



Leeds
CITY COUNCIL

Internal Audit

**Annual Report and Opinion
2015 / 2016**

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Section 1

INTRODUCTION

1.1 The Annual Reporting Process

- 1.1.1 The Corporate Governance and Audit Committee's terms of reference include the consideration of the council's arrangements relating to internal audit requirements including the Annual Internal Audit report and monitoring the performance of the internal audit section.
- 1.1.2 The Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The objectives of the PSIAS are to define the nature of internal auditing and set basic principles for carrying out this work, to establish a framework for providing internal audit services and establish the basis for evaluation of performance and drive improvement planning.
- 1.1.3 This report is the culmination of the work performed by internal audit during the course of the year and provides the Chief Officer (Audit and Investment) 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 PSIAS, the Chief Officer (Audit and Investment) 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 Chief Officer (Audit and Investment) opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control;
 - 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 Organisational Independence

- 1.2.1 The PSIAS require that the Chief Officer (Audit and Investment) must confirm to the Corporate Governance and Audit Committee at least annually, the organisational independence of internal audit activity. The Internal Audit Charter and the council's Financial Regulations re-inforce this requirement.
- 1.2.2 During the year, the Internal Audit Charter was reviewed and updated and this was approved by the Corporate Governance and Audit Committee in July 2015. The

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Charter specifies that the Chief Officer (Audit and Investment) must report to a level within the council that allows internal audit to fulfil its responsibilities.

- 1.2.3 The authority's Financial Regulations state that the Chief Officer (Audit and Investment) '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.'
- 1.2.4 Appropriate reporting and management arrangements are in place within LCC that preserve the independence and objectivity of the Chief Officer (Audit and Investment).

Declaration of independence and objectivity

The reporting and management arrangements in place are appropriate to ensure the organisational independence of the internal audit activity. Robust arrangements are in place to ensure that any threats to objectivity are managed at the individual auditor, engagement, functional and organisational levels. Nothing has occurred during the year that has impaired my personal independence or objectivity.

Chief Officer (Audit and Investment)

Section 2

OPINION AND ASSURANCE

2.1 Opinion 2015/16

- 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.

Chief Officer (Audit and Investment) opinion for 2015/16

On the basis of the audit work undertaken during the 2015/16 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. There are no outstanding significant issues arising from the work undertaken by internal audit.

The audit work undertaken to support this opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.

- 2.1.2 During the year, we have audited several areas that have resulted in limited assurance opinions and we have highlighted weaknesses that may present risk to the council. In these cases, we have made recommendations to further improve the arrangements in place. 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 governance, risk management and control arrangements at the year end.

2.2 Basis of Assurance

- 2.2.1 The annual opinion on the adequacy and effectiveness of the control environment for 2015/16 is based on the findings and assurance provided by the schedule of reviews undertaken throughout the year. The schedule of reviews for 2015/16 was prepared using a risk based audit planning approach and was approved by the Corporate Governance and Audit Committee in March 2015.

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2.2.2 Each piece of audit work results in an audit report that provides, where appropriate, an assurance opinion. To ensure consistency in audit reporting, the following definitions of audit assurance are used:

Control Environment Assurance	
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.	
Assurance Level	Definitions
Substantial Assurance	There are minimal control weaknesses that present very low risk to the control environment.
Good Assurance	There are minor control weaknesses that present low risk to the control environment.
Acceptable Assurance	There are some control weaknesses that present a medium risk to the control environment.
Limited Assurance	There are significant control weaknesses that present a high risk to the control environment
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance	
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.	
Assurance Level	Definitions
Substantial Assurance	The control environment has substantially operated as intended although some minor errors have been detected.
Good Assurance	The control environment has largely operated as intended although some errors have been detected.
Acceptable Assurance	The control environment has mainly operated as intended although errors have been detected.
Limited Assurance	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

- 2.2.3 Organisational impact is reported as either major, moderate or minor. Any reports with major organisational impacts are reported to the Corporate Leadership Team along with the relevant directorate’s agreed action plan and then to Corporate Governance and Audit Committee as part of the regular update reports. There have been no major organisational impact reports issued during the year.

Organisational Impact	
Level	Definitions
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.
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.
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.

2.3 Assurance Areas

Key Financial Systems and Financial Risks

- 2.3.1 Our reviews of the key financial systems and other financial internal control audits support the opinion that, overall, the council has effective financial governance, risk management and internal control arrangements in place.
- 2.3.2 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. The level of assurance provided for all key financial systems reviews undertaken during the year was good or substantial. Governance arrangements in respect of the central coordination and setting of the council budget were found to be robust and the management of key income and expenditure risks along with the corresponding internal control frameworks were found to be operating effectively. During the year, we have highlighted some opportunities to improve the effectiveness and efficiency of operations but have not identified any significant concerns.
- 2.3.3 As previously, the key financial systems subject to audit were discussed with the external auditors to ensure that the work of internal and external audit are linked as efficiently and effectively as possible. KPMG has reviewed the findings of a sample of our work on key financial systems in 2015/16 and did not raise any concerns over the timeliness and quality. KPMG has confirmed that they use the work of internal audit to inform their risk assessment, including audit risks related to key financial systems.

- 2.3.4 Our work on Budget Action Plans covered the processes in place, both corporately and for a sample of two directorates, for the management of the risks relating to the achievement of savings targets. These processes have operated effectively overall during the year.
- 2.3.5 We have supplemented our coverage of key financial systems work on significant income and expenditure risks with a broad range of compliance and systems based reviews, including the Early Leavers Initiative, the New Homes Bonus scheme and the commissioning of external residential and independent fostering agency payments. This work has found that, in general, the council has appropriate arrangements in place to manage the financial risks in the areas reviewed. However, we were unable to provide assurance on the process for selecting external providers from the framework contract in our review of the commissioning of external residential and independent fostering agency placements within Children's Services. This was because evidence had not been retained by Children's Services to confirm that the appropriate process is followed from a financial perspective. This is a significant area of expenditure (£22.3M) and progress against the recommendations made during the audit will be followed up during 2016/17.

Grants and Certifications

- 2.3.6 During the year, we have undertaken 14 reviews which have provided assurance to various central government departments and other bodies that the grant conditions have been complied with. We have also certified the account balances of 8 school voluntary funds.

Procurement

- 2.3.7 For the key procurement risk areas, we have reviewed procurement arrangements both centrally and within directorates, and considered whether policies and procedures were fit for purpose and being followed. Our reviews have covered the following areas:
- arrangements to support the use of contracts and identify procurement savings;
 - procurement, management and extension of contracts;
 - management of the council's joint venture for professional property and building services; and
 - expenditure not linked to a contract.
- 2.3.8 Overall we found that controls are more effectively embedded for procuring and monitoring significant expenditure made through contracts, compared to lower level expenditure that is not linked to a contract. While acceptable, good or substantial audit opinions were provided for the majority of our reviews, limited audit opinions were provided for our Spending Money Wisely Challenge reviews of expenditure not linked to a contract, as there was limited compliance with Contracts Procedure Rules (CPRs). The issues have been reported in our Internal Audit Update

Reports to the Corporate Governance and Audit Committee during the year and the individual audit reports have been circulated to Members.

- 2.3.9 As a result of these reviews, action has been agreed with the directorates which should help to improve compliance with CPRs for expenditure not linked to a contract. We will carry out follow up audits during 2016/17 to assess whether improvements have been made.
- 2.3.10 A further limited assurance audit opinion was provided for our review of the council's joint venture for professional property and building services. We found weaknesses in the performance management of the partnership and there was a lack of evidence that the process for ensuring that the approved version of technical drawings (the design freeze) was being used in all cases. The absence of formal design freeze information reduces assurance that fees and other costs can be monitored regularly and accurately. We have carried out an interim follow up review in this area which identified that the recommendations had recently been implemented or are in the process of being implemented. We will carry out a further review in 2016/17 to confirm that the new controls have become embedded.

Other Risks

- 2.3.11 We have undertaken compliance and systems based audits to provide assurance on the governance, risk management and internal control arrangements in place on a range of other, non-financial risk areas during the year. Our work has had links to risks relating to the achievement of council priorities, health and safety, safeguarding and compliance with legislation.
- 2.3.12 Sample testing through compliance audits has also provided assurance that decision making has been undertaken in accordance with the council's constitution, key performance information is accurately reported and that directorate (City Development) risk and performance management is undertaken in line with the council's agreed policy.
- 2.3.13 These reviews have resulted in acceptable or higher levels of assurance, with the exception of the cash handling arrangements at an area office and compliance with the disclosure and barring service (DBS) renewal requirements in respect of Taxi and Private Hire Licensing.

- Area office cash handling arrangements

The unannounced visit to an area office highlighted that improvements were required to ensure that monies are fully accounted for where the council has taken on an appointee or deputy role in the management of service users' finances. Our follow up review of the specific area office, undertaken later in the year, found that improvements had been made and the audit resulted in a good assurance opinion. However, further work is required to ensure that

robust arrangements are replicated across the rest of the area offices to ensure that all service user's monies are appropriately safeguarded. Senior management have confirmed that the improvements will be implemented as an urgent priority.

- Taxi and Private Hire Licensing

We provided limited assurance on the DBS renewal element of the Taxi and Private Hire Licensing audit as there were a significant number of drivers that had not had their DBS checks renewed on an annual basis, in line with the council's policy. Since the conclusion of the audit, good progress on improving this position has been reported to the Executive Board by the Service.

Information Governance and ICT

2.3.14 ICT and information governance risks are monitored and reviewed at a high level through the council's formal risk management process. The audit coverage had links to risks relating to ICT failure, information governance and core business applications. The reviews resulted in acceptable or higher assurance opinions and have not highlighted any significant concerns during the year.

2.3.15 We have supported the work of the Information Governance team by undertaking an assessment of the council's current position against the Information Security Management System Standard, ISO 27001:2013. The standard provides a systematic approach for establishing, implementing, operating, monitoring, reviewing, maintaining and improving information security. The review informed the development of the audit programme for 2016/17 and recommendations were made to develop an action plan that pulls together the various strands of activity that are being undertaken across the council in this area.

2.3.16 Our audit coverage also included reviewing the governance arrangements in place for two major ICT projects. The audit provided good assurance that the expected benefits of the projects were achieved and that appropriate governance arrangements were in place.

Housing Partnerships Assurance Framework

2.3.17 Housing Leeds manages and maintains council homes and provides a range of services for council tenants. The Housing Leeds Assurance Framework is designed to provide assurance that the risks associated with the effective delivery of these services are properly managed. During the year, the scope of our audit work has included coverage with links to risks relating to finance, contractor performance, quality of works completed, health and safety and the customer experience.

2.3.18 Overall, the assurances provided have been positive, with each of the 12 audits resulting in either good or acceptable audit opinions. Our work also found that good

progress has been made to improve processes where previous audits have provided a limited assurance opinion.

- 2.3.19 No significant concerns have been raised within this assurance block and management have agreed suitable action plans to improve control in areas where weaknesses have been identified.

Follow up work

- 2.3.20 Where our audit work has highlighted areas for improvement, recommendations have been made to address the risk and management action plans have been established. A follow up audit is undertaken to provide assurance on the actions implemented for all reviews that have resulted in limited assurance opinions. With the exception of the joint venture review referenced above at 2.3.10, each of the 12 follow up audits that have been undertaken this year have resulted in an improved audit assurance opinion. This provides assurances in respect of the commitment and effectiveness of management in implementing actions to improve risk management and internal control processes.

Schools

- 2.3.21 During the year we have undertaken seven audits of maintained schools, selected on a risk basis. The scope of the work included a review of school voluntary funds; procurement and payment of goods and services; inventory; payroll; school meals and extended schools income. The majority of these audits found good controls to be in place and operating effectively in practice. However, two of the reviews resulted in limited assurance audit opinions with weaknesses being identified across the audit programme and particularly in relation to the administration of the school voluntary fund and procurement arrangements. One of these schools has now become an Academy and further information on the other school has been provided in the Internal Audit Update Report March to May 2016.
- 2.3.22 We have supported the continuous improvement of internal control at schools by providing advice on the completion of the Schools Financial Value Standard and we have developed a checklist that has been issued to all schools that should help to address the weaknesses identified by our audit work.
- 2.3.23 Our coverage also included a sample of two maintained schools with 6th forms to provide assurance on compliance with the Education Funding Authority (EFA) 6th Form Funding and 16-19 Bursary Fund Grant Claim guidance and no significant issues were identified.

External Work

- 2.3.24 As in previous years, we have carried out audit work for several external clients and partners to generate income for the council. The majority of the external work that we undertake is not reported to the Corporate Governance and Audit Committee or

detailed within this report as it does not form part of the assurance arrangements for the council.

- 2.3.25 All audits undertaken during the year for the Leeds Grand Theatre resulted in either acceptable or good levels of assurance, with no significant concerns being identified.

Staff Ideas Service

- 2.3.26 The staff ideas service provides an additional mechanism 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.
- 2.3.27 The staff ideas service is administered by internal audit, who monitor the staff ideas Sharepoint site and ensure that ideas are allocated to the nominated contacts within the relevant directorate. The nominated officer then looks into the viability of the idea and provides a response on the Sharepoint site.
- 2.3.28 During 2015/16, 27 ideas were submitted through the Staff Ideas Service (181 ideas were submitted in 2014/15). The low number of ideas received during the year may mean that staff are raising their ideas with their manager directly or it may indicate that there is scope to raise awareness of the Staff Ideas initiative. We are working with directorates to improve the effectiveness of this initiative to ensure that the council maximises opportunities to improve value for money and embed a Spending Money Wisely culture across the organisation.

Anti-Fraud and Corruption

- 2.3.29 The anti-fraud and corruption work undertaken includes both proactive anti-fraud and corruption activities (fraud strategies) and reactive work (investigations.)
- 2.3.30 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.
- 2.3.31 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.
- 2.3.32 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.

- 2.3.33 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.
- 2.3.34 The promotion and accessibility of these policies helps the council to be responsive to emerging risks that are identified.
- 2.3.35 Internal audit continues to act as the custodians of these policies. In 2015/16, we received a total of 88 potential irregularity referrals (91 in 2014/15). Of these, 53 were classified under the remit of the Whistleblowing or Raising Concerns policies (63 in 2014/15). All reported irregularities were risk assessed by internal audit and either investigated by ourselves, the relevant directorate or HR colleagues, as appropriate. Where the matter was referred to directorates or HR for investigation, we have made follow up enquiries to ensure all aspects of the referral have been addressed.
- 2.3.36 Of the cases investigated during the year, 9 resulted in disciplinary action being taken or the resignation of the employee concerned. In 14 cases, the investigation resulted in improvements being made to the control environment.
- 2.3.37 As part of our proactive fraud work programme we have focussed on the National Fraud Initiative (NFI) outputs and raised awareness of fraud risks across the council. We have done this 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.

2.4 Other Work

- 2.4.1 We have provided advice on a wide range of issues including interpretation of Contract Procedure Rules, training for staff on Financial Procedure Rules, and on risks and controls within individual systems or processes. There have been 26 such requests for advice during the year (29 for 2014/15).

2.5 Summary of Completed Audit Reviews

- 2.5.1 This section provides a summary of all reports issued since 1st June 2015. Audit reviews completed from 1st April 2015 to 31st May 2015 were reported in the Internal Audit Annual Report for 2014/15. All reviews up to 29th February 2016 where the audit opinion was limited for either the control environment or compliance with procedures have already been highlighted to the Corporate Governance and Audit Committee in the Internal Audit Update Reports throughout the year. Reports with limited audit opinions issued in the period 1st March to 31st May 2016 are included in the Internal Audit Update Report covering that period and presented to the Committee at the same meeting as this Annual Report.

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2.5.2 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	Included in report to CGAC
	Control Environment	Compliance	Organisational Impact		
Key Financial Systems and Other Financial Risks 53 reviews completed					
Year-end reconciliation of Civica to FMS 2014/15 (Sundry Income Year-end Rec)	Substantial		N/A	Strategy & Resources	Update Report June to July 2015
Leeds Welfare and Benefits Service - Counter Fraud 2014/15	Good	Substantial	N/A	Citizens and Communities	Update Report June to July 2015
Income Management System to Financial Management System Year end reconciliation 2014/15	Substantial		N/A	Strategy & Resources	Update Report June to July 2015
Council Tax year-end reconciliation	Substantial		N/A	Citizens and Communities	Update Report June to July 2015
Business Rates year-end reconciliation	Substantial		N/A	Strategy & Resources	Update Report June to July 2015
Housing Rents Year End Rec 2014/15	Substantial		N/A	Environment & Housing	Update Report June to July 2015
Creditors Year-End Reconciliation 14/15	Substantial		N/A	Strategy & Resources	Update Report June to July 2015
BSC Central Payments Service 2014-15 (Creditors)	Substantial	Substantial	Minor	Civic Enterprise Leeds	Update Report June to July 2015
Year End Reconciliation of Housing Benefit and Council Tax	Substantial		N/A	Citizens and Communities	Update Report June to July 2015
Children's Services - Commissioning of External Residential and Independent Fostering Agency Placements	Acceptable	Monitoring arrangements & accuracy of payments: Acceptable Call off process: Limited	Moderate	Children's Services	Update Report June to July 2015
Troubled Families Programme	Good	Acceptable	Minor	Children's Services	Update Report June to July 2015
Travel and Subsistence - ASC 14-15	N/A	Substantial	Minor	Adult Social Care	Update Report June to July 2015
Travel and Subsistence - City Development	N/A	Substantial	Minor	City Development	Update Report June to July 2015
Environment & Housing - Directorate Purchasing Cards 2014-15	N/A	Acceptable	Minor	Environment & Housing	Update Report June to July 2015
Travel & Subsistence - E&H 2014-15	N/A	Good	Minor	Environment & Housing	Update Report June to July 2015
Travel and Subsistence BSC 14-15	N/A	Acceptable	Minor	Civic Enterprise Leeds	Update Report June to July 2015
Civic Enterprise - Directorate Purchasing Cards	N/A	Acceptable	Minor	Civic Enterprise Leeds	Update Report June to July 2015
Rents and Leases of Commercial Properties	N/A	Good	Minor	City Development	Update Report June to July 2015
Nursery Fees follow up review (Burley Park Children's Centre)	N/A	Acceptable	Minor	Children's Services	Update Report June to July 2015
Nursery Fees follow up review (Cottingley Children's Centre)	N/A	Acceptable	Minor	Children's Services	Update Report June to July 2015

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Report Title	Audit Opinion			Directorate	Included in report to CGAC
	Control Environment	Compliance	Organisational Impact		
Aireborough Leisure Centre follow up review	N/A	Good	N/A	City Development	Update Report June to July 2015
Payroll 2014-15 Year- End Reconciliation	Substantial		N/A	Civic Enterprise Leeds	Update Report August to December 2015
Bank Reconciliation and Cashbook 2014-15	Substantial	Substantial	Minor	Strategy & Resources	Update Report August to December 2015
Housing Rents	Substantial	N/A	Minor	Environment & Housing	Update Report August to December 2015
New Homes Bonus	Good	N/A	Minor	City Development	Update Report August to December 2015
Section 278	Good	N/A	Minor	City Development	Update Report August to December 2015
Early Leavers Initiative	Acceptable	Acceptable	Minor	Cross Cutting	Update Report August to December 2015
Travel and Subsistence 2014-15 Civic Enterprise	N/A	Acceptable	Minor	Civic Enterprise Leeds	Update Report August to December 2015
Council Tax	Substantial	N/A	Minor	Citizens and Communities	Update Report January to February 2016
Business Rates	Substantial	N/A	Minor	Citizens and Communities	Update Report January to February 2016
Sundry Income - Bereavement Services	Good	Good	Minor	Environment & Housing	Update Report January to February 2016
Payroll and HR Administration	Substantial	Good	Minor	Civic Enterprise Leeds	Update Report January to February 2016
Other Bank Accounts - Electoral Services	Limited	Acceptable	Minor	Citizens and Communities	Update Report January to February 2016
Total Repairs	Good	Acceptable	Minor	Environment & Housing	Update Report January to February 2016
Travel and Subsistence Environment and Housing	N/A	Good	Minor	Environment & Housing	Update Report January - February 2016
Travel and Subsistence City Development	N/A	Good	Minor	City Development	Update Report January - February 2016
Travel and Subsistence - Accuracy of processing by BSC	N/A	Substantial	Minor	Civic Enterprise Leeds	Update Report January - February 2016
Collective Agreement December 2014 payroll Terms & Conditions	N/A	Good	Minor	Strategy & Resources	Update Report January - February 2016
Housing Benefits Reconciliations	Substantial	N/A	Minor	Strategy & Resources	Update Report March to May 2016
Housing Benefits Assessment and Payments	Substantial	Substantial	Minor	Citizens and Communities	Update Report March to May 2016
Local Welfare Support Scheme	Good	Substantial	Minor	Strategy & Resources	Update Report March to May 2016
Income Management System	Substantial	Substantial	Minor	Strategy & Resources	Update Report March to May 2016
Central Sundry Income	Substantial	Substantial	Minor	Strategy & Resources	Update Report March to May 2016
Capital Programme Central Controls	Substantial	N/A	Minor	Strategy & Resources	Update Report March to May 2016
Essential Car User Allowances	Good	Good	Minor	Strategy & Resources	Update Report March to May 2016
Grants to third party organisations	Good	Good	Minor	City Development	Update Report March to May 2016
Financial Management Central Controls	Substantial	N/A	Minor	Strategy & Resources	Update Report March to May 2016

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Report Title	Audit Opinion			Directorate	Included in report to CGAC
	Control Environment	Compliance	Organisational Impact		
Treasury Management and Bankline	Substantial	Substantial	Minor	Strategy & Resources	Update Report March to May 2016
Central Payments System	Substantial	Substantial	Minor	Strategy & Resources	Update Report March to May 2016
Environment and Housing Creditor Payments	Substantial	Good	Minor	Environment & Housing	Update Report March May 2016
Kirkgate Market follow up review	Good	Acceptable	Minor	City Development	Update Report March May 2016
Schools Central Control	Good	N/A	Minor	Children's Services	Update Report March to May 2016
Budget Action Plans	N/A identification of best practice			Strategy & Resources	Update Report March to May 2016
Procurement and Spending Money Wisely 15 reviews completed					
Spending Money Wisely Challenge 2014/15 - Memos to Chief Officers	N/A - Summaries of transactions for Chief Officers			Cross Cutting	Update Report June to July 2015
Joint Venture – professional property and building services	Acceptable	Limited	Minor	City Development	Update Report June to July 2015
Other hired and contracted services follow up review	N/A	Acceptable	N/A	Environment & Housing	Update Report August to December 2015
Category Plan Development	Acceptable	N/A	Minor	Strategy & Resources	Update Report August to December 2015
Changing the Workplace contract review	Good	Substantial	Minor	Strategy & Resources	Update Report August to December 2015
West Yorkshire Supply of Coated Materials Contract Review	Good	Acceptable	Minor	City Development	Update Report August to December 2015
Spending Money Wisely Challenge City Development	N/A	Limited	Minor	City Development	Update Report January to February 2016
Spending Money Wisely Challenge Environment and Housing	N/A	Limited	Minor	Environment & Housing	Update Report January to February 2016
Spending Money Wisely Challenge Strategy & Resources	N/A	Limited	Minor	Strategy & Resources	Update Report January to February 2016
Public Health Contract Review	N/A	Substantial	Minor	Public Health	Update Report January to February 2016
Contract Extensions	Good	Acceptable	Minor	Strategy and Resources/Cross Cutting	Update Report January to February 2016
Spending Money Wisely Challenge Children's Services	N/A	Limited	Minor	Children's Services	Update Report March to May 2016
Joint Venture – professional property and building services follow up	Acceptable	N/A	Minor	City Development	Update Report March to May 2016
Neighbourhood Networks Contract Review	Good	Acceptable	Minor	Adult Social Care	Update Report March to May 2016
Enforcement Agencies	Acceptable	Good	Minor	Strategy & Resources / Environment & Housing	Update Report March - May 2016
Other Risks 17 reviews completed					
Decision Making Children's Services	N/A	Substantial	Minor	Children's Services	Update Report June to July 2015
Decision Making City Development	N/A	Substantial	Minor	City Development	Update Report June to July 2015

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Report Title	Audit Opinion			Directorate	Included in report to CGAC
	Control Environment	Compliance	Organisational Impact		
Key Performance Indicator - No. of People supported in to jobs	N/A	Substantial	Minor	Children's Services	Update Report June to July 2015
Area Office cash handling arrangements	N/A	Limited	Moderate	Adult Social Care	Update Report June to July 2015
KPI - No. of complaints about council services	N/A	Chief Executive's Office: Substantial Environmental Action: Good	N/A	Citizens and Communities	Update Report June to July 2015
Temporary Accommodation and Homelessness follow up review	Good	Good	Minor	Environment & Housing	Update Report August to December 2015
Directorate Risk and Performance Management Review (City Development)	Substantial	N/A	Minor	City Development	Update Report August to December 2015
Learning Disability Community Support Service - Customer Monies	Good	Joseph Court: Good Iveson Rise: Acceptable	Moderate	Adult Social Care	Update Report August to December 2015
Corporate Health and Safety	Good	Good	Minor	Strategy & Resources	Update Report August to December 2015
Bequests and Trusts	Good	N/A	Minor	Strategy & Resources	Update Report August to December 2015
Area Office follow up review	N/A	Good	Minor	Adult Social Care	Update Report January to February 2016
Section 48 House Searches, Appointees and Deputies follow up review	Acceptable	Acceptable	Minor	Strategy & Resources	Update Report January to February 2016
Taxi and Private Hire Licensing	Acceptable	DBS Renewals: Limited Other controls: Substantial	Moderate	Citizens and Communities	Update Report January to February 2016
Safeguarding - Disclosure and Barring Service Checks and Health and Care Professions Council	Acceptable	Acceptable	Moderate	Strategy & Resources	Update Report March to May 2016
Passenger Transport Contract Follow-up Review	Acceptable	Good	Moderate	Civic Enterprise Leeds	Update Report March to May 2016
Arrangements for the implementation of the Care Act 2014	Good	Substantial	Minor	Adult Social Care	Update Report March to May 2016
Administration of Client Monies	Limited	Limited	Moderate	Adult Social Care	Update Report March to May 2016
Information Governance and ICT 7 reviews completed					
Information Governance - Contracts & Commissioning follow-up review	Acceptable	N/A	Moderate	Strategy & Resources	Update Report August to December 2015
Published Payments and Redactions follow up review	Good	N/A	Minor	Strategy & Resources	Update Report August to December 2015
XN System Follow up	Good	N/A	Minor	City Development	Update Report January to February 2016
ICT Benefits Realisation Review 2015-16: PSN Initiative Transition Project and LLN Transition Project	Substantial	Good	Minor	Strategy & Resources	Update Report March to May 2016
Bankline and LATIMA Business Application	Substantial	N/A	Minor	Strategy & Resources	Update Report March to May 2016
FMS Business Application	Good	N/A	Minor	Strategy & Resources	Update Report March to May 2016

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Report Title	Audit Opinion			Directorate	Included in report to CGAC
	Control Environment	Compliance	Organisational Impact		
Housing Partnerships Assurance Framework Reviews 12 reviews completed					
Housing Leeds Quality Management Systems Construction Services 2014/15	Acceptable	Acceptable	Minor	Environment & Housing	Update Report June to July 2015
Housing Needs Customer Experience 2014/15	Acceptable	Acceptable	Minor	Environment & Housing	Update Report June to July 2015
Welfare Reform Initiatives 2014/15	Good	Acceptable	Minor	Environment & Housing	Update Report June to July 2015
Quality Management Systems Property and Contracts 14/15	Acceptable	Good	Moderate	Environment & Housing	Update Report June to July 2015
PFI Gas Servicing	Acceptable	Acceptable	Moderate	Environment & Housing	Update Report June to July 2015
Major Adaptations	Good	Good	Minor	Environment & Housing	Update Report August to December 2015
Quality Management Systems	Acceptable	Acceptable	Moderate	Environment & Housing	Update Report August to December 2015
Contractor Data Integrity Follow Up	Good	Good	Minor	Environment & Housing	Update Report August to December 2015
Disrepair Service	Acceptable	Good	Minor	Environment & Housing	Update Report August to December 2015
Managed Stores	Acceptable	Acceptable	Minor	Environment & Housing	Update Report March to May 2016
Void Management	Good	Acceptable	Minor	Environment & Housing	Update Report March to May 2016
Requests for Information	Good	Acceptable	Minor	Environment & Housing	Update Report March to May 2016
Schools 9 reviews completed					
Primary School Follow Up review	N/A	Medium	N/A	Children's Services	Update Report June to July 2015
School audit x 3	N/A	Good Assurance	N/A	Children's Services	Update Report June to July 2015
School audit	N/A	Limited	N/A	Children's Services	Update Report June to July 2015
Schools 6 th form bursary and funding	N/A	Acceptable	N/A	Children's Services	Update Report June to July 2015
Schools 6 th form bursary and funding	N/A	Substantial	N/A	Children's Services	Update Report June to July 2015
School audit	Substantial	Substantial	N/A	Children's Services	Update Report August to December 2015
School audit	Limited	Limited	N/A	Children's Services	Update Report March to May 2016

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Report Title	Audit Opinion			Directorate	Included in report to CGAC
	Control Environment	Compliance	Organisational Impact		
External Work 4 reviews completed					
Leeds Grand Theatre and Opera House Ltd: Budgetary Control	Good	N/A	N/A	External	Update Report August to December 2015
Leeds Grand Theatre and Opera House Ltd: Creditors	Acceptable	Acceptable	N/A	External	Update Report August to December 2015
Leeds Grand Theatre and Opera House Ltd: Contracts with Visiting Companies	Acceptable	N/A	N/A	External	Update Report August to December 2015
Leeds Grand Theatre and Opera House Ltd: Payroll	Good	Good	N/A	External	Update Report August to December 2015

Report Title	Results/Opinion	Directorate	Included in report to CGAC
Grants and Other Head of Internal Audit Assurances 22 reviews completed			
Local Transport Capital Block Funding 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 the Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance) Specific Grant Determination 2010 No 31/1859 have been complied with	City Development	Update Report June to July 2015
Cycling ambition 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 the Cycling Ambition Specific Grant Determination 2013-14 No 31/2213 have been complied with	City Development	Update Report June to July 2015
West Yorkshire Plus Transport 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 expenditure incurred by the local authority meets the criteria on the schemes specified in the 27 September 2013 report to the West Yorkshire ITA	City Development	Update Report June to July 2015
Leeds City Region Annual Return year ended 31st March 2015	The body's internal audit, acting independently and on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ended 31st March 2015. Internal audit has been carried out in accordance with the body's needs and planned coverage. Internal Audit found and reported that, in all significant respects, the control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of the body.	Leeds City Region	Update Report June to July 2015
Assessed and Supported Year in Employment (AYSE) Grant Claim	Assurances provided that the grant paid for the period 2014/15 was applied for the purposes intended by the DfE and the financial transactions conform to the Grant Funding Agreement and objectives specified.	Children's Services	Update Report June to July 2015
Disabled Facilities Capital 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	Environment & Housing	Update Report June to July 2015

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Report Title	Results/Opinion	Directorate	Included in report to CGAC
	attached to Disabled Facilities Capital Grant Determination (2014t1S) No 91t2244 have been complied with		
Additional DfT Highways Capital Grant Awards: Highways Maintenance, Local Pinch Point Fund - Thornbury Roundabout and Rodley Roundabout 14-15	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 & Resources	Update Report August to December 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 the Local Authority Bus Subsidy Ring Fenced (Revenue) Grant Determination 2014/15 have been complied with	Civic Enterprise Leeds	Update Report August to December 2015
Troubled Families Grant Claim September	Assurances provided that the results detailed on the grant claim will satisfy the DCLG requirements of reasonableness.	Children's Services	Update Report August to December 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 & Resources	Update Report August to December 2015
Building Hope Accounts 2014/15	Independent Examination of Accounts	Strategy & Resources	Update Report January to February 2016
St Aidan's Charitable Trust Accounts 2014/15	Independent Examination of Accounts	Strategy & Resources	Update Report January to February 2016
Troubled Families Grant Claim January 2016	Assurances provided that the results detailed on the grant claim will satisfy the DCLG requirements of reasonableness.	Children's Services	Update Report January to February 2016
Lord Mayors Charity Accounts	Independent examination of accounts	Strategy and Resources	Update Report March to May 2016
School Voluntary Funds x 8	Certification of Account Balances	Children's Services	Various Update Reports

Section 3

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME AND CONFORMANCE WITH PSIAS 2015/2016

3.1 Internal Audit Performance

3.1.1 The Terms of Reference for the Corporate Governance and Audit Committee include the consideration of the council's arrangements for monitoring the performance of internal audit. This section of the report summarises the performance information that has been reported throughout the year to the Corporate Governance and Audit Committee.

[Reports to the Corporate Governance and Audit Committee \(1st April 2015 to 31st March 2016\)](#)

Report	Purpose
Internal Audit Update Reports	Provided regular summaries of the work undertaken by internal audit and allowed the Committee to review the performance of the section.
Internal Audit Quality Assurance and Improvement Programme Framework and Internal Audit Charter	To seek approval for the Internal Audit Charter and to inform the Committee of the Internal Audit Quality Assurance and Improvement Programme Framework as defined by the Public Sector Internal Audit Standards.
Annual Report 2014/15	Provided an overview of the work undertaken by internal audit and the Annual Audit Opinion in respect of the council's governance, risk management and control arrangements for 2014/15.
Annual Audit Plan 2016/17	Presented the proposed Internal Audit Plan for 2016-17 for review and approval.

[Resources](#)

3.1.2 Resources have been appropriate, sufficient and effectively deployed to achieve the audit coverage necessary to deliver the annual internal audit opinion. As reported throughout the year, the level of resources available for internal audit work was less than when the annual plan for 2015/16 was agreed. Actual audit days for the year were 3,133, compared to 3,980 days allocated for assurance work in the audit plan (79%). A number of audit assignments of relatively lower risk were removed and considered in the planning process for inclusion in the 2016/17 plan. However, we

have used computer aided audit techniques to support the delivery of an increasing number of audit assignments during the year, particularly in respect of the key financial systems audits. This has helped us to streamline the audit process and achieve results that are more effective in a shorter period. Excluding external work, anti-fraud related work and audit queries and consultation work, we have completed 139 reviews during the year. This compares favourably against the 138 reviews completed during 2014/15, given the reduction in available resources.

Experience and Qualifications

3.1.3 The table below demonstrates the high levels of qualifications and experience within the internal audit section.

Experience of staff in post as at 31/03/2016

Years of experience – local government auditing	FTE	%
1 – 5 years	3	16%
5 – 10 years	4.6	25%
Over 10 years	10.9	59%
Total FTE	18.5	100%

Qualifications of staff in post as at 31/03/2016

Qualification	FTE	%
CIPFA	7.6	41%
Other CCAB – ACCA, ICAEW	3.5	19%
IIA	3.1	17%
AAT	1.3	7%
CIPFA Trainees	2	11%
IIA Trainees	1	5%
Total FTE	18.5	100%

3.1.4 Proficiency and due professional care is a key requirement of the PSIAS. All internal auditors have a personal responsibility to undertake a programme of Continuing Professional Development (CPD) to maintain and develop their competence. We have allocated time within the audit plan for CPD, training and personal development to be undertaken throughout the year to continuously improve the knowledge and skills within the internal audit section.

3.2 Quality Assurance and Improvement Programme

Quality Standard Accreditation

- 3.2.1 All internal audit work is undertaken in accordance with internal quality procedures incorporated in its quality management system, which has been ISO accredited since 1998. During February 2016, an 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.”

- 3.2.2 The next review visit is due in August 2016.

Customer Feedback

- 3.2.3 A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditee's opinion on a range of issues with an assessment ranging from 5 (for excellent) to 1 (for poor). The results for the 41 questionnaires received between 1st April 2015 to 31st March 2016 – as shown in the table below - are based on the percentage of those assessments that are 3 (satisfactory) or above. The number of CSQs returned for 2015/16 has improved compared to the previous year (35).
- 3.2.4 The results are used to determine areas for improvement and inform the continuing personal development training programme for internal audit staff.

Question	Actual 2014/15 % Score 3 or above	Actual 2015/16 % Score 3 or above	2015/16 Average Score at 31 st March 2016
Sufficient notice was given	100	100	4.65
Level of consultation on scope	100	98	4.41
Auditor's understanding of systems	97	100	4.41
Audit was undertaken efficiently	100	98	4.68
Level of consultation during the audit	100	100	4.54
Audit carried out professional and objectively	100	100	4.7

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Question	Actual 2014/15 % Score 3 or above	Actual 2015/16 % Score 3 or above	2015/16 Average Score at 31 st March 2016
Accuracy of draft report	100	100	4.55
Opportunity to comment on audit findings	100	100	4.75
Clarity and conciseness of final report	100	100	4.54
Prompt issue of final report	94	92	4.28
Audit recommendations will improve control	100	100	4.29
The audit was constructive added value	100	100	4.36
Overall Average Score			4.51

- 3.2.5 Feedback from customer satisfaction questionnaires continues to be very positive. These results are extremely encouraging, particularly as the nature and complexity of work undertaken by internal audit continues to change.

[2015/16 Quality Assurance and Improvement Action Plan \(QAIP\)](#)

- 3.2.6 The PSIAS require that the results of the internal audit QAIP are included in the annual report. A report was presented to the Corporate Governance and Audit Committee in July 2015 which informed members of the review and updates to the QAIP.
- 3.2.7 The majority of actions within the 2015/16 QAIP have been implemented as shown in the table below. All residual actions will be carried forward to the 2016/17 QAIP. The key action that remains outstanding is the external assessment process. A methodology for the external assessment has been developed in conjunction with the Core Cities and the Terms of Reference for this review will be presented to the Committee as part of the Internal Audit Update Report for March to May 2016, elsewhere on this agenda.

Appendix 1 – Improvement Action Plan

Internal Audit Improvement Action Plan for 2015/16				
	Action	Timescale	Status	Comments
1	<p>External assessment mechanism for review of Internal Audit against PSIAS requirements to be put in place. This will include:</p> <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. <p>The outcome of the above, including the preferred option and assessor will be reported to CGAC and approval sought.</p>	October 2016	Planned	<p>The requirement is for the external assessment to be completed at least every 5 years. Our first assessment must be completed by 2018.</p> <p>The external assessment arrangements have been reported to CGAC in the January to March 2016 Update Report. The Terms of Reference for the review is due to be presented to CGAC in the June 2016 meeting.</p> <p>The external assessment is due to be undertaken in October 2016.</p>
2	Assurance mapping will continue to be developed and evolve during the annual planning process.	2014/15 Annual Audit Plan	Ongoing action carried forward to 2016/17	A documented framework for assurance mapping was formalised during 2015/16 and was used for the 2016/17 planning process. Assurance maps have been drafted and these will be updated and refreshed during 2016/17.
3	Performance information to be included in the regular update reports to CGAC 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	Implemented	
4	Review and update the section's quality procedures and ensure these are fit for purpose and effective.	31 st July 2015	Implemented	

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5	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	Partly implemented and carried forward to 2016/17	The first phase of User Acceptance Testing has now been completed. The software is to be moved across to the council servers and further user Acceptance Testing will be undertaken by the end of Quarter 1. The new version of the software will then be rolled out to staff
6	Review and update audit reporting protocols with directorates.	31 st July 2015	Implemented	
7	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	Implemented	
8	Ensure the recommendations made in the Information Governance review of Audit and Investment have been fully implemented.	By 31 st March 2016	Partly implemented and carried forward to 2016/17	High priority recommendations have been implemented. Low and medium priority recommendations are currently in progress.