in year risks, rather than a more traditional cyclical approach that looks at each system over a number of years. The key areas of assurance are included below.

2.3.2 The methodology used for compiling the annual audit plan on which the annual opinion is based is reported to the Corporate Governance and Audit Committee on an annual basis. This takes into account the Best Council Plan, the Corporate Risk Register and incorporates consideration of local and national risks identified through liaison with Directorates and colleagues from ICT, PPPU/PU, HR and Information Governance and also through consultation with other Core City Authorities.

2.4 Assurance Blocks

a) Key Financial Systems

2.4.1 An annual review of each of the authority's key financial systems is undertaken to provide evidence supporting the internal audit opinion on the adequacy of the organisation's control environment.

2.4.2 As previously, the key financial systems subject to audit were agreed in advance with the authority's external auditors KPMG as they review this work and use this as a key source of assurance on the organisation's control framework. KPMG has reviewed the findings of the majority of Internal Audit's work on key financial systems in 2014/15 and did not raise any concerns over the timeliness and quality.

2.4.3 Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that these controls continue to work well in practice although there are some areas where improvements are necessary. The level of assurance provided for all key financial systems reviews was good or substantial with the exception of the following:

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- Sundry Income (Events) - limited assurance was provided on the control environment and acceptable assurance for compliance with controls. Further details on this review is included in the February to May 2015 update report.
- Sundry Income (Lettings) - limited assurance was provided on both the control environment and compliance with controls. As above, further details on this review is included in the February to May 2015 update report.
- Community Care Finance – substantial assurance was provided on the control environment and acceptable assurance for compliance with controls.

2.4.4 In all cases where the assurance was less than substantial, an action plan has been agreed with the appropriate officers that, if implemented, will give substantial control environment assurance.

b) Compliance Reviews

2.4.5 Coverage in this area is underpinned by an assessment of the Council's framework of internal controls (often supported by policies and procedures) and included a sample of core areas where a high level of compliance is necessary for the Council to carry out its functions properly. This work has included an element of challenge of the existing controls to ensure they are modern, effective and proportionate. The compliance assurance block has provided assurances that are critical to the S151 Officer and, as it provides assurance across all Directorates, underpins the Head of Internal Audit opinion on the control environment.

2.4.6 The plan for 2014/15 included coverage of the following areas:

- Income from areas such as nursery fees, and parking fees through the Park Mobile system;
- Compliance with policies and procedures such as managing attendance, overtime payments, pre-employment background checks, compensation payments, and travel and subsistence claims to ensure that the mileage claimed was reasonable and for business purposes;
- Schools including 6th form funding and bursary payments;
- The security of cash handling arrangements and client monies through unannounced visits at LCC establishments.

2.4.7 No significant non-compliance issues have been identified in the sample testing undertaken during the year. A number of recommendations have been made to improve procedures and controls where weaknesses were identified. For areas where a low assurance opinion was provided, these will subject to a follow up review to ensure that the recommendations made have been implemented.

2.4.8 Of the sample of schools reviewed during the year, three schools were assessed as having low compliance (i.e. limited compliance with policies and procedures.) Two of these have been subject to a follow up review and had made improvements to

controls and procedures. These have now been assessed as having medium compliance with policies and procedures. The follow up review for the remaining school is currently on-going.

c) Spending Money Wisely

2.4.9 As in previous years, there have been 3 strands to the Spending Money Wisely coverage during 2014/15 – the spending money wisely challenge reviews of expenditure, a number of spending money wisely reviews on specific areas of expenditure and the staff ideas service.

2.4.10 **Spending Money Wisely Challenge** - Internal Audit has continued to review samples of transactions from the monthly lists of published payments (over £500) throughout 2014/15. The aim of the reviews is to raise awareness of Spending Money Wisely, embed this in the council’s culture and to act as a deterrent to staff against any spending that does not provide value for money.

2.4.11 The overall opinion for the spending money wisely challenge work for 2014/15 was low compliance with policies and procedures. There were a high number of expenditure transactions which did not fully comply with the council's CPRs, thereby reducing assurance that value for money has been achieved. Further details have been provided in the February to May 2015 update report.

2.4.12 **Spending Money Wisely Projects** - As reported in the update reports to Corporate Governance and Audit Committee, reviews of specific areas of spend have been undertaken during 2014/15 including essential car user allowances and Adult Social Care transport. These highlighted potential opportunities for efficiency savings.

2.4.13 **Staff ideas service** - As reported previously to members, the staff ideas service which is currently run by Internal Audit, provides a formal forum through which staff can share their ideas for saving money and improving services. The ideas service aims to embed a culture of Spending Money Wisely across the authority through reinforcing the ‘doing our best’ behaviours, sharing good practice and encouraging staff to implement their own ideas where appropriate. The service was re-launched in July 2014 and has provided staff with a new Sharepoint site to submit ideas and view progress, as well as a blog to share good news stories and best practice. Other initiatives have included a ‘call to action’ video from the Deputy Chief Executive, workshop sessions delivered at the Manager Challenge Events and initial work to establish a network of champions across the council.

2.4.14 As at May 2015, there had been 181 submissions to the ideas service. 65 (32%) of these relate to ideas that have already been put into practice. The table below shows a summary of the progress made on the ideas received to date:

Status	Number	%
Active: ideas with services for consideration	57	32
Closed: ideas that were already happening	65	36

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Status	Number	%
Closed: ideas that have been considered but cannot be taken forward	44	24
To be monitored: ideas that services are looking to take forward	15	8
Total	181	100%

2.4.15 In order to take the ideas service forward during 2015/16, a review of the way in which the service operates has been undertaken with a number of proposals made to Strategy and Resources Leadership Team about how its efficiency and effectiveness can be improved. This will now be discussed at Corporate Leadership Team.

d) Anti-Fraud and Corruption

Approach

2.4.16 The anti-fraud and corruption work undertaken includes both proactive anti-fraud and corruption work (fraud strategies) and reactive work (investigations.)

2.4.17 Internal Audit review the Authority's fraud and corruption arrangements to ensure they are in line with best practice. The team takes a risk-based approach to ensure the risk of fraud is managed effectively with available resources. Proactive fraud exercises, data analytics work and participation in the National Fraud Initiative (NFI) provide assurance that the Authority is taking positive action to detect potential fraud and prevent its recurrence.

2.4.18 As custodians of the council's anti-fraud and corruption policy framework and owners of the fraud and corruption risk, Internal Audit adopts an overarching responsibility for reviewing the council's approach to preventing and detecting fraud. During 2014/15 Internal Audit reviewed the counter fraud activities across the council and the findings of this were reported to the Corporate Governance and Audit Committee in March 2015. The review concluded that the council is operating a robust system of internal controls to prevent, detect and address the risks associated with fraud and corruption.

Whistleblowing

2.4.19 The Council's Whistleblowing Policy and Raising Concerns Policy set out the means by which serious concerns can be brought to the attention of Internal Audit.

2.4.20 The Whistleblowing Policy is available on the intranet and encourages Council employees and Members, who have serious concerns about any aspect of the Council's work, to come forward and voice those concerns without fear of reprisal.

2.4.21 The Raising Concerns Policy is published on the Council website and offers guidance to members of the public that may have concerns around aspects of the Council's work.

- 2.4.22 The promotion and accessibility of these policies helps the Council to be responsive to emerging risks that are identified.
- 2.4.23 Internal Audit continues to act as the custodians of these policies. In 2014/15, Internal Audit received a total of 91 potential irregularity referrals (88 in 2013/14). Of these, 63 were classified under the remit of the Whistleblowing or Raising Concerns policies (64 in 2013/14). All reported irregularities were risk assessed by Internal Audit and investigated by Internal Audit, the relevant directorate or HR colleagues, as appropriate. Where the matter was referred to directorates or HR for investigation, Internal Audit has made follow up enquiries to ensure all aspects of the referral have been addressed.
- 2.4.24 During the year, 56 referrals were investigated and closed. In 13 of these cases, the investigation resulted in disciplinary action being taken or the resignation of the employee concerned. In 18 cases, the investigation resulted in improvements being made to the control environment. In the remaining 25 cases, the investigation found no evidence to support the allegations made.

Fraud Investigations

- 2.4.25 Internal Audit is committed to taking a proactive approach in tackling fraud. During the year, Internal Audit has used various data analytics tools and techniques to proactively identify fraud and error, as recommended in the latest Audit Commission Protecting the Public Purse publication.
- 2.4.26 Last year we reported that proactive fraud work was successful in identifying fraudulent creditor payments at a partner organisation. The fraud was identified after data analytics work highlighted payments, totalling £178k, that had been made to two unrecognised creditors between 2011 and 2013. The audit investigation confirmed that no goods or services had been received for the payments. Since the detection of the fraud, Internal Audit has worked extensively with the partner organisation to improve controls and procedures. The internal investigation into the matter has now been completed and Internal Audit continues to support the police towards the conclusion of legal proceedings.

e) Risk Based Reviews

- 2.4.27 Risk based reviews have been another key element of the assurance on the entire control environment of the authority during the year. These included a number of follow up reviews where limited assurance was provided previously to ensure that the recommendations made had been implemented. For the follow up reviews which were completed, improvements had been made and a higher level of assurance was provided for the systems audited. Each review sought to deliver an assurance on the systems for efficiency, effectiveness and economy.
- 2.4.28 Fifteen reports were issued for risk based reviews during 2014/15. These have provided acceptable assurance or higher over the areas audited with the exception of the review of deputy and appointee procedures where limited assurance was

given. Further details are provided in the internal audit update report covering the period February to May 2015.

2.4.29 The reviews of achievement of strategic objectives, employee conduct – central controls and risk management are included within this assurance block, providing key assurances towards the overall opinion on the control environment. Good or substantial assurance was provided for each of these reviews.

f) Procurement

2.4.30 A sample of 7 high value contracts were reviewed in 2014/15 to ensure that these had been procured in line with Contracts Procedure Rules (CPRs), that appropriate project arrangements were in place where the contract related to a capital scheme, and that the contracts were being managed in line with the requirements of CPRs. Although weaknesses were identified in specific areas for each the contracts reviewed, good opinions were issued for the majority of the reviews, with the remainder receiving acceptable opinions. No limited assurance opinions were issued for the contracts reviewed as part of the 2014/15 coverage.

2.4.31 In addition to contract reviews, the procurement assurance block also includes time for the review of cross-council procurement arrangements. One of the audit reports issued in 2014/15 assessed the implementation of previous audit recommendations in the following procurement areas:

- Continuous Improvement and Training
- Conditions and Extensions
- Monitoring and Assurance Arrangements
- Procurement Strategy

2.4.32 The review concluded that there were good arrangements in place in the form of a robust framework to enable procurement across the Authority to be undertaken in accordance with relevant policies and legislation. As some of the arrangements had only recently been put in place, further work will be carried out in 2015/16 to assess how well these arrangements have been embedded across the council.

g) Information Governance and ICT

2.4.33 ICT coverage for the year has focused on specific business application reviews and information governance reviews. An assurance framework for ICT risks is being developed by Internal Audit during 2015/16 to feed into the planning process for the 2016/17 audit plan to ensure sufficient assurances for ICT risks are obtained.

2.4.34 Assurance on the business applications reviews was acceptable or higher with the exception of the XN System where password control issues and weaknesses in the recording of key actions during the cash-up process were highlighted and limited assurance was given. Further details are included in the internal audit update report covering the period February to May 2015.

2.4.35 Good assurance was provided on the information governance arrangements for post and e-mail within Adult Social Care and Children's Services, however there were weaknesses highlighted in the review of information governance – contracts and commissioning. There were reported to the Committee in the last update report.

h) Housing Partnerships Assurance Framework

2.4.36 Former ALMO services are now provided by Housing Leeds, following the transfer of ALMO functions to the Council in 2013/14. Internal Audit has carried out a number of audits within Housing Leeds during this realignment process. Time is also included within the Housing Leeds plan to provide certain assurances in relation to the management of the assurance framework for BITMO.

2.4.37 Although recommendations have been made within the Housing Leeds audits, in general audit reports have been issued with either good or acceptable opinions. There were three audit limited opinion reports issued during the year, details of which have previously been reported to CGAC:

- Former Aire Valley Homes Gas Data Integrity
- Former East North East Homes Managed Stores
- Former East North East Homes Direct Labour Organisation

2.4.38 Follow up reviews will be carried out in 2015/16 to ensure that the recommendations have been adopted and the suggested controls are working well in practice.

i) Grants and Other Head of Audit Assurances

2.4.39 The number of grant claims requiring certification by Internal Audit continues to increase. This work has provided assurance on the authority's arrangements for submitting accurate, evidence based grant claims that are in accordance with grant conditions or requirements of the grant provider.

j) External Work

2.4.40 As in previous years, during 2014/15 Internal Audit has carried out audits for several external clients and partners and has continued to take advantage of opportunities to develop this external service. This work generates income for the council. Positive feedback has been obtained from clients in terms of the quality and value added nature of Internal Audit's work.

2.5 Areas of Weakness

2.5.1 For each area of assurance, there have been instances where the control environment was not strong enough or complied with sufficiently to prevent risks to the organisation. In these cases, Internal Audit has made recommendations to

further improve the systems of control and compliance. Although significant to the control environment in place for the individual system areas that have been audited, these weaknesses are not material enough to have a significant impact on the overall opinion on the adequacy of the Council's control environment at the year end. Furthermore for the reviews undertaken during 2014/15, if the risks highlighted materialised, it was concluded in each of these reviews that these would not have a major impact on the organisation as a whole. Further reviews in each area where limited assurance has been given are scheduled to be completed to ensure that the recommendations have been adopted and the suggested controls are working well in practice.

2.6 Other Work

2.6.1 Internal Audit has continued to provide advice on a wide range of issues including interpretation of Contract Procedure Rules and Financial Procedure Rules, and on risks and controls within individual systems or processes. Internal Audit provides clear, risk based recommendations with a view to reducing bureaucracy whilst still maintaining a robust control environment. There have been 29 such requests for advice during the year.

2.7 Summary of Completed Audit Reviews

This section provides a summary of all reports issued since 1st June 2014. Audit reviews completed from 1st April 2014 to 31st May 2014 were reported in the Internal Audit Annual Report for 2013/14. All reviews up to 31st January 2015 where the audit opinion was limited for either the control environment or compliance with procedures have already been highlighted to CG&AC in the internal audit update reports throughout the year. Reports with limited audit opinions issued in the period 1st February to 31st May 2015 will be included in the internal audit update report covering that period.

Further reviews in each area where limited assurance has been provided are scheduled to be completed to ensure recommendations have been adopted and suggested controls are working well in practice.

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Key Financial Systems					
Income Management System Year End Reconciliation	Substantial	Substantial	N/A	Strategy and Resources	06/06/2014
Year End reconciliation of Civica (Sundry Income System) to Financial Management System	Substantial	Substantial	N/A	Strategy and Resources	06/06/2014
Adult Social Care Creditors	Substantial	Good	Minor	Adult Social Care	06/06/2014
Council Tax Year End Reconciliation	Substantial		N/A	Citizens and Communities	02/09/2014

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
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
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
Business Rates	Substantial	Substantial	Minor	Strategy and Resources	10/02/2015
West Yorkshire Combined Authority Treasury Management Assurance	Substantial	Substantial	Minor	Strategy and Resources	13/02/2015
Housing Rents	Substantial	N/A	Minor	Environment and Housing	13/02/2015
Treasury Management	Substantial	Substantial	Minor	Strategy and Resources	20/02/2015
Business Support Centre – Payroll and Human Resources Administration	Substantial	Substantial	Minor	Strategy and Resources	20/02/2015
Business Rates Pooling Arrangements	Substantial	Good	Minor	Strategy and Resources	04/03/2015
Benefits - Reconciliations	Substantial	N/A	Minor	Citizens and Communities	09/03/2015
Council Tax	Substantial	Substantial	Minor	Citizens and Communities	23/03/2015
Benefits – Assessments and Payments	Substantial	N/A	Minor	Citizens and Communities	31/03/2015
Local Welfare Support Scheme	Good	Substantial	Minor	Citizens and Communities	31/03/2015
Corporate Financial Management Central Controls	Substantial	N/A	Minor	Strategy and Resources	07/04/2015
Sundry Income – Events Team	Limited	Acceptable	Minor	City Development	15/04/2015
Sundry Income Lettings – Civic Enterprise	Limited	Limited	Minor	Strategy and Resources/Civic Enterprise	27/04/2015
Capital Programme Central Controls	Substantial	Substantial	Minor	Strategy and Resources	28/04/2015
Central Payments System – City Development	Substantial	Good	Minor	City Development	12/05/2015
Central Payments System – Children’s Services	Substantial	Good	Minor	Children’s Services	13/05/2015
Community Care Finance	Good	Acceptable	Moderate	Adult Social Care	15/05/2015

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Spending Money Wisely					
Essential Car User Allowances	Opportunities for efficiencies identified			Strategy and Resources	10/07/2014
Spending Money Wisely Challenge – October 2013 transactions	N/A	Low	N/A	Cross Cutting	12/08/2014
Spending Money Wisely Challenge – November 2013 transactions	N/A	Medium	N/A	Cross Cutting	12/08/2014
Spending Money Wisely Challenge – September 2013 transactions	N/A	Low	N/A	Cross Cutting	12/08/2014
Software Licences Follow Up Review	Assessment of progress towards implementation – further recommendations made.			Strategy and Resources	13/08/2014
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
Spending Money Wisely Challenge – April 2014 to December 2014	N/A	Low	N/A	Cross Cutting	13/05/2015
Risk Based Reviews					
Procurement					
Youth Offer – Targeted Information, Advice and Guidance Contract Review	Substantial	Substantial	Minor	Children’s Services	07/07/2014
Assisted Living Leeds (formerly Assistive HUB Technology) Contract Review	Good	Good	Minor	Adult Social Care	24/07/2014
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
Adel Beck Secure Unit Children’s Home Capital Contract Review	Good	Good	Minor	Children’s Services	11/02/2015
Inner Ring Road Woodhouse Tunnel Phase 2 Capital Contract Review	Good	Good	Minor	City Development	11/02/2015
Little London and Beeston Hill PFI Scheme Capital Contract Review	Good	Good	Minor	Environment and Housing	25/03/2015
Allerton Bywater Primary School Contract Review	Acceptable	Acceptable	Minor	Strategy and Resources/ Children’s Services	09/04/2015
Other Risk Based Reviews					
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

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
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/ Adult Social Care	13/01/2015
Governance Arrangements	Acceptable	Good	Moderate	Public Health	22/01/2015
Income from Service Users (fairer charging assessment)	Substantial	Substantial	Minor	Adult Social Care/Strategy and Resources	06/05/2015
Learning Disability Pooled Budget Arrangements	Acceptable	Acceptable	Minor	Adult Social Care	06/05/2015
Quality assurance process for the assessment of need and approval of care options	Substantial	Acceptable	Minor	Adult Social Care	06/05/2015
Review of deputy and appointee procedures	Limited	N/A	Moderate	Adult Social Care	06/05/2015
Semi-Supported Independent Living	Acceptable	Acceptable	Moderate	Children’s Services	06/05/2015
Achievement of Strategic Objectives	Substantial	N/A	Minor	Strategy and Resources	12/05/2015
Extended Schools Income – Kippax North Junior, Infant and Nursery School	Good	Acceptable	N/A	Children’s Services	15/05/2015
Extended Schools Income – Weetwood Primary School	Good	Good	N/A	Children’s Services	15/05/2015
Corporate Risk Management	Good	N/A	Minor	Strategy and Resources	26/05/2015
Employee Conduct – Central Controls	Good	N/A	Minor	Strategy and Resources	31/05/2015
Information Governance and ICT					
Information Governance – Contracts and Commissioning	Limited	Acceptable	Moderate	Strategy and Resources	15/01/2015
XN System	Limited	N/A	Minor	Strategy and Resources/City Development	19/02/2015
Business Applications Audit - FMS	Acceptable	N/A	Moderate	Strategy and Resources	18/05/2015
Business Applications Audit – Other Key Financial Systems	Good	N/A	Minor	Strategy and Resources	18/05/2015
Business Applications Audit – Academy	Substantial	N/A	Minor	Citizens and Communities	18/05/2015
Information Governance – Post and Email	Good	Good	Moderate	Adult Social Care/Children’s Services	19/05/2015
Housing Partnerships Assurance Framework 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
Belle Isle Tenant Management Organisation Business Continuity	Substantial	N/A	Minor	Environment and Housing	09/09/2014
Former West North West Homes Leeds – Gas Data Accuracy	Acceptable	Good	Moderate	Environment and Housing	08/10/2014

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Former East North East Homes Leeds – Direct Labour Organisation	Limited	Acceptable	Minor	Environment and Housing	30/10/2014
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
Orchard Direct Works	Acceptable	Acceptable	Minor	Environment and Housing	29/04/2015
Contractor Quality Systems	Good	Acceptable	Minor	Environment and Housing	06/05/2015
Contractor Gain Share Process	Good	N/A	Minor	Environment and Housing	08/05/2015

Compliance Area	Report Title	Level of Compliance Assurance	Directorate	Date Issued
Compliance Reviews				
Policies and Procedures	Travel and Subsistence	Medium	Cross Cutting	19/06/2014
	Pre-Employment Background Checks	High	Cross Cutting	30/06/2014
	Overtime Payments	Medium	Cross Cutting	10/07/2014
	Compensation Payments	Medium	Legal Services and Democratic Services	07/08/2014
	Managing Attendance	Medium	Citizens and Communities	01/10/2014
	Managing Attendance	Medium	Children's Services	08/10/2014
Schools	St Matthews CE Aided Primary School	Low	Children's Services	10/07/2014
	Lawnswood School	Low	Children's Services	17/07/2014
	Pudsey Grangefield School	Medium	Children's Services	21/07/2014
	Allerton Grange School	High	Children's Services	19/11/2014
	Calverley Parkside Primary School	Low	Children's Services	11/02/2015
	St Matthews CE Aided Primary School Follow Up Review	Medium	Children's Services	17/02/2015
Schools 6 th Form Funding and Bursary	Lawnswood School	Medium	Children's Services	23/02/2015
	Allerton High School	Medium	Children's Services	21/07/2014
Unannounced Visits	John Smeaton Leisure Centre	High	City Development	13/08/2014
	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
	Holt Park Leisure Centre	Medium	City Development	25/02/2015
	Lotherton Hall	Medium	City Development/ Environment and Housing	06/03/2015
	Pudsey Area Office	High	Adult Social Care	25/03/2015

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Compliance Area	Report Title	Level of Compliance Assurance	Directorate	Date Issued
	Wetherby Leisure Centre	Medium	City Development	18/05/2015
Income	Income from Park Mobile	High	Environment and Housing	13/01/2015
	Nursery Fees	Low – Rothwell Children’s Centre	Children’s Services	05/02/2015
		Medium – Swarcliffe Children’s Centre	Children’s Services	05/02/2015

Report Title	Results/Opinion	Directorate	Date Issued
Grants and Other Head of Internal Audit Assurances			
Troubled Families Grant Claim (May 2014/15)	Audit testing provides good assurance that the results detailed on the grant claim will satisfy the DCLG requirements of reasonableness.	Children’s Services	01/06/2014
Adoption Reform Grant	Audit testing provides good assurance that the results detailed on the grant claim will satisfy the Department of Education’s requirements of reasonableness. The statement of grant usage, in all material respects, fairly presents the eligible expenditure in the period 1/4/13 to 31/3/14 in accordance with the definitions and conditions for this grant.	Children’s Services	01/06/2014
Cycling Ambition Grant	Grant conditions complied with	City Development	01/07/2014
Local Transport Capital Block Funding Grant (Integrated Highway and Transport Maintenance)	Grant conditions complied with	City Development	01/07/2014
West Yorkshire Plus Transport Fund	Expenditure incurred meets criteria on schemes specified	City Development	01/07/2014
Bus Operators Grant October 2013 – March 2014	Assurance provided that the service is approximately in-line with the previous grant provision, records used to calculate this figure can be substantiated back to prime records held on site and that there is assurance that the expenditure of the service is covered by the grant.	Civic Enterprise Leeds	07/08/2014
Troubled Families Grant Claim (August 2014/15)	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 (November 2014/15)	Good Assurance that the results detailed on grant claim will satisfy the DCLG requirements of reasonableness	Children’s Services	18/11/2014
Troubled Families Grant Claim (February 2014/15)	Good assurance that the results detailed on the grant claim will satisfy the DCLG requirements of reasonableness.	Children’s Services	17/02/2015
Lord Mayor’s Appeal Fund – Independent Examination of Accounts 2013/14	Independent examination of the Accounts	Strategy and Resources	23/03/2015
Leeds City Region Enterprise Zone – Building Foundations for Growth Capital Grant Claim	Audit testing provides good assurance that the grant conditions have been met and will satisfy DCLG’s requirements	City Development	24/03/2015

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Report Title	Results/Opinion			Directorate	Date Issued
Flood and Coastal Risk Management Growth Fund Allocation Grant Claim	Audit testing provides good assurance that the grant conditions have been met and will satisfy Defra's requirements			City Development	24/03/2015
Troubled Families Grant Claim (May 2015/16)	The audit confirmed that information from reliable sources was held to support that the 'continuous employment' result had been achieved and that the families claimed for were eligible to be on the programme. Audit testing provides good assurance that the results detailed on the grant claim will satisfy the DCLG requirements of reasonableness.			Children's Services	29/05/2015
External Work					
Shakespeare Primary School Voluntary Fund Audit	Certification of Account Balances			Children's Services	01/06/2014
Bramley St Peters School Voluntary Fund Audit	Certification of Account Balances			Children's Services	01/06/2014
Swarcliffe Primary School Voluntary Fund Audit	Certification of Account Balances			Children's Services	09/07/2014
Whitecote Primary School Voluntary Fund	Certification of account balances			Children's Services	07/11/2014
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
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
Seacroft Grange Primary School – School Financial Value Standard	Satisfactory assurance regarding compliance with standard			Children's Services	27/03/2015
Central financial controls of local authority maintained schools	Good	N/A	Minor	Strategy and Resources	06/05/2015

Section 3

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME AND CONFORMANCE WITH PSIAS 2014/2015

3.1 Review of the Year

3.1.1 Reports to the Audit Committee

An important part of the Internal Audit Service is to inform the Corporate Governance and Audit Committee about the adequacy of the Council's governance and internal control systems and an important role of the Committee is to oversee the performance of the Internal Audit Service. The table below summarises the information the Committee has received from Internal Audit during the last year.

Reports from Internal Audit to Corporate Governance and Audit Committee
(for the period 1st April 2014 – 31st March 2015)

<i>Report</i>	<i>Purpose</i>
Internal Audit Update Reports	Provided regular summaries of the work undertaken by IA and allowed the Committee to review the performance of Internal Audit
Update of the Whistleblowing Policy and the Raising Concerns Policy	Informed the Committee of the revisions in accordance with the changes to Public Interest Disclosure legislation, and provides an opportunity to comment on the current proposals.
Fraud Briefing	To provide further information to the Committee on the Leeds City Council Fraud Briefing 2014 and summarise the council's counter-fraud activities and performance throughout 2013/14.
Annual Audit Plan 2015/16	Informed the Committee of the impending work programmes and provided the opportunity for comments and observations.
Annual Report 2013/14	Given the Committee an overview of the work undertaken by IA and gave the Head of Internal Audit Opinion in respect of the Council's overall control environment for the financial year 2013/14.

3.1.2 Achievement of the Annual Audit Plan 2014/15

The following table shows achievement of the Audit Plan for the period 1st April 2014 to 31st March 2015. Achievement against the Total Audit Days element of the

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audit plan was 93%. This is mainly due to more resources being allocated to secondments in order to support corporate priorities than were anticipated at the start of the year. In addition, more external work has been undertaken than originally anticipated. This includes more requests for schools' voluntary fund audits than planned which generates income for the council.

Assurance Block	Total Days per Audit Plan 2014/15	Actual Days 2014/15	% Completion
Spending Money Wisely	680	587	86%
Anti-Fraud and Corruption	694	639	92%
Financial and Other Key Systems	755	760	101%
Grants and Other Head of Internal Audit Assurances	89	95	107%
Compliance	295	331	112%
Procurement	322	279	87%
Risk Based Audits	360	306	85%
ICT	230	233	101%
Housing Leeds	250	205	82%
Total	3675	3435	93%
<u>Continuing Development</u>			
Professional Liaison	18	6	35%
Training and CPD	100	99	99%
Quality Assurance and Improvement Programme	20	22	109%
Total Continuing Development	138	127	92%
<u>Contingency</u>			
General Contingency	365	339	93%
Total Contingency	365	339	93%
Total Audit Days	4178	3901	93%

In addition, the audit plan for 2014/15 included days for the following:

Assurance Block	Total Days per Audit Plan 2014/15	Actual Days 2014/15	% Completion
External	172	281	163%
Secondments	366	663	181%
Total Days	538	944	175%

3.2 Quality Assurance and Improvement Programme

a) Customer Feedback

- 3.2.1 Internal Audit is committed to delivering a quality product to the highest professional standards that adds value to our customers and actively monitors performance in a number of areas and encourages feedback from customers.
- 3.2.2 A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the client's opinion on a range of issues with an assessment

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ranging from 5 (for excellent) to 1 (for poor). The results for the 35 questionnaires received – as shown in the table below - are based on the percentage of those assessments that are 3 (satisfactory) or above. The results are 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. The table below also shows the percentage scores of 4 or above (good and excellent) to further identify marginal areas for improvement.

Results from Customer Satisfaction Questionnaires 2013/14 and 2014/15

Question	Actual 2013/14	Actual 2013/14	Actual 2014/15	Actual 2014/15
	% Score 3 or above	% Score 4 or above	% Score 3 or above	% Score 4 or above
Notice	94	91	100	100
Scope	94	91	100	97
Understanding	100	94	97	91
Efficiency	100	91	100	94
Consultation	100	94	100	100
Professional/Objective	100	100	100	100
Accuracy of Draft	100	100	100	97
Opportunity to comment	100	97	100	100
Clarity & Conciseness	100	91	100	97
Final Report – Prompt	100	94	94	91
Recommendations	100	94	100	97
Added Value	100	94	100	97

3.2.3 Feedback from customer satisfaction questionnaires continues to be very positive. These results are again extremely encouraging, particularly as the nature and complexity of work undertaken by Internal Audit continues to change. The results for 2014/15 show improvements in a number of areas. It is particularly pleasing to note client's perception of the professionalism and objectivity of the Internal Audit team continues to be excellent – with all clients who responded scoring the auditor as good or very good in this area. Work remains on-going within Internal Audit to agree revised reporting protocols with Directorates with the aim of improving the timeliness of issue of final reports and meeting clients' expectations in this area.

3.2.4 Internal Audit has been part of the core cities benchmarking club for over ten years – consistently being a high performer across a whole range of key cost and quality measures. Examples include cost per audit day and percentage of productive time as well as customer questionnaires and perceptions of added value.

b) Conformance with Public Sector Internal Audit Standards (PSIAS)

3.2.5 The Internal Audit Service works to a Charter approved by the Audit Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. Internal Audit colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. It has adopted, and substantially complied with the principles contained within the PSIAS, and has fulfilled the requirements of the Account and Audit Regulations 2015.

3.2.6 In accordance with the requirements of PSIAS, chief audit executives are expected to report conformance on the PSIAS in their annual report. In addition, the results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

2014/15 Quality Assurance and Improvement Action Plan

3.2.7 The Committee were presented with a report during November 2013 which included a self-review against the PSIAS. The purpose of this was to inform members of the new standards, to provide an assurance on conformance with these, to seek approval for the Internal Audit Charter and to note the Internal Audit Quality Assurance and Improvement Programme as defined by the Standards. This concluded that, on the whole, Internal Audit complies with the standards, whilst recognising that a number of new requirements had been introduced (including the Internal Audit Charter and the Quality Assurance and Improvement Programme.)

3.2.8 The November 2013 report outlined two areas for which there was no associated action and for which Internal Audit were proposing to accept the residual risk. This was because after close analysis of the requirement and a review of current controls already in place relating to the requirement, the implementation of an action to meet the requirement would be unworkable and disproportionate. Existing controls in place are sufficient and operating well. The two areas of non-compliance are:

- The Chief Executive does not undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Internal Audit.
- Feedback is not sought from the Chair of the Corporate Governance and Audit Committee for the Head of Internal Audit's performance appraisal.

3.2.9 The two areas of non-conformance have been assessed as having a low residual risk and based on discussions with other Internal Audit teams, these two areas of non-conformance are replicated in numerous other local authorities throughout the

country. The Committee resolved to note the associated Quality Assurance and Improvement Action Plan which was included in the report.

3.2.10 The majority of actions within the 2014/15 Quality Assurance and Improvement Programme Action Plan have been implemented as shown in Appendix 1. The key action which remains outstanding is the external assessment process. A methodology for this will be developed during 2015/16. In addition, further work is due to be completed on the assurance mapping framework.

3.2.11 Prior to the external assessment, and in order to conform to PSIAS requirements, the Head of Audit will need to be able to demonstrate that:

- The pros and cons for the different types of external assessment ('full' or self-assessment plus 'independent validation');
- That the proposed form of the external assessment and the qualifications and independence of the assessor/assessment team has been discussed with CGAC (the board);
- Agreement of the scope of the external assessment with an appropriate sponsor, such as the chair of the CGAC, the Chief Financial Officer or the Chief Executive;
- That the assessor or assessment team has demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process and that the Head of Audit is satisfied there is sufficient competence; and,
- That the external assessor or assessment team has no real or perceived conflicts of interest with the organisation they are assessing.

2014/15 PSIAS Conformance Self – Assessment Review

3.2.12 The annual self-assessment exercise to assess conformance with the PSIAS was undertaken by Internal Audit during February 2015.

3.2.13 In order to assist in the self-assessment exercise, 2 separate checklists have been developed by the leading bodies:

- The Chartered Institute of Internal Auditors (CIIA) checklist. This requires the assessor to verify if there is evidence of 'General Conformity' (GC), 'Partial Conformity' (PC) or 'Does Not Conform' (DNC) against PSIAS. The assessment is against the definition of internal auditing, code of ethics and 46 specific standard requirements; and,
- The Chartered Institute of Public Finance and Accountancy (CIPFA) checklist, which requires the assessor to establish whether there is full, partial or no compliance against 344 separate requirements linked to PSIAS. This checklist is therefore more prescriptive than the CIIA checklist.

- 3.2.14 For the 2015 self-assessment, the CIPFA checklist has been used on the basis that it is more comprehensive and for consistency purposes as it had been used for the previous self-assessment in November 2013.
- 3.2.15 The self-assessment against the CIPFA checklist has demonstrated that the Internal Audit function for Leeds City Council significantly conforms to the PSIAS requirements.
- 3.2.16 All areas of non-conformance or partial conformance have been assessed and either accepted for action or deemed as having a low residual risk after the application of existing controls and therefore the risk of non-conformance has been accepted. The areas of non-conformance are those included at 3.2.8.
- 3.2.17 The improvement action plan for 2015/16 is shown at Appendix 1. This includes a number of improvements highlighted from on-going quality assessments as part of the Quality Assurance and Improvement Programme during the year.

c) Resourcing

- 3.2.18 During 2014/15, there were a number of staff changes. As a result, there were on average 31 members of audit staff in post (27 full time equivalent [FTE]) and available for audit work during the year.
- 3.2.19 At the end of the financial year, the number of FTE Internal Audit staff was 25.
- 3.2.20 Resources were sufficient during the year to provide the annual internal audit opinion for 2014/15.

d) Training and Continuing Professional Development

- 3.2.21 In a rapidly changing environment it is important that all Internal Auditors are kept abreast of the latest audit and accounting methodologies, changes in legislation and best practice as well as changes to the public sector arena so they have the necessary skills and knowledge to perform their role to a high standard. This is done via Continuing Professional Development (CPD), which the Section continues to support and promote via in-house training courses and external CPD events such as CIPFA seminars. Much of this CPD is done in officers own time showing a personal commitment to continual improvement of the Team.
- 3.2.22 The Public Sector Internal Audit Standards (Standard 1230) require that: *'Internal Auditors must enhance their knowledge, skills and other competencies through continuing professional development.'* At Leeds, evidence of professional training and development activities must be retained and individual/group training needs identified.
- 3.2.23 Internal Audit has continued to provide support for other corporate priorities which over the last year has seen a staff secondment to an external partner organisation,

one member of staff assisting with closedown within Financial Services and another member of staff assisting on projects within Civic Enterprise Leeds. In addition, the Section has continued to provide a representative to support the Strategy and Resources Staff engagement group. As well as supporting corporate priorities, this has also assisted individual members of staff with their own personal and professional development.

e) Experience and Qualifications

3.2.24 The following information about qualifications and experience of staff available for audit work demonstrates the experience and qualification mix:

Experience 2014/15

Years of Experience – local government auditing	Number of staff	%
Up to 1 year	0	0%
1 – 5 years	10	32%
5 – 10 years	5	16%
Over 10 years	16	52%
Total Number of Staff	31	100%

Qualifications

Qualification	Number of staff	%
CIPFA	11	36%
Other CCAB – ACCA, ICAEW	5	16%
IIA	6	19%
AAT	4	13%
CIPFA Trainees	3	10%
IIA Trainees	1	3%
AAT Trainees	1	3%
Total Number of Staff	31	100%

3.2.25 The skill level available remains high based on the substantial number of staff with over 10 years’ experience.

3.2.26 All members of the Internal Audit team are either qualified or studying towards a recognised qualification. In addition, one of the CIPFA qualified Audit Managers is studying towards the ISACA Certified Information System Auditor (CISA) qualification which should allow the Section to further develop its in-house ICT auditing skills.

f) Quality Standard Accreditation

3.2.27 All Internal Audit work is undertaken in accordance with internal quality procedures incorporated in its quality management system, which has now been ISO accredited for over fifteen years, having first been awarded in 1998. During January 2015, an

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independent review was undertaken of Internal Audit's quality system to ensure compliance with the ISO 9001:2008 standard. The review team conducted a process-based audit, focusing on significant aspects/ risks/ objectives required by the standard and concluded that:

"..... the organisation has established and maintained its management system in line with the requirements of the standard and demonstrated the ability of the system to systematically achieve agreed requirements for products and services within the scope and the organisations' policy and objectives."

3.2.28 The next review visit is due in July 2015.

Appendix 1 – Improvement Action Plans

Internal Audit Improvement Action Plan for 2014/15				
	Action	Original Timescale	Status	Comments
1	Internal Audit Charter to be presented to Corporate Governance and Audit Committee (CG&AC) for approval. <i>(New requirement)</i>	8 th November 2013 meeting	Implemented	The Committee resolved to approve the Internal Audit charter at the meeting on 8 th November 2013. The Charter will be reviewed and updated where necessary on an annual basis and reported to CG&AC.) The updated Internal Audit Charter (2015) is due to be presented to CG&AC at the July 2015 meeting.
2	External assessment mechanism for review of Internal Audit against PSIAS requirements to be put in place. This will include: <ul style="list-style-type: none"> - Analysis of different mechanisms of assessment and preferred option identified; - Scope of work re assessment to be defined and agreed between parties; - Ensure assessor appropriately qualified and competent; - Identification of any conflicts of interest. The outcome of the above, including the preferred option and assessor will be reported to CG&AC and approval sought. <i>(New requirement)</i>	By 2017/18 at the latest	Outstanding	This needs to be done at least every 5 years. First external assessment to be undertaken by 2018 at the latest.
3	Quality Assurance and Improvement Programme (QAIP) to be developed. <i>(New requirement)</i>	September 2013	Implemented	QAIP developed and is now operational. This will be updated regularly (at least on an annual basis.) The updated QAIP (2015) is due to be presented to CG&AC at the July 2015 meeting.
4	The annual reporting process will now include the following in the annual report: <ul style="list-style-type: none"> a) Annual review of Internal Audit Charter; b) Confirmation that the Internal Audit function is organisationally independent; c) Results of QAIP, associated improvement plans and 	2013/14 Annual Report and annually thereafter	Implemented	These areas were included in the Annual Reports for 2013/14 and 2014/15. There were no significant deviations from the PSIAS to consider for inclusion in the governance statement. The updated Internal Audit Charter and QAIP will be presented to CG&AC at the July 2015 meeting.

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Internal Audit Improvement Action Plan for 2014/15				
	Action	Original Timescale	Status	Comments
	<p>progress against improvement plans;</p> <p>d) Statement that Internal Audit activity conforms with the PSIAS, provided results of support this;</p> <p>e) Any instances of non-conformance with the PSIAS;</p> <p>f) Consideration to including any significant deviations from the PSIAS within the governance statement.</p> <p>The annual report will continue to be presented to the CG&AC for approval.</p> <p><i>(New requirement)</i></p>			
5	<p>The audit plan 2014/15 will set out how it incorporates local and national issues and risks.</p> <p><i>(This requirement has been enhanced from previous standards.)</i></p>	2014/15 Annual Audit Plan process	Implemented	The reports to CG&AC for the Audit Plans 2014/15 and 2015/16 set out how risks have been taken into consideration. A documented methodology for compiling the Audit Plan was prepared to support the 2015/16 Plan.
6	<p>Assurance mapping will continue to be developed and evolve during the 2014/15 annual planning process.</p> <p><i>(This requirement has been enhanced from previous standards.)</i></p>	2014/15 Annual Audit Plan	Partly implemented	Partly implemented - Assurance mapping continues to evolve and a documented framework for assurance mapping will be formalised during 2015/16 and used for the 2016/17 planning process. This will also include consideration of directorate assurance arrangements.
7	<p>The following audits will be added to the audit universe:</p> <ul style="list-style-type: none"> - LCCs ethics related objectives, programmes and activities. <p>The following audits will be prioritised for the 2014/15 annual audit plan:</p> <ul style="list-style-type: none"> - Risk Management processes; - Achievement of LCC strategic objectives; - LCCs ethics related objectives, programmes and activities. <p><i>(This requirement has been enhanced from previous standards.)</i></p>	2014/15 Annual Audit Plan process	Implemented	The audits of Risk Management processes; achievement of LCC strategic objectives; and LCC ethics related objectives, programmes and activities (central controls) were added to the Audit Plan for 2014/15. Audits of these areas within Directorates have been included in the 2015/16 Audit Plan.

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Internal Audit Improvement Action Plan for 2015/16				
	Action	Timescale	Status	Comments
1	Performance information to be included in the regular update reports to CG&AC will be discussed and agreed with members of the Committee. This will be included in the reports on an on-going basis.	9 th July 2015 On-going		
2	Review and update the Section's quality procedures and ensure these are fit for purpose and effective.	31 st July 2015		
3	Investigate options for integrated Audit Management Software (timesheets and working papers) including business case and implement new automated working practices/documentation.	By 31 st March 2016		
4	Review and update audit reporting protocols with Directorates.	31 st July 2015		
5	Review and update the Internal Audit Technical Manual to ensure this reflects current working practices and meets the requirements of PSIAS.	31 st July 2015		
6	Ensure the recommendations made in the Information Governance review of Audit and Investment have been fully implemented.	30 th September 2015		