

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 16 March 2018

Subject: Internal Audit Update Report January to February 2018

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 February 2018 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 January to February 2018 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 January to February 2018 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 January to February 2018.
- 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 January to February 2018

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Key Financial Systems			
Total Repairs ¹	Substantial	Substantial	Minor
Central Sundry Income	Substantial	Substantial	Minor
Income Management System	Substantial	N/A	Minor
Business Rates	Substantial	N/A	Minor
Housing Rents	Substantial	N/A	Minor
Housing Benefits and Council Tax Support Assessment and Payments	Substantial	N/A	Minor
Council Tax	Substantial	Substantial	Minor
Housing Benefit and Council Tax Support Reconciliations	Substantial	N/A	Minor
Payroll Central Controls	Good	Substantial	Minor
Resources and Housing			
Housing Leeds - Major Adaptations	Good	Substantial	Minor
Children's and Families			
Central Control and Monitoring of Nursery Fees – Follow Up	Acceptable	Good	Minor
Schools			
School Voluntary Funds x 3	Certification of balances		

¹ Total Repairs is the system used by Leeds Building Services for job and contract management, operative performance management, integrated stores and purchasing system, financial management and charging of clients.

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Adults and Health			
Deprivation of Liberty Safeguards	Acceptable ²	Good	Moderate

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 15 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 We have finalised the majority of the key financial systems section of the audit plan during the period. The high levels of assurance provided in each of the nine audits reflect our opinion that these key financial control systems are sound and there is evidence that the controls in place continue to work well in practice.

Limited or No Assurance Opinions

3.2.3 Of the audit reviews finalised during the period, no weaknesses have been identified that would result in a 'major' organisational impact.

3.2.4 All reviews resulted in an acceptable assurance opinion or higher, with the exception of Deprivation of Liberty Safeguards, which resulted in a limited assurance opinion for part of the audit coverage:

Deprivation of Liberty Safeguards

3.2.5 The Deprivation of Liberty Safeguards (DoLS) are an amendment to the Mental Capacity Act 2005 (MCA). The DoLS under the MCA allows restraint and restrictions that amount to a deprivation of liberty to be used in hospitals and care homes, but only if they are in a person's best interests. The audit reviewed the processes in place within Adults and Health to ensure that policy and procedures in relation to DoLS are in line with legislation, have been communicated to all relevant parties and training provided as necessary. The audit also reviewed the monitoring arrangements in place to ensure the policy is complied with and that the outcomes from this are reported to the appropriate forum, with remedial action being taken where necessary.

3.2.6 The review resulted in an acceptable assurance opinion overall for the control environment, as controls are in place to:

² Acceptable Assurance has been provided for the control environment overall, however, Limited Assurance was provided for two of the objectives covered as part of the audit.

- Ensure that requests are handled, subject to appropriate assessments and authorised;
- Review the relevant documentation on the appointment of new assessors;
- Monitor requests at each stage of the DoLS process; and
- Ensure relevant parties are aware of the policies and legislative requirement or that they can access support and guidance if needed.

3.2.7 However, limited assurance was provided for part of the audit coverage as the review found that the control environment is not configured in a way to meet the timescales required by the DoLS legislation and there is limited performance monitoring in relation to DoLS. It was confirmed that this scenario is not unique to Leeds and almost all authorities across the country are faced with significant delays in the process. This is highlighted in the NHS annual report on DoLS for 2016/17 which shows that across England the average time to complete a DoLS application is 120 days. The same report shows the average time for Leeds to be 98 days.

3.2.8 The Service has provided the following comments *'Since the ruling that is known as Cheshire West the demand for DOLS assessments has far exceeded the resource available to address assessments within the timescales required by the legislation that was in place prior to the ruling. Leeds City Council has not received any additional funding to deal with the additional burden. The Association of Directors of Adults Social Services (ADASS) have provided guidance and tools which support local authorities in their decision making and risk management of the process within available resources. The service is therefore set up to minimise the risk to service users within the resources that we have been able to prioritise towards meeting this significant additional burden'*.

3.2.9 All recommendations made have been agreed with the Service and a follow up review will be undertaken during 2018/19 to assess the progress made.

Follow Up Reviews

3.2.10 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.

3.2.11 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

Corporate Governance and Audit Committee report reference	Audited area	Follow up audit status
Follow up results reported at the current meeting		
See 3.2.12	Central Control and Monitoring of Nursery Fees	Closed
Follow up reviews due in 2017/18 and 2018/19		
September 2016	LBS Tools and Equipment	In progress
January 2017	Contract Review - Joint Venture: professional property and building services	In progress
April 2017	Community Care Finance	In progress
April 2017	Implementation of Client Information System	In progress
April 2017	LBS Stores	In progress
June 2017	Contract Specification and Management	Planned
September 2015 and June 2017	Approval to commence care proceedings and payments to providers of external placements.	In progress
September 2016 and June 2017	Direct Payments (Children's and Families)	Planned
March 2016, June 2016 and June 2017	Directorate Compliance with CPRs: Non and Off Contract Spend	Planned
June 2017	Payments in relation to In-House Fostering, Special Guardianship Orders and Leaving Care	In progress
September 2017	Community Infrastructure Levy	Planned
September 2017	Primary School	Planned
September 2017	Leeds Building Services Subcontractors	Planned
January 2018	ICT Projects – Benefits Realisation	Planned
January 2018	Payments to Providers of Homecare	Planned
January 2018	Lettings Enforcement	Planned
January 2018	Electricity Contract Review	Planned
March 2018	Deprivation of Liberty Safeguards	Planned

- 3.2.12 During this reporting period we have finalised the Central Control and Monitoring of Nursery Fees follow up. The original audit reviewed the processes in place within Early Start Management for the management of children's centres and nursery income. The audit confirmed that a good framework is in place which supports financial management in children's centres. The review resulted in an acceptable audit opinion overall, with limited assurance provided in respect of obtaining assurance from the children's centres that all potential Early Years Funding for Inclusion (EYFFI) is being applied for, approved and received. A follow up was undertaken and this confirmed that improvements had been made to the central monitoring of EYFFI including receiving information from the settings regarding individual claims, the income received and variances between periods. Higher levels of assurance would be achieved once sample checking by the central team to validate the information received from the settings is undertaken on a routine basis.

Continuous Audit and Data Analytics

- 3.2.13 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 payroll process, purchasing card transactions, creditors and income bankings. No significant issues have been identified.

Counter Fraud and Corruption

- 3.2.14 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

- 3.2.15 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.

Reactive Anti-Fraud Work

- 3.2.16 During the reporting period we have received 18 potential irregularity referrals. Of these, 10 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.
- 3.2.17 During the reporting period 18 referrals have been closed. There are 16 referrals that are currently open and being investigated.

Regulation of Investigatory Powers Act 2000

- 3.2.18 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.

- 3.2.19 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

- 3.2.20 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.
- 3.2.21 All our work is undertaken in accordance with our quality management system and we have been ISO certified since 1998.
- 3.2.22 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.
- 3.2.23 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.
- 3.2.24 During the period 1 April 2017 to 28 February 2018, 46 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 2017 to 28 February 2018

Question	Average Score (out of 5)
Sufficient notice was given	4.80
Level of consultation on scope	4.67
Auditor's understanding of systems	4.41
Audit was undertaken efficiently	4.67
Level of consultation during the audit	4.71
Audit carried out professionally and objectively	4.85
Accuracy of draft report	4.67
Opportunity to comment on audit findings	4.87

Question	Average Score (out of 5)
Clarity and conciseness of final report	4.72
Prompt issue of final report	4.43
Audit recommendations will improve control	4.59
The audit was constructive and added value	4.57
Overall Average Score	4.66

- 3.2.25 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 work	24	27	53
Follow up audits	11	7	5

- 3.2.26 Due to a number of staffing changes, overall resources for 2017/18 are now less than was anticipated when the audit plan was set. We 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 January to February 2018 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 February 2018 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.