# Internal Audit Update Report
## 1<sup>st</sup> March 2016 to
## 31<sup>st</sup> May 2016

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## *Section*

# *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 council's governance, risk management and control arrangements.

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$^{st}$ March to 31$^{st}$ May 2016.

## 1.2 *Assurance Definitions*

1.2.1 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.

1.2.2 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.

1.2.3 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.

1.2.4 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 | There are some control weaknesses that present a |

| Control Environment Assurance | | |
|---|---|---|
| **Level** | | **Definitions** |
| | ASSURANCE | 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. |

1.2.5   Organisational impact will be reported as either major, moderate or minor. All reports with a major organisational impact will be reported to the Corporate Leadership Team 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. |

## 1.3   *Progress against the Operational Plan – Individual Reviews*

1.3.1   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 March and 31st May 2016 (reports issued up to 29th February 2016 have been included in previous update reports to Corporate Governance and Audit Committee.) Each of these pieces of work

relate to the Internal Audit Plan for 2015/16 and therefore also feature in the Internal Audit Annual Report for 2015/16.

| Report Title | Audit Opinion | | | Directorate |
|---|---|---|---|---|
| | Control Environment Assurance | Compliance Assurance | Organisational Impact | |
| **Key Financial Systems and Other Financial Risks** | | | | |
| Housing Benefits Reconciliation | Substantial | N/A | Minor | Strategy and Resources |
| Local Welfare Support Scheme | Good | Substantial | Minor | Strategy and Resources |
| Income Management System | Substantial | Substantial | Minor | Strategy and Resources |
| Central Sundry Income | Substantial | Substantial | Minor | Strategy and Resources |
| Capital Programme Central Controls | Substantial | N/A | Minor | Strategy and Resources |
| Essential Car User Allowances | Good | Good | Minor | Strategy and Resources |
| Grants to third party organisations | Good | Good | Minor | City Development |
| Housing Benefits Assessment and Payments | Substantial | Substantial | Minor | Citizens and Communities |
| Financial Management Central Controls | Substantial | N/A | Minor | Strategy and Resources |
| Treasury Management and Bankline | Substantial | Substantial | Minor | Strategy and Resources |
| Central Payments System | Substantial | Substantial | Minor | Strategy and Resources |
| Environment and Housing Creditor Payments | Substantial | Good | Minor | Environment and Housing |
| Schools Central Controls | Good | N/A | Minor | Children's Services |
| Kirkgate Market follow up review | Good | Acceptable | Minor | City Development |
| Budget Action Plans | N/A identification of best practice | | | Strategy and Resources |
| **Procurement and Spending Money Wisely** | | | | |
| Spending Money Wisely Challenge Children's Services | N/A | Limited | Minor | Children's Services |
| Neighbourhood Networks Contract Review | Good | Acceptable | Minor | Adult Social Care |
| Enforcement Agencies | Acceptable | Good | Minor | Strategy and Resources / Environment and Housing |
| Joint Venture – professional property and building services follow up | Acceptable | N/A | Minor | City Development |

| Other Risks | | | | |
|---|---|---|---|---|
| Safeguarding – Disclosure and Barring Service Checks and Health Care Professions Council | Acceptable | Acceptable | Moderate | Strategy and Resources |
| Passenger Transport Contract Follow-up Review | Acceptable | Good | Moderate | Civic Enterprise Leeds |
| Arrangements for the implementation of the Care Act 2014 | Good | Substantial | Minor | Adult Social Care |
| Administration of Client Monies | Limited | Limited | Moderate | Adult Social Care |
| **Information Governance and ICT** | | | | |
| ICT Benefits Realisation Review: PSN Initiative Project and LLN Transition Project | Substantial | Good | Minor | Strategy and Resources |
| Bankline and LATIMA Business Application | Substantial | N/A | Minor | Strategy and Resources |
| FMS Business Application | Good | N/A | Minor | Strategy and Resources |
| Information Security Management System Requirements (ISO 27001:2013) | Assessment of LCC's current position against the Information Security Management System Standard ISO 27001:2013. | | | Strategy & Resources |
| **Housing Partnerships Assurance Framework** | | | | |
| Managed Stores | Acceptable | Acceptable | Minor | Environment and Housing |
| Void Management | Good | Acceptable | Minor | Environment and Housing |
| Requests for Information | Good | Acceptable | Minor | Environment and Housing |
| **Schools** | | | | |
| Primary School | Limited | Limited | N/A | Children's Services |
| **Grants and Other Head of Internal Audit Assurances** | | | | |
| St Matthews Primary School Voluntary Fund | Certification of account balances | | | Children's Services |
| Bramley St Peters School Voluntary Fund | Certification of account balances | | | Children's Services |
| Lord Mayors Charity Accounts | Independent examination of accounts | | | Strategy and Resources |

*Section 2*

# *SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES*

## 2.1 *Key Financial Systems and Other Financial Risks*

2.1.1 With the exception of the Community Care Finance (CCF) audit, all key financial systems work has been completed. Each of these reviews have resulted in good or substantial assurance opinions.

Community Care Finance (CCF)

2.1.2 The objective of the CCF audit is to provide assurance that payments made to providers of residential and nursing care are properly authorised, calculated and recorded within the payments system. The audit of CCF was delayed 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. The CCF audit is currently in progress alongside a review of the implementation of the Client Information System. The results of both of these reviews will be reported to the Committee at a future meeting.

Kirkgate Market follow up review

2.1.3 During the reporting period, we have undertaken a follow up review of Kirkgate Market. The purpose of the review was to assess progress against the recommendations made in a previous audit that had resulted in a limited assurance opinion. The key issues identified in the earlier audit were in respect of cash handling and income collection. The follow up audit has resulted in an improved opinion as the majority of the audit recommendations have been implemented and the risks associated with cash handling are no longer relevant as cash collection at the external market has now been discontinued, with all traders at the market now required to pay by card.

2.1.4 The audit found some issues, however, with the accuracy of invoicing at the external market, which would have caused a loss of income to the council had the errors not been identified. Assurance has been provided by the service that these cases have now been rectified and additional income sought where appropriate. We will follow up progress in this area during 2016/17 to ensure that the issues identified have been addressed.

## *2.2    Procurement and 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. We have previously reported limited assurance for three of the four directorates reviewed due to low levels of compliance with CPRs. The final of the four directorate reports was issued during this reporting period. The largest single reason for non-compliance with CPRs in our sample was that the supplier chosen was of a specialist nature or sole provider of the goods or services purchased. A direct appointment was made without the relevant written record or waiver to support the action.

2.2.4    The Corporate Governance and Audit Committee has previously requested copies of the individual audit reports that have been issued to directorates. Each of the four directorate reports, including their management action plans to address the issues identified have been circulated to the Committee. We will undertake further follow up work in this area over the coming year to assess progress on the implementation of our recommendations.

Professional property and building services joint venture review

2.2.5    In the Internal Audit Update Report 1ˢᵗ June to 31ˢᵗ July, we reported to the Committee that limited assurance was provided for compliance with the control environment in our review of the professional property and building services joint venture. We made a number of recommendations regarding the performance management regime and information flow and we have recently completed a follow up review to assess the progress made in these areas. The

follow up review has found that the recommended controls have recently been implemented or are in the process of being implemented, but have yet to become embedded. A further follow up review will be conducted later in the year to assess the level of compliance with the new controls and their effectiveness.

## 2.3    Other Risks

Administration of client monies

2.3.1    Following a visit to one of our area offices last year we identified weaknesses in the cash handling arrangements for clients for whom we are either an appointee or deputy. We highlighted that improvements were required to procedures, including spot checks to ensure that monies were fully accounted for, and to formalise guidance on the retention and storage of all accounting records, including receipts.

2.3.2    In our Update Report to the Committee in January 2016 we reported that a follow-up review was being undertaken at the area office and that testing had verified significant improvement in the evidencing of cash transfers between Leeds City Council staff and service users or their carer. We also advised that we would be undertaking a review of the cash handling process across other area offices.

2.3.3    We have now completed our review of the cash handling arrangements at the other area offices and the review has resulted in a limited assurance audit opinion. Weaknesses in receipting and evidencing the transfer of cash between staff and the service user means that we are unable to fully account for 12 cash withdrawals with a value of £5,328.36. The review also found that spot checks were not being evidenced to provide assurance that expected controls were being complied with.

2.3.4    The necessary action plans are now in place for the Service to provide an update to the Corporate Governance and Audit Committee on both the investigation of the discrepancies identified and the remedial actions around procedures and current compliance at the next meeting.

Safeguarding Disclosure and Barring Service (DBS) Checks and Health Care Professions Council (HCPC)

2.3.5    The scope of the audit was to provide assurance over the process for ensuring that all eligible staff have undergone the DBS and / or HCPC procedure in line with our policy requirements. Overall, an acceptable assurance opinion was provided as DBS checks had generally been completed in line with agreed policy and eligible employees were registered with the Health and Care Professions

Council. However, the audit found instances where evidence was not available to demonstrate that risk assessments had been completed where a disclosure had been made on the DBS check.  We will undertake a follow up review of this element of the process during the next reporting period and provide an update to the Committee at the next Corporate Governance and Audit Committee meeting.

## *2.4    Schools*

2.4.1    LCC maintained schools are selected for audit review on a risk basis. During the period, we have audited one school. This was undertaken at the request of the Headteacher to assist in improving controls in key areas. The review resulted in a limited assurance opinion, with improvements being required in respect of ensuring compliance with financial and contract procedure rules, checking procedures and the administration of the school voluntary fund. The school provided a robust response to the audit, with each of the recommendations being agreed for implementation.

## *2.5    Counter Fraud and Corruption*

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. We have issued two such investigation reports during this period.

2.5.2    During the reporting period, an external fraudulent request to amend bank account details was received by the Central Payments team. The controls in place were successful in identifying this fraudulent request and no monies were lost.

# *AUDIT PERFORMANCE 2016/17*
# *At 31st May 2016*

## *3.1    ENSURING QUALITY*

3.1.1    Internal audit is committed to delivering a quality product to the highest professional standards that adds value and improves the council's operations. We actively monitor our performance in a number of areas and encourage feedback.

3.1.2    All our work is undertaken in accordance with our quality management system and we have been ISO accredited since 1998.

3.1.3    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.

3.1.4    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.

3.1.5    Between 1st March to 31st May 2016, 10 completed Customer Satisfaction Questionnaires had been received. CSQs received between 1st April 2015 to 31st March 2016 have been included in the annual report for 2015/16.

**Results from Customer Satisfaction Questionnaires for the period 1st March to 31st May 2016**

| Question | Actual to date 1st March to 31st May 2016 - % Score 3 or above | Average Score 1st March to 31st May 2016 |
|---|---|---|
| Notice | 100% | 4.6 |
| Scope | 100% | 4.5 |
| Understanding | 100% | 4.6 |
| Efficiency | 100% | 4.6 |
| Consultation | 100% | 4.8 |
| Professional/Objective | 100% | 4.6 |
| Accuracy of Draft | 100% | 4.8 |
| Opportunity to comment | 100% | 4.7 |
| Final Report - Clarity & Conciseness | 100% | 4.7 |
| Final Report – Prompt | 100% | 4.2 |
| Recommendations | 100% | 4.5 |
| Added Value | 100% | 4.8 |
| Overall Average Score | | 4.6 |

## 3.2 PUBLIC SECTOR INTERNAL AUDIT STANDARDS

3.2.1   The Public Sector Internal Audit Standards require that an external assessment of the internal audit function should be carried out at least once every five years. As previously reported to this Committee, our external assessment is due to be undertaken in October 2016. The proposed Terms of Reference for this assessment is attached below at Appendix A for review and approval by the Corporate Governance and Audit Committee.

Appendix A

## Core Cities Chief Internal Auditor Group

## External Assessment – Peer Review

## Terms of Reference

### Purpose of the Paper

At the meeting of the Core Cities Chief Internal Auditor (CIA) group held on the 3rd September 2014 it was agreed that member authorities should begin to formalise the arrangements for their external assessments and develop a clear basis for the approach to undertaking the assessments.

It was agreed that the external assessment process should be undertaken as a peer review whereby one authority would undertake a peer assessment of a different authority within the group. It was also agreed that reciprocal reviews would not be undertaken.

### Background Information

Members of the peer group:

Sheffield City Council, Leeds City Council, Liverpool City Council, Birmingham City Council, Nottingham City Council, Bristol City Council, Newcastle City Council, Manchester City Council and Glasgow City Council.

### External Assessments

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

The two possible approaches to external assessments outlined in the standard include either a full external assessment or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- Possess a recognised professional qualification

- Have appropriate experience of internal audit within the public sector / local government

- Have detailed knowledge of leading practices in internal audit

- Have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The Head of Internal Audit should discuss the proposed form of the external assessment with their line manager (where relevant) or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Audit Committee regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor. This is the Section 151 Officer for LCC.

The Head of Internal Audit should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

**Purpose of the Review**

The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

**Proposed Approach**

Members of the Core Cities group have elected to adopt the internal self-assessment approach validated by an external reviewer. The key benefit to this approach is cost. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments and can undertake a full external quality assessment with an approximate cost of £15K (based on a quote obtained for the Internal Audit service at Sheffield City Council). They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes approx. 5 working days and costs approx. £11k.

There are financial savings to members of the Core Cities group by adopting the peer review approach outlined within this paper. In addition, the approach is in keeping with the promotion of collaborative working arrangements.

Each authority will determine an appropriate member of their team to conduct the external assessment, taking into account qualifications and relevant experience.

A standard template will be devised for the purposes of reporting conformance. A moderation process will be developed to ensure consistency in the severity of issues being reported.

Upon conclusion of the external assessment, the reviewer will offer a 'true and fair' judgement and it is proposed that each authority will be appraised as Conforms, Partially Conforms or Does Not Conform to the PSIAS.

**Independence and Objectivity**

Prior to the assessments taking place all parties will agree the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. It is important to ensure the independence of the auditor undertaking the peer assessment. Any known or perceived conflicts of interest should

be disclosed.  It should be acknowledged at the outset that all Core City Internal Audit services have some knowledge of each other.

**The Assessment Process**

Completion of the Checklist:

Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment.  It is essential that the basis of the assessment is documented.

Pre Assessment Phase (2 days):

- Confirm the terms of reference for the review, timescales and dates for the review – this should include any specific issues that the authority may want to be considered as part of their quality assessment.

- Obtain;

    o Relevant background information to gain an understanding of the service.  This should include the Internal Audit Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives).

    o details of responsibilities, resources, structure and activities;

    o details of any external client organisations e.g. Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be require

    o the completed self-assessment and supporting evidence; and

    o Obtain evidence of how quality is maintained and performance is measured and reported.

- Issue a questionnaire to key stakeholders at the Council to obtain feedback on the internal audit procedures and process.

- Evaluate all documentation supporting the self-assessment prior to the on-site visit.

Assessment Phase (on-site visit) (1day):

- Raise and resolve any queries arising from the review of the self-assessment.

- Examine a sample of audit engagements to verify compliance to the PSIAS and procedures.

- Interview key staff to confirm audit procedures and process.

- Undertake an exit meeting with the Head of Internal Audit.

Post Assessment Phase (1 day):

The review should conclude with a detailed report providing an evaluation of the team's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.  The report should highlight areas of partial conformance / non-conformance and include suggested actions for improvement, as appropriate.

Reporting Phase (1 day):

- Discussion of the draft report with the Head of Internal Audit.

- Issue of draft final report and agreed actions to the Head of Internal Audit to confirm accuracy.

- Issue final report to the Head of Internal Audit and Sponsor

- Head of Internal Audit / Sponsor to report outcomes to their Audit Committee, together with an action plan and proposed implementation date(s).

It is envisaged that the assessment process should take 5 days in total.