**Internal Audit
Update Report
1<sup>st</sup> August to
31<sup>st</sup> December 2015**

# *CONTENTS*

*Section 1*

# *INTRODUCTION*

## 1.1 *Background*

1.1.1   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.

1.1.2   This update report provides stakeholders, including the Corporate Governance and Audit Committee, with a summary of internal audit activity for the period 1<sup>st</sup> August to 31<sup>st</sup> December 2015.

## 1.2 *Progress against the Operational Plan – High Level*

1.2.1   The following table shows the progress against the operational plan for the period 1<sup>st</sup> August to 31<sup>st</sup> December 2015.

1.2.2   As reported previously, the projected level of overall resources for the year are less than when the annual audit plan was presented to the Corporate Governance and Audit Committee in March 2015. The shortfall in audit days for the financial year against the original projection is approximately 523 days due to a number of staff leaving the internal audit section. This has resulted in a corresponding saving on the internal audit expenditure budget that is being factored in to the regular monthly reporting to Executive Board on the overall financial position of the authority.

1.2.3   As a result, a number of audit assignments of relatively lower risk have been reserved from the audit plan and will be considered for inclusion in the 2016/2017 audit plan. These assignments are predominantly in areas where there has already been some internal audit coverage during the year.

1.2.4   Internal audit is continuing 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 annual opinion on the authority's control environment. The internal audit work plan for the final quarter of the year has a greater focus in the areas of Key Financial Systems, ICT and Procurement. This will bring the percentage completion figure to an acceptable level across all assurance blocks at the end of the year.

| Assurance Block | Total Days per Audit Plan 2015/16 | Days spent at 31st December 2015 | % completion at December 2015 |
|---|---|---|---|
| Spending Money Wisely | 400 | 327 | 82% |
| Anti-Fraud and Corruption | 694 | 425 | 61% |
| Key Financial Systems | 718 | 335 | 47% |
| Grants and Other Head of Audit Assurances | 108 | 68 | 63% |
| Compliance | 460 | 273 | 59% |
| Procurement | 315 | 143 | 45% |
| Risk Based Audits | 490 | 350 | 72% |
| ICT | 245 | 65 | 26% |
| Housing Leeds | 250 | 169 | 68% |
| **Total Financial Resource Risks** | **3680** | **2155** | **59%** |
| **Contingency** | | | |
| General Contingency | 300 | 228 | 76% |
| **Total Contingency** | **300** | **228** | 76% |
| **Total Audit Days** | **3980** | **2384** | **60%** |

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

| Assurance Block | Total Days per Audit Plan 2015/16 | Days spent at 31st December 2015 | % completion at December 2015 |
|---|---|---|---|
| External Contracts | 237 | 126 | 53% |
| Secondments | 135 | 212 | 157% |
| **Total Days** | **372** | **338** | **91%** |

## 1.3   *How Internal Control is reviewed*

1.3.1   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.

1.3.2   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.

1.3.3   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.

1.3.4 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. |

1.3.5 Organisational impact will be reported as either major, moderate or minor. All reports with a major organisational impact will be reported to CLT 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    *Progress against the Operational Plan – Individual Reviews*

1.4.1    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 August and 31<sup>st</sup> December 2015:

| Report Title | Audit Opinion | | | Directorate | Date Issued |
|---|---|---|---|---|---|
| | Control Environment Assurance | Compliance Assurance | Organisational Impact | | |
| **Key Financial Systems** | | | | | |
| Payroll Year End Reconciliation | Substantial | | N/A | Civic Enterprise Leeds | 15/09/2015 |
| Bank Reconciliation and Cash Book | Substantial | Substantial | Minor | Strategy and Resources | 15/09/2015 |
| Housing Rents | Substantial | N/A | Minor | Environment and Housing | 23/11/2015 |
| **Risk Based Reviews** | | | | | |
| <u>ICT</u> | | | | | |
| Information Governance: Contracts and Commissioning Follow Up Review | Acceptable | N/A | Moderate | Strategy and Resources | 01/09/2015 |
| <u>Procurement</u> | | | | | |
| Category Plan Development | Acceptable | N/A | Minor | Strategy and Resources | 14/10/2015 |
| Changing the Workplace Contract Review | Good | Substantial | Minor | Strategy and Resources | 22/10/2015 |
| West Yorkshire Supply of Coated Materials, Ready Mixed Concrete and Aggregates Contract Review | Good | Acceptable | Minor | City Development | 23/10/2015 |
| <u>Other</u> | | | | | |
| Temporary Accommodation and Homelessness Follow Up Review | Good | Good | Minor | Environment and Housing | 15/09/2015 |
| Directorate Risk and Performance Management | Substantial | N/A | Minor | City Development | 15/09/2015 |
| New Homes Bonus | Good | N/A | Minor | City Development | 06/10/2015 |
| Section 278 | Good | N/A | Minor | City Development | 06/10/2015 |
| Corporate Health and Safety | Good | Good | Minor | Strategy and Resources | 06/10/2015 |
| Early Leavers Initiative | Acceptable | Acceptable | Minor | Cross Cutting | 28/10/2015 |
| Bequests and Trusts | Good | N/A | Minor | Strategy and Resources | 19/11/2015 |
| **Spending Money Wisely** | | | | | |
| Published Payments and Redactions Follow Up Review | Good | N/A | Minor | Strategy and Resources | 29/09/2015 |
| **Compliance Reviews** | | | | | |

| Report Title | Audit Opinion | | | Directorate | Date Issued |
|---|---|---|---|---|---|
| | Control Environment Assurance | Compliance Assurance | Organisational Impact | | |
| Other Hired and Contracted Services Follow Up Review | N/A | Acceptable | N/A | Environment and Housing | 17/08/2015 |
| Travel and Subsistence | N/A | Acceptable | Minor | Civic Enterprise Leeds | 17/08/2015 |
| Moortown Primary School | Substantial | Substantial | Minor | Children's Services | 06/10/2015 |
| Learning Disability Community Support Service – Clients' Monies | Good | Joseph Court – Good; Iveson Rise - Acceptable | Moderate | Adult Social Care | 16/12/2015 |
| **Housing Leeds Assurance Framework** | | | | | |
| Quality Management Systems | Acceptable | Acceptable | Moderate | Environment and Housing | 01/09/2015 |
| Housing Leeds Contractor Data Integrity Follow Up Review | Good | Good | Minor | Environment and Housing | 15/09/2015 |
| Major Adaptations | Good | Good | Minor | Environment and Housing | 26/10/2015 |
| Disrepair Service | Acceptable | Good | Minor | Environment and Housing | 25/11/2015 |
| **External Reviews** | | | | | |
| Leeds Grand Theatre and Opera House Ltd Budgetary Control | Good | N/A | N/A | External | 30/11/2015 |
| Leeds Grand Theatre and Opera House Ltd Creditors | Acceptable | Acceptable | N/A | External | 30/11/2015 |
| Leeds Grand Theatre and Opera House Ltd Contracts with Visiting Companies | Acceptable | N/A | N/A | External | 30/11/2015 |
| Leeds Grand Theatre and Opera House Ltd Payroll | Good | Good | N/A | External | 30/11/2015 |

| Report Title | Results/Opinion | Directorate | Date Issued |
|---|---|---|---|
| **Grants and other Head of Audit Assurances** | | | |
| Additional DfT Highways Capital Grant Awards: Highways Maintenance, Local Pinch Point Fund – Thornbury Roundabout and Rodley Roundabout | To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the three additional DfT Highways Capital Grant Funding Allocations in 2014/15 have been complied with | City Development/ Strategy and Resources | 01/09/2015 |
| Local Authority Bus Subsidy Ring Fenced (Revenue) Grant | To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to Local Authority Bus Subsidy Ring Fenced (Revenue) Grant Determination 2014/15 have been complied | Civic Enterprise Leeds | 15/09/2015 |

| Report Title | Results/Opinion | Directorate | Date Issued |
|---|---|---|---|
| | with. | | |
| Troubled Families Grant Claim – September 2015 | The audit confirmed that information from reliable sources was held to support that the 'significant and sustained' and 'continuous employment' results had been achieved and that the families claimed for were eligible to be on the programme. Audit testing provides assurance that the results detailed on the grant claim will satisfy the DCLG requirements of reasonableness. | Children's Services | 29/09/2015 |
| Additional DfT Highways Capital Grant Awards: Pothole Fund | To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the one additional DfT Highways Capital Grant Funding Allocations in 2014/15 have been complied with. | City Development/ Strategy and Resources | 06/10/2015 |
| Corpus Christi School Voluntary Fund | Certification of Account Balances | Children's Services | 03/11/2015 |
| Whitecote Primary School Voluntary Fund | Certification of Account Balances | Children's Services | 19/11/2015 |
| Boston Spa School Voluntary Fund | Certification of Account Balances | Children's Services | 15/12/2015 |
| Temple Moor High School Science College Voluntary Fund | Certification of Account Balances | Children's Services | 15/12/2015 |

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.*

# 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 each year so are currently in progress.  These reviews are progressing well and there are no significant emerging issues to date. Two of these reviews have been completed and reported already as shown in the table at 1.4 above. These are: Bank Reconciliation and Cash Book; and Housing Rents. The level of assurance provided for these key financial systems reviews was substantial. Results from the remaining reviews in this assurance block will be reported in subsequent internal audit update reports to the Corporate Governance and Audit Committee.

## 2.2    Spending Money Wisely

### Spending Money Wisely Challenge

2.2.1    Spending money wisely is one of the council's five values and is about using the council's limited resources in the right way. The council's Contract Procedure Rules (CPRs) support staff in demonstrating that they have given due consideration to this value as CPRs set out the key responsibilities and actions that must be followed when undertaking procurements. The Spending Money Wisely Challenge reviews assess how well staff are complying with the requirements of CPRs and tests whether value for money can be evidenced for payments that are not linked to a contract.

2.2.2    It is important to note that the majority of the council's expenditure is made on-contract with assurance taken that the primary considerations of achieving value for money have been addressed during the procurement of the contract. The Spending Money Wisely Challenge reviews specifically target a restricted population of payments that are not linked to a contract.

2.2.3    The results of the previous Spending Money Wisely Challenge reviews have resulted in limited assurance opinions due to the low levels of compliance with CPRs. The committee requested further detail on the areas of non-compliance with

the council's CPRs and this was provided at the last meeting, along with details of the further work that internal audit will undertake in this area.

2.2.4   The Spending Money Wisely Challenge testing was undertaken on a sample of transactions for other hired and contracted services within Environment and Housing (this covers a variety of hire and other external services procured by the council that cannot be provided in-house.) The original review provided a low compliance opinion as there was a high proportion of instances where there was no evidence of competition in line with CPRs. The follow up review found that there was an improvement in the level of compliance with CPRs and provided an updated opinion of acceptable assurance in this area. However, the emerging findings from the latest Spending Money Wisely Challenge indicates that improvements have yet to be made across  the council's other categories of expenditure that are not linked to a contract.

2.2.5   The latest Spending Money Wisely Challenge includes a sample of payments made by four directorates and is currently in the process of being finalised. The emerging findings are that compliance levels have not improved, with similar issues being identified to those previously reported. Internal Audit is currently progressing the issues identified with the relevant Chief Officers and an update on this matter will be reported to the committee at a future meeting.

2.2.6   Scrutiny Board (Strategy and Resources) has included non-contract spend on their work schedule for 2015/16. To support this work, we were asked to provide a verbal update at the Board's meeting on 20ᵗʰ July 2015 on relevant audit findings, including issues identified as part of the 2014/15 Spending Money Wisely Challenge work. In addition to this we also provided an update on findings from the 2014/15 Contract Extensions audit.

2.2.7   In order to raise awareness of the most recent Spending Money Wisely Challenge findings discussed above, we have attended a further meeting of Scrutiny Board on 21st December 2015 to present a report of our findings, in addition to the findings of our recent audit of Contract Extensions. The Board noted the findings of the report and the ongoing work of internal audit to improve how the authority demonstrates that value for money is achieved for payments that are not linked to a contract. Members were keen to continue to support this work in future as necessary.

## 2.3   *Information Governance and ICT*

Information Governance – Contracts and Commissioning Follow Up Review

2.3.1   At the Corporate Governance and Audit Committee meeting on the 18ᵗʰ September 2015, an update was provided on the emerging findings of this follow

up review of information governance in contracts and commissioning. Members were advised that the outcome of the review would be reported to this meeting.

2.3.2   The original audit resulted in a limited assurance opinion for the control environment as the controls in place were not sufficient to ensure that all appropriate information governance and data protection requirements were included and managed within contracts. The follow up review has now been finalised and an assurance opinion of acceptable has been provided. Each of the recommendations made in the previous review have either been implemented or are in the process of being implemented. The improved assurance opinion reflects the progress made in the refreshing of relevant guidance and the steps taken to develop training on the information governance aspects of contracts to ensure that contract managers and officers have the tools and knowledge to understand and manage the risks in this area.

## 2.4   *Compliance Reviews*

Area office cash handling arrangements

2.4.1   At the previous meeting of the Committee, we reported the results of the review of area office cash handling arrangements where the council acts as appointee for managing service users finances following an unannounced visit to an area office. This highlighted that improvements were required to procedures including spot checks of cash withdrawals to ensure monies are fully accounted for and formalising guidance on the retention and storage of all accounting records including receipts. Further enquiries were also being made by the directorate into a small number of transactions for which there were no receipts (5 transactions with a value of £439.) Members were advised that internal audit would carry out a follow up review later in the year to ensure the recommendations have been implemented and to provide assurance that the internal checks undertaken by directorate staff have been robust.

2.4.2   The follow up review is currently in progress. The emerging findings are that there has been significant improvement in the evidencing of cash transfers between Leeds City Council staff and service users or their carer. The service has investigated the transactions for which there were no receipts and concluded that this was due to weaknesses in record keeping. A number of receipts were subsequently provided to support the cash withdrawals. Staff have been reminded of the importance of ensuring transactions are fully supported by appropriate documentation and that policies and procedures are followed. The team manager has received guidance and training on undertaking sample checks on transactions to improve existing controls in this area.

2.4.3   Adult Social Care has also undertaken a review of the cash handling process across all area offices and we will be undertaking an audit of this process in the

New Year. Over the longer term, Adult Social Care has set up a working group to review the process of transferring cash to service users for whom we are either a deputy or appointee.

## 2.5 *Risk Based Audits*

Early Leavers Initiative

2.5.1 The purpose of the Early Leavers Initiative (ELI) is to significantly reduce the council's workforce through employees volunteering to leave early to avoid making compulsory redundancies. Employees are able to leave on Voluntary Severance (the employee receives a lump sum payment), or Voluntary Early Retirement if they are of qualifying age, (the employee receives their pension as well as a lump sum payment).

2.5.2 Members expressed an interest in the Early Leavers Initiative at a previous committee meeting and it was noted that an audit of this area was due to be undertaken. The audit has now been finalised and an assurance opinion of acceptable has been provided for both the control environment and for compliance with controls.

2.5.3 Sample audit testing confirmed that business cases had been created for each employee and these had been appropriately approved both locally and through the Corporate Panel. This provides good assurance that due consideration has been given to:

- the affordability of the decision and the associated cost and savings;

- the requirement to reduce employee numbers in the service area;

- the ability to maintain the required level of service delivery; and

- the need to maintain qualifications, skills and experience.

2.5.4 The sample testing identified an error that resulted in an overpayment being made to a former employee. This overpayment was recovered during the course of the audit and was explained as being a 'keying error'. Further data analytics work was undertaken to gain assurance over the accuracy of all 562 ELI payments made during 2014/15. This confirmed that a total of 15 inaccurate payments had been made. The errors were either due to the severance payment not being recalculated immediately prior to the employee leaving or because the pay awards had not being applied prior to the severance calculation being made, resulting in a net overpayment of £10,733. The actions agreed in respect of these 15 payments were addressed during the audit. Controls were

improved during the course of the audit to prevent, detect and correct errors prior to payments being made moving forward.

2.5.5   The audit identified some opportunities to improve reporting arrangements to identify whether anticipated savings are realised in practice.

2.5.6   Data analytics work confirmed that all 562 employees who received a severance payment in 2014/15 had been removed from the payroll system.

Temporary Accommodation and Homelessness Follow Up Review

2.5.7   The previous review of temporary accommodation and homelessness provided limited assurance for compliance with the control environment as weaknesses were identified in the retention of documentation and ensuring consideration of value for money in the procurement of bed and breakfast accommodation. Missing documentation causes an increased risk that there is a lack of evidence to support that the appropriate processes and checks have been undertaken in accordance with procedures and statute. Insufficient information governance arrangements increase the risk of a breach of data protection resulting in potential fines or reputational damage.

2.5.8   The follow up review confirmed that improvements have been made in the controls over retention and management of documentation in line with the council's information governance policies and procedures. Leeds Housing Options (LHO) has introduced an access database to monitor the progress of cases.

2.5.9   The service is no longer placing customers in bed and breakfast accommodation. Testing of a sample of 20 cases confirmed that all of the placements were with suppliers who have contracts with the council for the provision of temporary accommodation. The testing also confirmed that there had been no payments by the service to the two previous bed and breakfast providers since April 2014. As a result of the progress made since the previous review, we can now provide good assurance for the control environment and also for compliance with the controls in place.

## 2.6   *Housing Leeds Assurance Framework*

Housing Leeds Contractor Data Integrity Follow Up

2.6.1   A follow up 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 that undertakes responsive repair and void works on properties.  The scope of the original audit was to obtain assurance that asset data was accurate and up to date for voids

works and gas servicing and there were robust systems in place to record the results of customer satisfaction surveys for responsive repairs. Limited assurance was provided on the control environment and a follow up review has now been finalised to establish the progress made in implementing the audit recommendations.

2.6.2   As a result of the progress made since the previous review, we can now provide good assurance for the control environment and also for compliance with the controls in place.

2.6.3   The previous review identified issues with the integrity of the dates recorded in the trackers used by both the contractor and the former AVHL to monitor and report progress in relation to void properties. It is important that the data is accurate as this feeds into the void turnaround performance indicator information which is a key driver in ensuring that a property is re-let as early as possible. The follow up review confirmed that quality checks on the data have now been introduced and audit testing provided good assurance over the accuracy of this data within the systems.

2.6.4   The previous audit could not provide assurance that the properties from the council's information management system had been accurately uploaded into the contractor's system. Discrepancies between the two systems could increase the risk that not all properties are captured in the gas servicing cycle. This issue has now been addressed as a full reconciliation between the two systems was undertaken as at 1st April 2015 and these will be undertaken on a quarterly basis going forward.

2.6.5   Improvements were also evident in the actioning of the error reports that are produced when uploads between the contractor's and council's information management systems fail.

## 2.7   *Other Work*

2.7.1   Following a request from Adult Social Care (ASC), we have provided four training sessions on Financial Regulations to ASC staff with commissioning responsibilities.  The aim of these sessions was to increase awareness of the importance of Financial Regulations, the risks that they intend to manage, what happens when they are not complied with and what staff should do if they have any concerns.

## 2.8   *Counter Fraud and Corruption*

<u>Reports Issued</u>

2.8.1   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 two such investigation reports during this period.

2.8.2   Previously, members have requested that they are informed of the departments where fraud has been discovered. Whilst there are a number of referrals that are in the process of being investigated, there are currently no new cases of confirmed fraud to be brought to the attention of this Committee.

<u>Right to Buy Fraud</u>

2.8.3   At the Corporate Governance and Audit Committee meeting on the 18th September 2015 members noted that Right to Buy fraud is a national area of concern.

2.8.4   Right to Buy (RTB) fraud could include:

- misrepresenting the length of the tenancy to gain a greater discount;
- concealing a tenancy history (for example not disclosing previous rent arrears, possession orders, transfers or evictions);
- attempting to purchase a property whilst not using it as the sole or principal home; and
- misrepresenting the household composition (for example submitting a joint RTB application with someone who does not reside at the property, or has not done so for the required period).

2.8.5   Housing Leeds has a dedicated Tenancy Fraud team to whom any tenancy fraud related cases are referred, including Right to Buy cases.  Their role is to investigate these cases and take action as appropriate. To assist in this the Home Ownership Team will refer suspicious Right to Buy applications to the Housing Fraud Officers, who will undertake checks to identify cases of non-occupation or subletting by the tenants making the application. In 2014/15 there were no reported cases of Right to Buy Fraud.

2.8.6   We will continue to review the need for any additional audit coverage in this area as part of our ongoing proactive fraud work programme.

Fraud Awareness

2.8.7   As part of our proactive fraud work programme we have been raising awareness of fraud risks across the council through news items on InSite, the weekly Essentials e-mail which is sent to all staff with access to e-mail, and targeted communications to particular groups to raise awareness of specific risks.

2.8.8   Our work has included communications issued as part of International Fraud Awareness week, which took place during November 2015. In line with good practice, we reminded staff of the council's fraud policies and the ways in which they can report concerns about possible fraud and corruption.

2.8.9   Further communications were also made to ask staff to be vigilant following a potential fraud risk that had been reported to us. We reinforced the importance of following council procedures that would prevent the risk from materialising, and requested that staff notify us if they identified any concerns in this area, so that we could ensure the appropriate action was taken to address this.

2.8.10  As part of our proactive fraud strategy we will be identifying other areas where we could raise awareness of fraud and corruption, in order to ensure that services have considered their fraud risks and are able to manage these appropriately.

## 2.9   *Plan for 2016/17*

2.9.1   Initial work has commenced on the Annual Audit Plan for 2016/17. The Head of Audit must provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. To support this, internal audit must develop and deliver a risk based plan which takes into account the organisation's risk management framework and includes an appropriate and comprehensive range of work, sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by the Corporate Governance and Audit Committee.

2.9.2   To develop this plan, there must be a sound understanding of the risks facing the council.  The Corporate Risk Register will be used as a key source of information and the planning process for 2016/17 will again necessitate a thorough evaluation of the appropriate level and scope of coverage required to give stakeholders, including the Corporate Governance and Audit Committee, an appropriate level of assurance on the control environment of the council.

2.9.3   The detailed proposals for the Audit Plan for 2016/17 will be presented to the March 2016 Corporate Governance and Audit Committee.

*Section 3*

---

# AUDIT PERFORMANCE 2015/16
# At 31<sup>st</sup> December 2015

---

## 3.1   PUBLIC SECTOR INTERNAL AUDIT STANDARDS

3.1.1   Internal Audit continues to monitor compliance with the Public Sector Internal Audit Standards (PSIAS) on an on-going basis.  The results of the most recent self-assessment exercise to confirm conformance with the PSIAS were reported to Corporate Governance and Audit Committee in the annual internal audit report for 2014/15 on the 9<sup>th</sup> July 2015.

## 3.2   QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

**Improvement Action Plans**

3.2.1   The Quality Assurance and Improvement Actions Plans for 2014/15 and 2015/16 were reported to Corporate Governance and Audit Committee in the annual internal audit report for 2014/15 at the meeting on 9<sup>th</sup> July 2015. There were a number of actions which had been implemented in the 2015/16 Action Plan. The actions which are still in progress are as follows:

| Improvement Action Plan for 2015/16 | | | |
|---|---|---|---|
| | **Action** | **Timescale** | **Status** |
| 1 | Investigate options for integrated Audit Management Software (timesheets and working papers) including business case and implement new automated working practices/documentation. | By 31<sup>st</sup> March 2016 | In progress. A test version of the software has been made available and User Acceptance Testing on this is currently being carried out. Once this is complete the software will be moved across to the Council servers and further User Acceptance Testing will be undertaken.  The new version of the software will then be rolled out to staff. |
| 2 | Ensure the recommendations made in the Information | 30<sup>th</sup> September 2015 – high priority | In progress. High priority |

| Improvement Action Plan for 2015/16 | | | |
|---|---|---|---|
| | **Action** | **Timescale** | **Status** |
| | Governance review of Audit and Investment have been fully implemented. The review covered information risk management, collecting, creating and storing information, sharing and disposing of information and using systems securely. | recommendations; 31<sup>st</sup> March 2016 (revised timescale) – low and medium priority recommendations. | recommendations - implemented. Low and Medium priority recommendations - currently in progress (Mainly regarding electronic record retention). |

3.2.2 The only action which remains outstanding from the 2014/15 Improvement Action Plan is the external assessment process for conformance with the Public Sector Internal Audit Standards which needs to be completed by 2017/18 at the latest. This is planned to be undertaken during Summer 2016 in conjunction with the Core Cities Chief Auditors Group. A meeting of the Group is scheduled to be held in January 2016 to discuss and agree the framework for completion of the external assessments.

## *3.3 ENSURING QUALITY*

3.3.1 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.

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

3.3.3 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.

3.3.4 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.

3.3.5 As at 31<sup>st</sup> December 2015, 32 completed Customer Satisfaction Questionnaires had been received in relation to audit reports issued since 1<sup>st</sup> April 2015.

### Results from Customer Satisfaction Questionnaires

| Question | 2015/16 Actual to date At 31st December - % Score 3 or above | 2015/16 Average Score At 31st December 2015 |
|---|---|---|
| Notice | 100% | 4.77 |
| Scope | 97% | 4.50 |
| Understanding | 100% | 4.44 |
| Efficiency | 97% | 4.69 |
| Consultation | 100% | 4.56 |
| Professional/Objective | 100% | 4.72 |
| Accuracy of Draft | 100% | 4.52 |
| Opportunity to comment | 100% | 4.77 |
| Final Report - Clarity & Conciseness | 100% | 4.52 |
| Final Report – Prompt | 90% | 4.23 |
| Recommendations | 100% | 4.19 |
| Added Value | 100% | 4.33 |
| Overall Average Score | | 4.52 |

3.3.6   The results from the Customer Satisfaction Questionnaires are again encouraging given the increasing complexity of some of the audit assignments included within the audit plan.

3.3.7   These results show an improvement in the areas of level of consultation on the scope and objectives of the audit and the efficiency of the audit (increased from 95% to 97% scoring 3 or above.)  It is also very encouraging to see that the timeliness of final reports has again improved since the previous update report from 85% to 90% scoring 3 or above. We introduced the use of Sharepoint for submission of customer satisfaction questionnaires at the end of September 2015. This has improved the response rate with 32 questionnaires received in the period April to December 2015 compared with 35 received for the full year 2014/15.