

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 7th April 2017

Subject: Internal Audit Update Report January to March 2017

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 from January to March 2017 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 January to March 2017 and note the work undertaken by Internal Audit during the period covered by the report. The Committee is also asked to note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.

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 January to March 2017 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 from January to March 2017.

3 Main issues

3.1 Audit Reports Issued

- 3.1.1 The title of the audit reports issued during the reporting period and level of assurance provided for each review is detailed in Table 1 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.
- 3.1.2 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 1: Summary of Reports Issued January to March 2017

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Housing Leeds			
Leeds Building Services - Stores	Good	Acceptable ¹	Minor
Rent Arrears	Good	Acceptable	Minor
Environment and Housing			
Compliance with Corporate Risk Management Policy	N/A	Acceptable ²	Moderate
Adult Social Care			
Unannounced Establishment Visit	Good	Good	Minor
Community Care Finance	Acceptable	Limited	Moderate
Implementation of the Client Information System (CIS)	Good	Acceptable ³	Moderate
Safeguarding	Substantial	N/A	Minor
ICT and Information Governance			
ICT Business Continuity Planning	Good	N/A	Minor
Key Financial Systems			
Benefit Reconciliations	Substantial	Substantial	Minor
Central Sundry Income	Substantial	Substantial	Minor
Business Rates	Substantial	Substantial	Minor
Capital	Substantial	N/A	Minor
Housing Rents	Substantial	Good	Minor

¹ Acceptable assurance provided overall, with limited assurance provided for the maintenance of stock records.

² Acceptable assurance provided overall, with limited assurance provided for documenting how risks are assessed.

³ Acceptable assurance provided overall, with some areas of limited assurance for compliance.

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Central Purchasing Card Controls	Substantial	N/A	Minor
Council Tax	Substantial	N/A	Minor
Schools			
School Voluntary Funds x 4	Certification of balances		
Follow Up Reviews			
Sundry Income Lettings	Acceptable	N/A	Minor
Primary School	Acceptable	Acceptable	Minor
Kirkgate Market	Acceptable	Acceptable	Minor
Children's Services			
Contract Review – Independent Support Work	Good	Good	Minor
Analytical review work on costs (school maternity costs)	N/A		

3.1.3 In addition to the reports detailed in Table 1 above, the following grant certification has been finalised during the reporting period:

- Troubled Families January 2017

3.2 Summary of Audit Activity and Key Issues

3.2.1 During the reporting period, there have been no limitations in scope and nothing has arisen to compromise our independence. We have finalised 25 audit reviews (excluding continuous audit, work for external clients and fraud and irregularity work) and we have not identified any issues that would necessitate direct intervention by the Corporate Governance and Audit Committee.

3.2.2 Each of the seven audits that have been completed in respect of the council's key financial systems have received Substantial or Good assurance opinions. This provides the Committee with assurance that these systems are well established and operating as intended.

Limited or No Assurance Opinions

- 3.2.3 Of the audit reviews finalised during the period, none have resulted in a 'no assurance' opinion and no weaknesses have been identified that would result in a 'major' organisational impact.
- 3.2.4 The following four audited areas resulted in a limited assurance opinion overall or a limited assurance opinion for part of the audit coverage:
- Community Care Finance
 - Implementation of the Client Information System (CIS)
 - Leeds Building Services (LBS) – Stores
 - Environment and Housing compliance with the Corporate Risk Management Policy
- 3.2.5 Adult Social Care implemented a new customer record and finance system, the Customer Information System (CIS) in August 2015. Social Care records were migrated from the previous system, ESCR; and financial records for external placements and direct payments from ESCR Financials (a system independent of ESCR).
- 3.2.6 As part of our audit coverage we have reviewed the processing of payments for external placements and direct payments (which are paid through Community Care Finance) and the implementation of CIS.

Community Care Finance

- 3.2.7 As part of the scope for the Community Care Finance audit we reviewed procedures in place for both the current (CIS) and previous system (ESCR Financials).
- 3.2.8 Our review found that there were good controls in place to ensure that:
- new placements for residential and nursing care are properly authorised;
 - contributions are correctly calculated;
 - payments are made in line with the relevant contract or agreement and are accurately recorded in the council's accounting system; and
 - direct payments are appropriately authorised and accurately processed in a timely manner.
- 3.2.9 The audit found that processes require strengthening to ensure that all changes in circumstances and all deferred and statutory charges are identified. Opportunities were also identified to improve the efficiency of the process in respect of recovering overpayments due from providers.

- 3.2.10 We found that a number of issues were encountered with payments to providers following the introduction of CIS. The issues were addressed at the implementation stage through workarounds and by making payments outside of the system, which has caused some inefficiencies.

Implementation of CIS

- 3.2.11 The Executive Board gave approval in July 2012 to enter into a partnership agreement with Calderdale Metropolitan Borough Council for the purchase of an initial 20% share of their Adult Social Care Client Information System (CIS) to replace the ESCR and ESCR financial systems. Responding to specific concerns raised by Executive Board as to whether the Adult Social Care Client Information System used by Calderdale Council would be fit for Leeds' purpose, it was requested that related matters were referred to the Corporate Governance and Audit Committee, so that the acquisition of the system could be monitored. Members of this Committee sought assurance from the Director of Adult Social Services that the new system would be fit for Leeds' purpose and that the acquisition of the system complied with the Council's procurement process. This assurance was provided by the Director of Adult Social Care through a series of reports on the *'Shared Service Partnership with Calderdale Metropolitan Borough Council to meet Adult Social Care Technology Requirements'* between 2012 and 2015.
- 3.2.12 Our review of the implementation of CIS was included in the audit plan to provide this Committee with separate independent assurance on the management of the project. Our review found that, overall, the project was well managed in line with the Council's approved project methodology. However, the documentation of the decision making around managing the key risks and issues in the 4 months preceding go live was not maintained. There was no documentary evidence to confirm that the Board had been provided with appropriate information at the latter stages of the project or that the final sign off had been obtained before the project went live. The project was very complex and time pressured, and some compromises were evident (e.g reduction in testing) in order to meet the implementation target date. We have recommended that a lessons learnt review is undertaken to inform similar future projects.
- 3.2.13 There is evidence that measures are being put in place to resolve the issues identified in the audits of Community Care Finance and the Implementation of CIS. A number of the recommendations made during our review have already been implemented.

LBS Stores

- 3.2.14 LBS provides repairs and maintenance services for tenants of Housing Leeds and for Council buildings. Our review of LBS Stores sought to obtain assurance that there are appropriate processes in place for the purchase, allocation and recording of direct materials and stock and that security of stock is in line with financial regulations. The audit found that there were good processes in place overall with the exception of the maintenance of the stock records. Our review found variances between stock records and stock held for a high number of the sample we tested. The discrepancies included examples of holding more stock

than the records indicated as well as examples of holding less stock than recorded. The implementation of the recommendations made from the audit will provide greater assurance that stock has been correctly allocated to jobs and can be accounted for.

Environment and Housing – Compliance with the Corporate Risk Management Policy

- 3.2.15 The audit found that there are processes in place to identify and manage risks within the Environment and Housing directorate. Risk registers are in place at a service level and for individual programmes and projects. However, there is no single risk register that captures the directorate’s significant risks. We were able to provide independent assurance that a sample of generic risks are being effectively managed, but it is not possible to provide objective assurance that a structured and consistent approach has been taken to communicate, assess and evaluate the risks and prioritise resources due to how the directorate records risk information.
- 3.2.16 The audit report was considered by the directorate’s senior leadership team and it was agreed that, in view of the directorate changes taking place, senior managers will identify and assess their risks and discuss these with the relevant director. These will then be considered within the risk management arrangements in place within the new directorates.

Follow Up Reviews

- 3.2.17 Our protocols specify that we undertake a follow up review where we have previously reported ‘limited’ or ‘no’ assurance for the audited area. Our audit reports include an assurance opinion for each objective reviewed within the audited area. Follow up audits are 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.
- 3.2.18 Table 2 below provides tracking information on the follow up audits due to be completed together with the Corporate Governance and Audit Committee meeting date where the initial audit findings were reported.

Table 2: Follow Up Audit Tracker

Audited area	Follow up audit status	Corporate Governance and Audit Committee report reference
Follow up results reported at the current meeting		
Sundry Income Lettings	Closed	See 3.2.20
Primary School	Closed	See 3.2.20
Kirkgate Market	Closed	See 3.2.20

Audited area	Follow up audit status	Corporate Governance and Audit Committee report reference
Follow up reviews due in 2017/18		
Commissioning of external residential and independent fostering agency placements	Follow up audit initially postponed to allow time for audit recommendations to be implemented. Follow up audit now in progress.	September 2015
Contract Extensions	In progress	March 2016
Administration of Client Monies	In progress	June 2016
Spending Money Wisely Challenge – off-contract spend	In progress	March and June 2016
Children’s Services Direct Payments	In progress	September 2016
LBS Tools and Equipment	Planned	September 2016
LBS Subcontractors and Quality Management Systems	In progress	September 2016
Sundry Income Events	In progress	September 2016
Leeds Grand Theatre – Contract Procedure Rules	Planned	January 2017
Housing Leeds Tenancy Management – Use and Occupation	Planned	January 2017
Contract Review - Joint Venture: professional property and building services	Planned	January 2017
Community Care Finance	Planned	See 3.2.7
Implementation of Client Information System	Planned	See 3.2.11
LBS Stores	Planned	See 3.2.14

3.2.19 During this reporting period we have finalised 3 follow up reviews:

- Sundry Income Lettings
- Primary School
- Kirkgate Market

- 3.2.20 All three follow up reviews resulted in an improved assurance opinion, reflecting the progress made since the previous audits.

Continuous Audit

- 3.2.21 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 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

- 3.2.22 The counter fraud and corruption assurance block within the Internal Audit Plan includes both the reactive and proactive approaches to the Council's zero tolerance to fraud and corruption across the Authority.

Proactive Anti-Fraud Work

- 3.2.23 During the reporting period, we have continued to raise awareness of fraud risks and preventative action through presentations and reviews of the anti-fraud and corruption measures in place in key areas across the organisation.
- 3.2.24 Internal Audit resources have also been focussed on reviewing the National Fraud Initiative data matches and undertaking investigations as appropriate.

Reactive Anti-Fraud Work

- 3.2.25 During the reporting period we have received 10 potential irregularity referrals. Of these, 6 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 50 referrals received to date in the 2016/17 financial year, 32 have been closed (9 within the period January to March 2017).
- 3.2.26 Previously, Members have requested that they are informed of the departments where fraud has been discovered. We are in the early stages of investigating potential fraudulent activity at one of our schools. We have alerted the police to our concerns and will provide the Committee with further information on this when it is appropriate to do so. In the meantime, we have reviewed the internal control arrangements in place at the school and provided a series of recommendations, the implementation of which will mitigate against the fraud risks identified.

Internal Audit Performance

- 3.2.27 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.

- 3.2.28 All our work is undertaken in accordance with our quality management system and we have been ISO certified since 1998.
- 3.2.29 We actively monitor our performance in a number of areas and encourage feedback. 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.
- 3.2.30 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.
- 3.2.31 During the period April 2016 to March 2017, 40 completed Customer Satisfaction Questionnaires have been received. A summary of the scores is presented in Table 3 below.

Table 3: Results from Customer Satisfaction Questionnaires for the period April 2016 to March 2017

Question	Average Score (out of 5)
Sufficient notice was given	4.90
Level of consultation on scope	4.74
Auditor's understanding of systems	4.50
Audit was undertaken efficiently	4.78
Level of consultation during the audit	4.78
Audit carried out professionally and objectively	4.93
Accuracy of draft report	4.62
Opportunity to comment on audit findings	4.90
Clarity and conciseness of final report	4.70
Prompt issue of final report	4.64
Audit recommendations will improve control	4.59
The audit was constructive and added value	4.65
Overall Average Score	4.73

- 3.2.32 The excellent customer satisfaction results reflect our commitment to delivering a quality product to the highest professional standards that adds value and improves the Council's operations.
- 3.2.33 Table 4 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 4: Audit Plan 2016/17 Progress

Number of individual audit assignments	Planned	In progress	Completed
Audit Plan 2016/17	16	26	71
Follow up audits	7	7	11

3.2.34 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 (PSIAS).

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 January to March 2017 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 January to March 2017 and note the work undertaken by Internal Audit during the period covered by the report. The Committee is also asked to note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.

7 Background documents

7.1 None.