



**Internal Audit
Update Report
1st January to
29th February 2016**

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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 1st January to 29th February 2016.

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 1st January to 29th February 2016.
- 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 projected shortfall in audit days for the financial year against the original projection is approximately 600 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. A number of audit assignments of relatively lower risk have been removed and have been considered in the planning process 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. We have also achieved efficiency savings in areas such as the Key Financial Systems assurance block which will result in fewer days being required to deliver the agreed coverage.
- 1.2.3 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. As reported previously, 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 in line with expectations across all assurance blocks at the end of the year.

| Assurance Block | Total Days per Audit Plan 2015/16 | Days spent at 29th February 2016 | % completion at February 2016 |
|---|--|--|--------------------------------------|
| Spending Money Wisely | 400 | 364 | 91% |
| Anti-Fraud and Corruption | 694 | 497 | 72% |
| Key Financial Systems | 718 | 465 | 65% |
| Grants and Other Head of Audit Assurances | 108 | 89 | 82% |
| Compliance | 460 | 311 | 68% |
| Procurement | 315 | 194 | 62% |
| Risk Based Audits | 490 | 353 | 72% |
| ICT | 245 | 152 | 62% |
| Housing Leeds | 250 | 210 | 84% |
| Total Financial Resource Risks | 3680 | 2635 | 72% |
| <u>Contingency</u> | | | |
| General Contingency | 300 | 238 | 79% |
| Total Contingency | 300 | 238 | 79% |
| Total Audit Days | 3980 | 2873 | 72% |

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

| Assurance Block | Total Days per Audit Plan 2015/16 | Days spent at 29th February 2016 | % completion at February 2016 |
|------------------------|--|--|--------------------------------------|
| External Contracts | 237 | 165 | 70% |
| Secondments | 135 | 290 | 215% |
| Total Days | 372 | 455 | 122% |

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 The third element is assessing the corporate impact of the findings of the first two elements. This then determines whether any further substantive work is required and the level of escalation needed.

- 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 January and 29th February 2016:

| Report Title | Audit Opinion | | | Directorate | Date Issued |
|---|-------------------------------|------------------------------|-----------------------|--------------------------------------|-------------|
| | Control Environment Assurance | Compliance Assurance | Organisational Impact | | |
| Key Financial Systems | | | | | |
| Council Tax | Substantial | N/A | Minor | Citizens and Communities | 13/01/2016 |
| Business Rates | Substantial | N/A | Minor | Citizens and Communities | 21/01/2016 |
| Sundry Income – Bereavement Services | Good | Good | Minor | Environment and Housing | 29/01/2016 |
| Payroll and HR Administration | Substantial | Good | Minor | Civic Enterprise Leeds | 08/02/2016 |
| Risk Based Reviews | | | | | |
| ICT | | | | | |
| XN System Follow Up Review | Good | N/A | Minor | City Development | 26/01/2016 |
| Procurement | | | | | |
| Public Health Contract Review | N/A | Substantial | Minor | Public Health | 05/01/2016 |
| Contract Extensions | Good | Acceptable | Minor | Strategy and Resources/Cross Cutting | 02/02/2016 |
| Other | | | | | |
| Bank Accounts – Electoral Services Accounts | Limited | Acceptable | Minor | Citizens and Communities | 08/01/2016 |
| Section 48 House Searches, Appointees and Deputies Follow Up | Acceptable | Acceptable | Minor | Strategy and Resources | 15/01/2016 |
| Collective Agreement December 2014 Payroll Terms and Conditions | N/A | Good | Minor | Strategy and Resources | 19/01/2016 |
| Total Repairs | Good | Acceptable | Minor | Environment and Housing | 21/01/2016 |
| Taxi and Private Hire Licensing | Acceptable | Other Controls – Substantial | Moderate | Citizens and Communities | 27/01/2016 |
| | | DBS Renewals - Limited | | | |
| Spending Money Wisely | | | | | |
| Spending Money Wisely Challenge | N/A | Limited | Minor | City Development | 08/01/2016 |
| Spending Money Wisely Challenge | N/A | Limited | Minor | Environment and Housing | 13/01/2016 |
| Spending Money Wisely Challenge | N/A | Limited | Minor | Strategy and Resources | 19/01/2016 |
| Compliance Reviews | | | | | |

| Report Title | Audit Opinion | | | Directorate | Date Issued |
|-------------------------------------|-------------------------------|----------------------|-----------------------|-------------------------|-------------|
| | Control Environment Assurance | Compliance Assurance | Organisational Impact | | |
| Pudsey Area Office Follow Up Review | N/A | Good | Minor | Adult Social Care | 27/01/2016 |
| Travel and Subsistence | N/A | Good | Minor | Environment and Housing | 08/02/2016 |
| Travel and Subsistence | N/A | Good | Minor | City Development | 08/02/2016 |
| Travel and Subsistence: Processing | N/A | Substantial | Minor | Civic Enterprise Leeds | 08/02/2016 |

| Report Title | Results/Opinion | Directorate | Date Issued |
|---|---|------------------------|-------------|
| Grants and other Head of Audit Assurances | | | |
| Building Hope Accounts 2014/15 | Independent Examination of Accounts | Strategy and Resources | 04/01/2016 |
| Lawnswood School Voluntary Fund | Certification of Account Balances | Children's Services | 13/01/2016 |
| St. Aidan's Trust Accounts 2014/15 | Independent Examination of Accounts | Strategy and Resources | 19/01/2016 |
| Troubled Families Grant Claim January 2016 | Audit testing provides assurance that the results detailed on the grant claim will satisfy the DCLG requirements of reasonableness. | Children's Services | 28/01/2016 |
| Templenewsam Halton Primary School Voluntary Fund | Certification of Account Balances | Children's Services | 03/02/2016 |

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

Section 2

SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES

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

2.1 Key Financial Systems

- 2.1.1 We are on target to complete the key financial systems audits by the end of the financial year with one exception. The Community Care Finance (CCF) Audit has been postponed until the first quarter of 2016/17. This is due to the implementation of a new IT system (Client Information System) and staffing commitments within CCF to ensure that the service is embedding the new arrangements and any issues are being appropriately resolved.
- 2.1.2 Efficiencies have been made on the key financial systems audits that have enabled us to achieve the required level of coverage within the individual areas using fewer resources. This has been largely due to an increase in our use of data analytics, which gives greater assurance than traditional sample testing. Our use of data analytics will be further developed and refined during 2016/17.
- 2.1.3 The audit reports issued since the last update report to the Corporate Governance and Audit Committee are shown in the table at 1.4 above. They are Council Tax, Business Rates, Bereavement Services Sundry Income and Payroll.

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 latest Spending Money Wisely Challenge included a sample of payments made by four directorates. The reviews found that compliance levels have not improved, with similar issues being identified to those previously reported. At the previous Corporate Governance and Audit Committee meeting, Members requested copies of the latest audit reports on this area. The final audit reports have been issued for three of the four directorates reviewed and these will have been circulated to the Committee before the meeting in March. The remaining report will be circulated to the Committee when this has been finalised with the directorate.
- 2.2.4 As a result of these reviews, action has been agreed with the directorates which should help to improve compliance with CPRs moving forwards. These include discussion of the audit report with management teams and working with the Procurement Unit.
- 2.2.5 Internal audit resource has been allocated in the proposed Annual Internal Audit Plan for 2016-17 to continue work in this area and progress on this will be reported to Members.

2.3 *Information Governance and ICT*

XN System Follow Up Review

- 2.3.1 The XN System is used at leisure centres by the Membership Services Team and Lotherton Hall. It is a till system that is used to manage income for bookings and memberships. The original review of the XN System provided limited assurance for the control environment as the audit found password control issues and weaknesses in the recording of key actions during the cash-up process.
- 2.3.2 A follow up review has now been undertaken and an improved audit opinion of good assurance has been provided for the control environment. All recommendations made regarding system access being appropriately restricted and those covering the input, authorisation and processing of data have been addressed.

2.4 *Risk Based Audits*

Bank Accounts 2015/16 Electoral Services Accounts

- 2.4.1 This review focused on the four bank accounts managed by Electoral Services. These accounts are primarily used to receive funding and deposits in relation to

the General and European elections prior to being transferred to LCC, Central Government or returned to election candidates as appropriate.

- 2.4.2 We had selected this area for review as the council's Integrity Forum had queried the lack of controls operating over these accounts.
- 2.4.3 The audit resulted in a limited assurance opinion overall for the control environment as there were insufficient controls in place to record, support, approve and oversee transactions processed through these accounts. This includes a lack of fund records, failure to retain supporting documentation and no independent overview or reconciliation. Whilst the accounts are used infrequently (i.e main activity once every five years) the lack of proportionate controls in these areas increase the risk that fraudulent or inappropriate transactions could be processed and go unnoticed. However, the audit provided assurance that these risks did not occur. We performed full testing on all transactions processed through the accounts since February 2014 and the results of this testing were satisfactory.
- 2.4.4 All recommendations made following the review were agreed by the service area and it has been confirmed that once claims have been finalised for the European and General Elections, only one external bank account will be retained for receipt/repayment of deposit for candidates for General/European elections.

Taxi and Private Hire Licensing

- 2.4.5 A review of taxi and private hire licensing in Leeds has been completed and we have concluded that existing policies and procedures are in line with, and sometimes exceed, Department for Transport (DfT) good practice requirements. As part of the "fit and proper person" checks by TPHL, all licence holders are required to satisfactorily complete a disclosure and barring service (DBS) check at the point of application and, as part of a new policy, subsequently renewed every year thereafter. All licence holders are recorded as having had a DBS check and sample testing verified the accuracy of data held within the management information database, IDOX.
- 2.4.6 In December 2014, the Licensing Committee approved the introduction of DBS checks being renewed on an annual basis, exceeding good practice requirements. Taxi and Private Hire Licensing advised that the implementation of this process was intended to be managed over a three year period.
- 2.4.7 Based upon data at the time of the audit, 8.2% of licensed taxi and private hire drivers had a DBS check within the last 12 months and 21.3% had one completed within the last three years (as recommended by the Department for Transport). Therefore, limited assurance was provided for compliance with expected controls.

- 2.4.8 Since the conclusion of the audit, good progress is being reported by the Service on implementing this policy. The Service has advised that it is anticipated that all licensed drivers and operators will be enrolled on the on-line DBS update service by January 2017. The latest position and timetable for completion has been reported to, and endorsed by, the Executive Board in December 2015.
- 2.4.9 As at the 23rd February 2016, the Service has reported that 25.8% licence holders have now enrolled in the on-line DBS update service and a further 28.5% have submitted an application to be enrolled. Taxi and Private Hire Licensing anticipate that all of the remaining licence holders will be enrolled by January 2017.
- 2.4.10 The Taxi and Private Hire Licensing Section will report progress against the plan to the Licensing Committee on a half-yearly basis. We will undertake the follow-up audit in the first quarter of 2016/17 to review progress in this area.

Section 48 House Searches, Appointees and Deputies Follow up

- 2.4.11 We have recently undertaken a follow up audit of recommendations made during previous audits of Section 48 house searches, appointees and deputies.
- 2.4.12 The audit focused on the council's duty to safeguard the money and other assets of individuals who are not able to manage their affairs themselves, or who have died with no known next of kin. Where an individual has died with no known next of kin, the council also has a duty to arrange a public health burial and pass details of the estate to the relevant government department to enable the assets to be claimed. These responsibilities are fulfilled by the Estates Team within Adult Social Care Financial Management. The nature of this work means that the team will deal with valuable assets and information, and it is therefore important that procedures are in place to safeguard these.
- 2.4.13 The follow up review confirmed that some improvements have been made, and as a result an opinion of acceptable assurance has been given for both the control environment and compliance with the control environment. Improvements had been made in several areas, including record keeping, procedures governing staff conduct, accounting procedures and the closure of bank accounts.
- 2.4.14 Recommendations were made to implement formal management checks and to create procedures for information sharing and the handling of the estates of individuals who have died with no known next of kin. The service has agreed to implement these recommendations.

Early Leavers Initiative

- 2.4.15 At the Corporate Governance and Audit Committee meeting on 28th January, Members requested to 'receive the results of the actual saving made by the ELI process against the anticipated savings'. The Head of Human Resources (Strategy and Resources) and the Head of Corporate Finance advised that *'between 2010 and December 2015 some 2,837 business cases have been approved showing a net saving after costs of some £262m across the period.'*
- 2.4.16 The Head of Corporate Finance has further advised that *'between March 2010 and March 2016, the Council's annual pay bill has reduced in cash-terms by £53m on a like for like basis, saving some £4.4m per month which has been largely achieved through the Early Leaver Initiative together with the impact of natural staff turnover'.*

2.5 Counter Fraud and Corruption

Reports Issued

- 2.5.1 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 one such investigation report during this period.
- 2.5.2 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.

Section 3

AUDIT PERFORMANCE 2015/16

At 29th February 2016

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 9th July 2015.

3.2 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

Improvement Action Plans

- 3.2.1 The Quality Assurance and Improvement Action Plans for 2014/15 and 2015/16 were reported to the Corporate Governance and Audit Committee in the annual Internal Audit Report for 2014/15 at the meeting on 9th 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 st 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 th 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 st 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 the summer of 2016 in conjunction with the Core Cities Chief Auditors Group.

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 29th February 2016, 37 completed Customer Satisfaction Questionnaires had been received in relation to audit reports issued since 1st April 2015.

Results from Customer Satisfaction Questionnaires

| Question | 2015/16 Actual to date at 29 th February 2016 - % Score 3 or above | 2015/16 Average Score at 29 th February 2016 |
|--------------------------------------|--|--|
| Notice | 100% | 4.69 |
| Scope | 97% | 4.46 |
| Understanding | 100% | 4.41 |
| Efficiency | 97% | 4.68 |
| Consultation | 100% | 4.51 |
| Professional/Objective | 100% | 4.69 |
| Accuracy of Draft | 100% | 4.53 |
| Opportunity to comment | 100% | 4.75 |
| Final Report - Clarity & Conciseness | 100% | 4.51 |
| Final Report – Prompt | 91% | 4.29 |
| Recommendations | 100% | 4.23 |
| Added Value | 100% | 4.31 |
| Overall Average Score | | 4.51 |

- 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.