

## Report of the Deputy Chief Executive

### Report to Corporate Governance and Audit Committee

**Date: 16<sup>th</sup> September 2016**

**Subject: Internal Audit Update Report 1<sup>st</sup> June to 31<sup>st</sup> August 2016**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

### Summary of main issues

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements. Reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended. This report provides a summary of the Internal Audit activity for the period 1<sup>st</sup> June to 31<sup>st</sup> August 2016 and highlights the incidence of any significant control failings or weaknesses.

### Recommendations

2. The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from 1<sup>st</sup> June to 31<sup>st</sup> August 2016 and note the work undertaken by Internal Audit during the period covered by the report.

## **1 Purpose of this report**

- 1.1 The purpose of this report is to provide a summary of the Internal Audit activity for the period 1<sup>st</sup> June to 31<sup>st</sup> August 2016 and highlight the incidence of any significant control failings or weaknesses.

## **2 Background information**

- 2.1 The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements, including matters such as internal control and risk management. The reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended.
- 2.2 The reports issued by Internal Audit are directed by the Internal Audit Annual Plan. This has been developed in line with the Public Sector Internal Audit Standards (PSIAS) and has been reviewed and approved by the Committee.
- 2.3 This update report provides a summary of the Internal Audit activity for the period 1st June to 31st August 2016.

## **3 Main issues**

### **3.1 Updates to Audit Plan**

- 3.1.1 The Internal Audit Plan for 2016/17 was reviewed and approved by the Committee in March 2016. This included an allocation of Internal Audit resource for the audits of Housing Leeds. Members were informed that the detailed audit plan for Housing Leeds was to be developed in quarter 1 of 2016-17 in conjunction with the senior leadership team within Environment and Housing. This has now been completed and a high level overview of the individual audits for 2016/17 is provided in the table below.

Table 1: Housing Leeds Audit Plan 2016/17

<b>Audit</b>	<b>Overview of Assurance</b>
Belle Isle TMO Assurance	To provide support to Housing Leeds in the management of the BITMO Assurance Framework.
Leeds Building Services sub-contractor payments	To assist Housing Leeds in their investigation into the current debtor balance for a contractor to determine how much of the balance can be claimed.
Tenancy Management	A review of the systems in place for managing tenancy breaches (other than rent arrears) and to provide assurance that these are managed in line with the relevant policies.
Tenant Involvement	A review of the processes in place to involve tenants in key decisions, and in the management of their properties and the

<b>Audit</b>	<b>Overview of Assurance</b>
	surrounding estates.
Planned and Programmed Maintenance	To support the service in their review of planned and programmed maintenance expenditure.
Stores	To review the effectiveness of the various store management systems in operation.
Follow Up audits	To follow up any previous limited assurance opinion audits. The scope of these audits will be to review the progress that has been made in addressing the weaknesses identified in the previous audit review.

### 3.2 Audit Reports Issued

- 3.2.1 The title of the audit reports issued during the reporting period and level of assurance provided for each review is detailed in Table 2 below. Depending on the type of audit review undertaken, an assurance opinion may be assigned for the control environment, compliance and organisational impact. The control environment opinion is the result of an assessment of the controls in place to mitigate the risk of the objectives of the system under review not being achieved. A compliance opinion provides assurance on the extent to which the controls are being complied with. Assurance opinion levels for the control environment and compliance are categorised as follows: substantial (highest level); good; acceptable; limited and no assurance.
- 3.2.2 Organisational impact is reported as either: major, moderate or minor. Any reports issued with a major organisational impact will be reported to the Corporate Leadership Team along with the relevant directorate's agreed action plan.

Table 2: Summary of Reports Issued 1st June to 31<sup>st</sup> August

<b>Report Title</b>	<b>Audit Opinion</b>		
	<b>Control Environment Assurance</b>	<b>Compliance Assurance</b>	<b>Organisational Impact</b>
<b>Housing Leeds</b>			
Belle Isle TMO Equality and Diversity Strategy (brought forward from 2015/16)	Good	N/A	Minor
Lettings Enforcement (brought forward from 2015/16)	Good	N/A	Minor
Customer Complaints (brought forward from 2015/16)	Good	Acceptable	Minor
Leeds Building Services Tools and Equipment (brought forward from 15/16)	Acceptable	Limited	Minor

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Belle Isle TMO Void Management (brought forward from 2015/16)	Good	Good	Minor
Leeds Building Services Subcontractors and Quality Management Systems (brought forward from 2015/16)	Acceptable	Acceptable <sup>1</sup>	Minor
<b>ICT and Information Governance</b>			
Frameworki (Children's Services case management system) Business Application Review	Good	N/A	Minor
<b>Key Financial Systems</b>			
Sundry Income year end reconciliation	Substantial		N/A
Income Management System year end reconciliation	Substantial		N/A
Central Purchasing Cards (brought forward from 2015/16)	Substantial	N/A	Minor
NNDR year end reconciliation	Substantial		N/A
Council Tax year end reconciliation	Substantial		N/A
Housing Benefit/Council Tax benefit year end reconciliation	Substantial		N/A
Creditors year end reconciliation	Substantial		N/A
Payroll year end reconciliation	Substantial		N/A
Bank Reconciliation and Cashbook	Substantial	N/A	Minor
<b>Procurement</b>			
FMS Contract Data	Acceptable	Good	Minor
<b>Schools</b>			
Primary School Voluntary Fund x 2	Certification of balances		

<sup>1</sup> Although acceptable assurance was provided for compliance with policies and procedures overall, limited assurance was provided for one of the objectives covered as part of the review. Further information is provided at 3.3.7.

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Primary School	Good	Good	N/A
Follow Up Reviews			
Sundry Income Events	Acceptable	Acceptable	Minor
Sundry Income Lettings	Acceptable	Good	Minor
Housing Leeds Direct Labour Organisation (DLO)	Acceptable	N/A	Minor
Children’s Services			
Direct Payments (brought forward from 2015/16)	Acceptable	Limited	Minor
Strategy and Resources			
Employee Declaration of Interests	Acceptable	Good	Minor
Employee Gifts and Hospitality	Good	Good	Minor
Agency Staff Payments – Interim Report	Memo issued with our interim findings and the actions required for us to complete our review		
City Development			
Planning Decisions (brought forward from 2015/16)	Substantial	Substantial	Minor
Leeds Grand Theatre			
Creditors and Payments to Visiting Companies	Good	Good	N/A
Budgetary Control	Good	N/A	N/A

3.2.3 In addition to the reports detailed in Table 2 above, the following grant certifications and audit assurances have been finalised during the reporting period:

- Local transport capital block funding grant
- Families First grant claim May 2016
- Cycling ambition grant determination
- West Yorkshire Plus transport grant

### **3.3 Summary of Audit Activity and Key Issues**

- 3.3.1 During the reporting period, we have finalised 34 audit reviews (excluding continuous audit, work for external clients and fraud and irregularity work).
- 3.3.2 Substantial assurance has been provided for each piece of work completed in respect of the key financial systems and for the processes in place to ensure decisions for planning applications are made in accordance with legislation and Council policies. The majority of the remaining work completed resulted in good or acceptable assurances and we have not identified any issues that would necessitate direct intervention by the Corporate Governance and Audit Committee.

#### **Limited or No Assurance Opinions**

- 3.3.3 Of the audit reviews finalised during the period, none have resulted in a 'no assurance' opinion and the impact of any control weaknesses identified during the period has been assessed as minor for all relevant reviews.
- 3.3.4 The following three audited areas resulted in a limited assurance opinion overall or a limited assurance opinion for part of the audit coverage:
- Children's Services Direct Payments;
  - Leeds Building Services (LBS) Tools and Equipment; and
  - LBS Subcontractors and Quality Management Systems
- 3.3.5 The objective of the audit of direct payments within Children's Services was to assess the controls in place for ensuring that direct payments are paid accurately to eligible people. Direct payments are given to parents/carers or young people to enable them to purchase support which has been assessed as being needed. They may also be used to enable people with parental responsibility for a disabled child to pay for short breaks. Our review resulted in a limited assurance opinion for compliance with agreed policies and procedures due to the high number of errors identified in the accuracy of the payments made. The value of these errors was found to be low however, resulting in an assessment of minor organisational impact. An action plan is in place to address the weaknesses identified. Consideration is also being given to working with the Adult Social Care Direct Payments Audit Team to undertake direct payment financial audits for Children's Services.
- 3.3.6 The audit of LBS Tools and Equipment was undertaken at the request of management to assist in developing a cohesive approach in respect of tools and equipment for operatives. This followed the Council's two Internal Service Providers (ISPs) of direct construction work being brought together to form a single ISP. The audit found that processes required strengthening in respect of purchasing, allocating, recording and checking the tools and equipment provided for operatives within LBS. Due to these issues, it was not possible to provide assurance that all tools and equipment purchased for Council use could be accounted for.

- 3.3.7 The review of LBS Subcontractors and Quality Management Systems sought to obtain assurance on the procurement of subcontractors and the allocation and quality of work undertaken. An acceptable assurance opinion was provided overall, however there was a lack of evidence to confirm that Contract Procedure Rules had been followed when allocating work to subcontractors who were not on an existing framework contract.
- 3.3.8 Action plans have been agreed with the services to address each of the issues highlighted above. We will undertake follow up reviews in the three areas and report the progress made against these actions to the Committee at a future meeting, as detailed in the follow up tracker at Table 3 below.

#### Follow Up Reviews

- 3.3.9 Our protocols specify that we undertake a follow up review where we have previously reported 'limited' or 'no' assurance for the audited area. We have recently refreshed our reporting template to include an assurance opinion for each objective reviewed within the audited area. Follow up audits will now be undertaken for those areas where a specific objective within the review resulted in limited or no assurance in addition to those where the limited or no assurance opinion was provided for the review overall.
- 3.3.10 Table 3 below provides tracking information on the follow up audits due to be completed this year together with the Corporate Governance and Audit Committee meeting date that the results are due to be reported. Follow up audits that have previously been reported to the Committee where there are no outstanding issues that require further follow up work are not included within the table. Further information on the follow up audits that have been completed during this reporting period is detailed below at 3.3.11 to 3.3.15.

Table 3: Follow Up Audit Tracker

Audited area	Follow up status (see key below table)	Corporate Governance and Audit Committee report reference
<b>Follow up results reported at the current meeting</b>		
Housing Leeds Direct Labour Organisation	Closed	See 3.3.15
Sundry Income Events	Ongoing, improved opinion	See 3.3.13
Sundry Income Lettings	Ongoing, improved opinion	See 3.3.14
<b>Follow up results due to be reported: January 2017 meeting</b>		
Joint Venture	Planned	June 2016
Commissioning of external residential and	Planned	September 2015

<b>Audited area</b>	<b>Follow up status (see key below table)</b>	<b>Corporate Governance and Audit Committee report reference</b>
independent fostering agency placements		
Safeguarding Clients Personal Assets Central Controls (Deputy and Appointee Procedures)	In progress	July 2015
Taxi and Private Hire Licensing	In progress	March 2016
Bank Accounts: Electoral Services Account	In progress	March 2016
Administration of Client Monies	Planned	March 2016
Safeguarding Disclosure and Barring Service Checks and Health Care Professions Council	In progress	June 2016
<b>Follow up results due to be reported: April 2017 meeting</b>		
Kirkgate Market	Ongoing, improved opinion	June 2016
Primary School	Planned	March 2016
Spending Money Wisely Challenge – off-contract spend (four directorates)	Ongoing, recurrent limited assurance <sup>2</sup>	March and June 2016
Children's Services Direct Payments	Planned	See 3.3.5
LBS Tools and Equipment	Planned	See 3.3.6
LBS Subcontractors and Quality Management Systems	Planned	See 3.3.7
Sundry Income Events	Planned	See above
Sundry Income Lettings	Planned	See above

<b>Key</b>	
Closed:	Results of follow up audit are satisfactory and no further follow up work required
In progress:	Follow up audit of original limited assurance opinion is in progress
Ongoing, improved opinion:	Follow up audit completed and overall opinion has improved. Further follow up review planned to close outstanding issues
Ongoing, recurrent limited opinion:	Follow up audit completed and overall opinion has <b>not</b> improved. Further follow up review planned to close outstanding issues
Planned:	Dates for follow up audit have been agreed and planned

<sup>2</sup> Limited assurance opinions provided for the four directorates reviewed. Further follow up audits are currently in progress for the four directorates originally reviewed plus three further directorates to provide cross cutting coverage. Committee has previously requested and received directorate audit reports.



- 3.3.11 During this reporting period we have finalised three follow up reviews, all of which have resulted in improved assurance opinions:
- Sundry Income Events
  - Sundry Income Lettings
  - Housing Leeds Direct Labour Organisation (DLO)
- 3.3.12 Limited assurance opinions were provided for the previous audits of sundry income generated by the Events Team within City Development (covering external chargeable events at Millennium Square and Victoria Gardens) and sundry income generated by the Lettings Team within Civic Enterprise. The follow up audits have now been finalised and both have resulted in improved assurance opinions as progress has been made in addressing the majority of the issues raised in the previous audit reports.
- 3.3.13 For Sundry Income Events, the previous audit reported a lack of formalised governance arrangements detailing how new events will be brought to Leeds, the absence of a pricing policy detailing the approach to core funded events, and no formalised charging schedule or benchmarking with other local authorities. The follow up audit found that although processes had been strengthened overall, some of the recommended actions were only partially complete. We will undertake further audit follow up work later in the year to review progress against these actions.
- 3.3.14 Since the previous audit of Sundry Income Lettings, the Education and Community Lettings Teams have now been brought together with the intention that best practice is shared to establish more effective, consistent working procedures and systems. The audit coverage included an assessment of the management information produced, however the suite of management information reports were being developed at the time of the audit so it was not possible to complete this audit objective. This area will be the subject of further audit follow up work later in the year.
- 3.3.15 The follow up review of Housing Leeds Direct Labour Organisation resulted in an improved assurance opinion as the issues that had been raised in the previous audit regarding the methodology for allocating labour costs and the access controls to the subcontractor selection system (SWAPS) had been addressed.

#### Procurement

- 3.3.16 At the June 2016 CGAC meeting, members requested that a briefing note be prepared for circulation to the Committee detailing the amount of off-contract spend by department. This note has been provided to members by the Projects, Programmes and Procurement Unit (PPPU), and includes information on arrangements in place to address off and non-contract spend.
- 3.3.17 During this reporting period we have issued a related audit report on arrangements in place within PPPU to ensure the integrity of the contract data

held on FMS, in order to provide assurance that off and non-contract orders raised through FMS can be identified.

- 3.3.18 Our review provided an opinion of acceptable assurance for the control environment. In order to provide greater assurance over the integrity of FMS contract data we recommended that a regular reconciliation should be carried out to compare contract records in FMS and YORtender (the Council's tendering system). PPPU have advised that this recommendation has since been implemented.
- 3.3.19 A further recommendation was made to establish an approval process for new quasi contracts, which should only be recorded when the Council has no control over which supplier is used. PPPU also advised that they are intending to carry out a review of existing quasi arrangements to consider whether any opportunities for savings exist within these.
- 3.3.20 We provided an opinion of good assurance for compliance with the control environment, as in practice the majority of contract records held on FMS and YORtender matched. PPPU have given assurances that any differences we identified were either legitimate or have now been corrected. The recommended regular reconciliation between the two systems will enable PPPU to identify and address any future differences in contract records on an ongoing basis and therefore ensure that the information used to identify opportunities for savings is accurate and complete.

#### Continuous Audit

- 3.3.21 This cross cutting audit programme aims to evaluate control effectiveness across key systems on an ongoing basis, and highlight high risk transactions or events. The programme has been developed to initially focus on the self-serve processes that have recently been introduced by the Council. To date, we have completed testing on SAP travel and expense claims, Click Travel and purchasing card expenditure where this related to travel. No significant issues have been identified and overall, we can provide good assurance that the current self-service arrangements are working as intended.

#### Counter Fraud and Corruption

- 3.3.22 The counter fraud and corruption assurance block within the Internal Audit Plan includes both the reactive and pro-active approaches to the Council's zero tolerance to fraud and corruption across the authority.
- 3.3.23 During the reporting period we have received seven potential irregularity referrals. Of these, three were classified under the remit of the Whistleblowing or Raising Concerns policies. All reported irregularities were risk assessed by Internal Audit and are either being investigated by ourselves, the relevant directorate or HR colleagues, as appropriate. Of the 27 referrals received to date in the 2016/17 financial year, 17 have been closed (12 within the period June to August).
- 3.3.24 The proactive strand of our anti-fraud work includes data analytical work with the aim of preventing and detecting fraud, overpayment and error. We are currently

working to co-ordinate action on the National Fraud Initiative (NFI) data matching exercise and continue to assess the Council's counter fraud arrangements against best practice.

- 3.3.25 At the previous Corporate Governance and Audit Committee meeting, the Chief Officer (Audit and Investment) submitted a report which informed the Committee of the revisions to the Anti-Money Laundering Policy. Having taken into account Corporate Governance and Audit Committee and Executive Member comments, the Chief Officer (Audit and Investment) has now taken the delegated decision to approve the revised policy prior to publication.

#### Internal Audit Performance

- 3.3.26 The Corporate Governance and Audit Committee has responsibility for monitoring the performance of Internal Audit. The information provided below in respect of our quality assurance and improvement programme provides the Committee with assurances in this area.
- 3.3.27 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.
- 3.3.28 All our work is undertaken in accordance with our quality management system and we have been ISO accredited since 1998.
- 3.3.29 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 presented as an average of the scores received for each question.
- 3.3.30 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.
- 3.3.31 During the period 1st April to 31st August 2016, 17 completed Customer Satisfaction Questionnaires were received. A summary of the scores is presented in Table 4 below.

Table 4: Results from Customer Satisfaction Questionnaires for the period 1st April to 31st August 2016

Question	Average Score (out of 5)
Sufficient notice was given	4.88
Level of consultation on scope	4.71
Auditor's understanding of systems	4.53
Audit was undertaken efficiently	4.82

Question	Average Score (out of 5)
Level of consultation during the audit	4.76
Audit carried out professionally and objectively	4.94
Accuracy of draft report	4.50
Opportunity to comment on audit findings	4.88
Clarity and conciseness of final report	4.67
Prompt issue of final report	4.53
Audit recommendations will improve control	4.62
The audit was constructive added value	4.59
Overall Average Score	<b>4.70</b>

- 3.3.32 Table 5 below provides a broad indication of progress against the Internal Audit Plan for 2016/17. The number of audits planned and delivered during the year will increase as the blocks of time allocated for areas of work (such as contract reviews and schools) are broken down to specific audit assignments and to address emerging issues through the use of contingency time. The table does not include fraud and irregularity work or advice issued to managers arising from adhoc requests for audit support.

Table 5: Audit Plan 2016/17 Progress

Number of individual audit assignments	Planned	In progress	Completed
Audit Plan 2016/17	54	15	22
Follow up audits <sup>3</sup>	17	4	3

- 3.3.33 Current levels of resources within Internal Audit are sufficient to ensure that an evidence-based Head of Internal Audit opinion can be provided on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in accordance with the Public Sector Internal Audit Standards.
- 3.3.34 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. The Terms of Reference for this assessment were reviewed and approved by the Corporate Governance and Audit Committee at the last meeting. The external assessment is due to be undertaken in October 2016 and the results of the review are due to be reported to the Committee at the meeting in January 2017.

<sup>3</sup> This includes seven Spending Money Wisely (off-contract spend) reviews

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

4.1.1 This report did not highlight any consultation and engagement considerations.

### **4.2 Equality and Diversity / Cohesion and Integration**

4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

### **4.3 Council policies and Best Council Plan**

4.3.1 The terms of reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the Council's corporate governance arrangements. This report forms part of the suite of assurances that provides this evidence to the Committee. The Internal Audit Plan has links with each of the Council's strategic objectives and has close links with the Council's value of spending money wisely.

### **4.4 Resources and value for money**

4.4.1 The Internal Audit Plan includes a number of reviews that evaluate the effectiveness of financial governance, risk management and internal control arrangements that contribute towards the Council's value of spending money wisely.

4.4.2 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates a commitment to continuous improvement in respect of efficiency and effectiveness.

### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 None.

### **4.6 Risk Management**

4.6.1 The Internal Audit Plan has been and will continue to be subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.

4.6.2 The risks relating to the achievement of the Internal Audit Plan are managed through ongoing monitoring of performance and resource levels. This information is reported to the Committee.

## **5 Conclusions**

5.1 There are no issues identified by Internal Audit in the June to August 2016 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

## **6 Recommendations**

- 6.1 The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from June to August 2016 and note the work undertaken by Internal Audit during the period covered by the report.

## **7 Background documents**

- 7.1 None.