

**Report of the Chief Officer (Financial Services)**

**Report to Corporate Governance and Audit Committee**

**Date: 22 September 2017**

**Subject: Internal Audit Update Report June to August 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 June to August 2017 and highlights the incidence of any significant control failings or weaknesses.
2. Members will recall that officers reported to the June 2017 meeting that in the most recent inspection report issued by the Office of Surveillance Commissioners, it was recommended that members should receive regular reports about the use of the council's surveillance powers under the Regulation of Investigatory Powers Act 2000 (RIPA). The Head of Service (Legal) has provided this information within this report.

**Recommendations**

3. The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from June to August 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.
4. The Corporate Governance and Audit Committee is asked to note the information provided by the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA.

## **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 June to August 2017 and highlight the incidence of any significant control failings or weaknesses.
- 1.2 The report also provides information from the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA.

## **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 June to August 2017.
- 2.4 This update report also provides information from the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA, as recommended by the Office of Surveillance Commissioners.

## **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. 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 June to August 2017

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
<b>Key Financial Systems</b>			
Financial Management Central Controls 2016/17	Substantial	N/A	Minor
Sundry Income – Network Management	Good	Good	Minor
Sundry Income – Sports Centre	Acceptable	Acceptable	Minor
<b>Children’s and Families</b>			
Safeguarding	Substantial	N/A	Minor
<b>City Development</b>			
Community Asset Transfers	Acceptable	N/A	Minor
Community Infrastructure Levy	Limited	Acceptable	Minor
<b>ICT and Information Governance</b>			
ICT Data Security	Acceptable	Acceptable	Moderate
Investigation into the use of council resources <sup>1</sup>	Not applicable	Not applicable	Not applicable
<b>Resources and Housing</b>			
Belle Isle TMO Assurance Framework – Customer Complaints, Satisfaction and Requests for Information	Good	Substantial	Minor
Belle Isle TMO Assurance Framework – Planned and Programmed Maintenance	Good	Substantial	Minor
<b>Schools</b>			
Primary School <sup>2</sup>	Acceptable	Acceptable	N/A

<sup>1</sup> This report was issued on 1<sup>st</sup> September, outside of the normal reporting period. It has been included in this update report because of the unprecedented circumstances. Further information is provided at 3.2.3

<sup>2</sup> Although acceptable assurance was provided for both control environment and compliance, limited assurance was provided for two of the objectives covered as part of the review. Further information is provided at 3.2.10

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Primary School Voluntary Fund x 2	Certification of balances		
<b>Adults and Health</b>			
Directorate Risk Management Arrangements for Information Governance	Substantial	N/A	Minor
<b>Procurement</b>			
Recycling and Energy Recovery Facility PFI Contract Review	Substantial	N/A	Minor
<b>Follow Up Reviews</b>			
Contract Extensions Follow Up	Good	Good	Minor
Leeds Building Services Subcontractors Follow Up	Good	Limited	Minor

3.1.3 In addition to the reports detailed in table 1 above, the following grant certifications have been finalised during the reporting period:

- Local Transport Capital Block Funding Grant 2016/17
- Cycling Ambition Grant 2016/17
- West Yorkshire Plus Capital Grant 2016/17
- Local Authority Bus Subsidy Grant 2016/17

## 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 20 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 At the Corporate Governance and Audit Committee meeting in June 2017, we reported limited assurance opinions for compliance with Contract Procedure Rules (CPRs) for expenditure not linked to a contract across seven directorates. Since that meeting, we have reported to the Corporate Leadership Team (CLT) on the issue and we have been working with the Projects, Programmes and Procurement Unit (PPPU) to assist in progressing the actions necessary to improve performance in this area, such as developments in reporting and training arrangements.

## Investigation into the use of council resources

- 3.2.3 Following the sentencing of the former Leeds councillor and former Lord Mayor, Neil Taggart in July, the Chief Executive asked Internal Audit to carry out an investigation into the council's arrangements in order to provide assurance that no council resources were used to commit his crimes. In the interests of transparency we have decided because of the unprecedented circumstances to make the report publically available. A copy of the report is attached at appendix 1.
- 3.2.4 The investigation found no evidence that council equipment was used for the offences committed by Neil Taggart. However, the council did provided an internet connection to the home of Neil Taggart for a period of at least eight years, during which time the offences were reported to have taken place. In the absence of any evidence to confirm which internet connection was used to obtain the images in question, there remains a possibility that the council-provided internet connection may have been used for this purpose. Whilst filtering controls were in place during this period, it is not possible for 100% of websites with inappropriate content to be blocked. The investigation has recommended the council implements proactive monitoring controls for the purposes of identifying offences of this nature.
- 3.2.5 There is evidence that Neil Taggart received training on the Code of Conduct and signed a disclaimer to confirm that he had understood and would comply with relevant policies, including the Electronic Communications Code of Practice. This provides assurance that the council has processes in place that re-enforce the standards of conduct and behaviour expected from those that serve it. However, the investigation has highlighted a potential control weakness in relation to undertaking Disclosure and Barring Service (DBS) checks for members. If this control had been in place during the period in question, the investigation has concluded that this would not have had any impact on this case.
- 3.2.6 To ensure that actions to implement the recommendations are taken forward a framework of proactive monitoring measures that would supplement the existing web filtering and conduct controls is to be put in place and that this includes proactive scanning of the council's digital storage including all council owned devices use by staff and members. Further work is to be carried out to formalise the existing process for undertaking DBS checking for all members, with an escalation process built into the process if checks are not completed in line with agreed timescales.

## Limited or No Assurance Opinions

- 3.2.7 Of the audit reviews finalised during the period, no weaknesses have been identified that would result in a 'major' organisational impact.
- 3.2.8 The following three audited areas resulted in a limited assurance opinion overall or a limited assurance opinion for part of the audit coverage:
- Community Infrastructure Levy
  - Primary School
  - Leeds Building Services (LBS) Subcontractors Follow Up

## Community Infrastructure Levy

- 3.2.9 The Community Infrastructure Levy (CIL) is a new levy that the council charges on many new developments to help pay for the infrastructure needed across Leeds as a result of growth. CIL monies received in 2015/16 totalled £126,878 and in 2016/17 totalled £1,865,696. The scope of the audit was to review the processes that ensure that CIL income is identified and that all sums due to the council are received. The review found that there are processes in place to capture where there is a CIL liability and our audit testing confirmed that the CIL calculation was correct for our sample. However, the review resulted in a limited assurance audit opinion as controls require strengthening in respect of the electronic system that holds the CIL data to ensure the integrity of the charging information held. The introduction of management checks and reconciliation processes will increase assurance that all CIL income is identified and received. The service has agreed to take forward all the recommendations made during the audit.

## Primary School

- 3.2.10 During the reporting period, we have audited the financial management arrangements at one of our primary schools. Whilst the review resulted in an acceptable assurance opinion overall, the audit found some administration issues and we could not provide assurance that all income received was banked by the school, as supporting documentation was not retained for all strands of income (for example, school trips). This resulted in a limited assurance opinion for part of the audit coverage which will be subject to a follow up review later in the year.

## LBS Subcontractors Follow Up

- 3.2.11 The previous audit of LBS Subcontractors found that there was a lack of evidence to confirm that Contract Procedure Rules (CPRs) had been followed when allocating work to subcontractors who were not on an existing framework contract. The council's CPRs set out the key responsibilities and actions that must be followed when undertaking procurements and support staff in demonstrating that they have given due consideration to value for money and any legal implications.
- 3.2.12 The follow up review has found that good progress has been made in implementing the audit recommendations in relation to the monitoring of the level of off / non contract spend and providing training to staff. However, as with our previous audit, there was a lack of evidence, such as waiver reports, to confirm that CPRs and the section's own internal procedures had been followed when allocating work to subcontractors, both on the existing framework contract and those not on these contracts.
- 3.2.13 The service has recognised the need to improve processes and follow CPRs and has advised that they have undertaken a full staffing review to create a new structure that will deliver an effective business plan by delivering value for money and complying with all council policies, including CPRs and Financial Regulations. The service has advised that these new management arrangements were introduced on 1 August 2017.

3.2.14 We will carry out further follow up work to review progress in this area during 2017/18.

#### Follow Up Reviews

- 3.2.15 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.
- 3.2.16 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

<b>Audited area</b>	<b>Follow up audit status</b>	<b>Corporate Governance and Audit Committee report reference</b>
<b>Follow up results reported at the current meeting</b>		
Contract Extensions	Closed (see 3.2.17)	March 2016
Leeds Building Services Subcontractors	See 3.2.11	September 2016
<b>Follow up reviews due in 2017/18</b>		
LBS Tools and Equipment	Planned	September 2016
Leeds Grand Theatre – Contract Procedure Rules	In progress	January 2017
Housing Leeds Tenancy Management – Use and Occupation	In progress	January 2017
Contract Review - Joint Venture: professional property and building services	Planned	January 2017
Community Care Finance	Planned	April 2017
Implementation of Client Information System	Planned	April 2017
LBS Stores	Planned	April 2017
Contract Specification and Management	Planned	June 2017

<b>Audited area</b>	<b>Follow up audit status</b>	<b>Corporate Governance and Audit Committee report reference</b>
Commissioning of External Residential Placements and Independent Fostering Agency Payments Follow Up	Planned	September 2015 and June 2017
Direct Payments (Children's and Families)	Planned	September 2016 and June 2017
Directorate Compliance with CPRs: Non and Off Contract Spend	Planned	March 2016, June 2016 and June 2017
Central Control and Monitoring of Nursery Fees	Planned	June 2017
Payments in relation to In-House Fostering, Special Guardianship Orders and Leaving Care	Planned	June 2017
Community Infrastructure Levy	Planned	See 3.2.9
Primary School	Planned	See 3.2.10
Leeds Building Services Subcontractors	Planned	See 3.2.11

3.2.17 During this reporting period we have finalised two follow up reviews and closed one of these to reflect the progress made since the previous audit. A further follow up review will be undertaken for LBS Subcontractors due to the outstanding issues detailed above at 3.2.12.

#### Continuous Audit & Data analytics

3.2.18 This cross cutting audit programme aims to evaluate control effectiveness across key systems on an ongoing basis, and highlight high risk transactions or events. Coverage has included elements of the self-serve processes, payroll, overtime claims, purchasing card transactions, duplicate payments and income bankings. No significant issues have been identified.

#### Counter Fraud and Corruption

3.2.19 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.

#### Proactive Anti-Fraud Work

3.2.20 During the reporting period, we have continued to raise awareness of fraud risks and preventative action through communications with senior managers and



reviews of the anti-fraud and corruption measures in place in key areas across the organisation.

- 3.2.21 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force from 26 June 2017 and build upon the current regulatory framework. We are currently reviewing our existing Anti-Money Laundering Policy and arrangements to ensure they remain fit for purpose and in line with these new regulations.
- 3.2.22 We have also carried out an assessment of the council's arrangements to address the risk of procurement fraud. This has drawn on best practice from the Chartered Institute of Public Finance and Accountancy (CIPFA) as well as recommendations issued by the Home Office in relation to organised procurement crime. The findings from this review, for example the potential to increase the guidance available in this area, will be taken forward through discussions with the Projects, Programmes and Procurement Unit (PPPU), and will also be used to inform procurement coverage within the Internal Audit plan.
- 3.2.23 Internal Audit resources have also been focussed on reviewing the National Fraud Initiative data matches and undertaking investigations as appropriate. One such data match investigated during the period resulted in the identification of an overpayment of approximately £16k made to a former employee. Established internal controls had not been applied in this instance resulting in the former employee continuing to be paid after they had left the organisation. The matter has been reported to the relevant director and we are undertaking further data analytical work in this area to provide assurance that there are no other similar cases. To date, £14k has been repaid by the former employee and there is a recovery plan in place for the remaining balance.

#### Reactive Anti-Fraud Work

- 3.2.24 During the reporting period we have received 19 potential irregularity referrals. Of these, 12 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.
- 3.2.25 During the reporting period 21 referrals have been closed. 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 three such investigation reports during this period. There are 11 referrals that are currently open and being investigated.

#### Regulation of Investigatory Powers Act 2000

- 3.2.26 Members will recall that officers reported to the June 2017 meeting that in the most recent inspection report issued by the Office of Surveillance Commissioners, it was recommended that members should receive regular reports about the use of the council's surveillance powers under RIPA.

3.2.27 The Head of Service (Legal) has confirmed that there have been no applications for directed surveillance or covert human intelligence source (CHIS) authorisations, since the June 2017 meeting. In addition, there has been no use of the powers to obtain communications data, over the same period.

#### Internal Audit Performance

3.2.28 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.

3.2.29 During the reporting period, we have been shortlisted in the Outstanding Proactive Detection category of the Government Counter Fraud Awards. The Awards recognise exceptional achievement and innovation in fighting fraud and corruption in the public sector. They showcase the skills and professionalism of the individuals and teams working to protect public funds.

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

3.2.31 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.

3.2.32 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.

3.2.33 During the period 1 April to 31 August 2017, 19 completed Customer Satisfaction Questionnaires have been received. A summary of the scores is presented in table 3.

Table 3: Results from Customer Satisfaction Questionnaires for the period 1 April to 31 August 2017

Question	Average Score (out of 5)
Sufficient notice was given	4.78
Level of consultation on scope	4.47
Auditor's understanding of systems	4.26
Audit was undertaken efficiently	4.53
Level of consultation during the audit	4.61
Audit carried out professionally and objectively	4.79

Question	Average Score (out of 5)
Accuracy of draft report	4.53
Opportunity to comment on audit findings	4.79
Clarity and conciseness of final report	4.58
Prompt issue of final report	4.63
Audit recommendations will improve control	4.47
The audit was constructive and added value	4.53
Overall Average Score	<b>4.58</b>

3.2.34 Table 4 below provides an indication of progress against the Internal Audit Plan for 2017/18. 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 2017/18 Progress

Number of individual audit assignments	Planned	In progress	Completed
Audit Plan 2017/18 and brought forward jobs from 2016/17	60	22	18
Follow up audits	14	2	2

3.2.35 Due to a number of staffing changes, overall resources for 2017/18 are now less than was anticipated when the audit plan was set (147 days). We will actively manage resources to direct these towards the areas of highest risk 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 June to August 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 June to August 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.

- 6.2 The Corporate Governance and Audit Committee is asked to note the information in the report about the recent use of the Council's surveillance powers under RIPA. The Corporate Governance and Audit Committee is asked to note the information provided by the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA.

## **7 Background documents**

- 7.1 None.