

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 15 March 2021

Subject: Internal Audit Update Report December 2020 to January 2021

Are specific electoral wards affected? If yes, name(s) of ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Has consultation been carried out?	<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
Will the decision be open 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

1. Main issues

- This report provides assurance that the internal control environment is operating as intended through a summary of the Internal Audit activity for the period from December to January 2021 and highlights the incidence of any significant control failings or weaknesses.

2. Best Council Plan Implications

- The work of Internal Audit contributes to Leeds City Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on accomplishing the Best Council Plan objectives.

3. Resource Implications

- A risk-based approach has been used to devise an Internal Audit plan that promotes the effective and efficient use of resources across the organisation.

4. Recommendations

- The Corporate Governance and Audit Committee is asked to
 - a) receive the Internal Audit Update Report covering the period from December to January 2021 and note the work undertaken by Internal Audit during the period covered by the report;
 - b) 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 December to January 2021 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 Committee also considers the Council's arrangements relating to internal audit requirements, including monitoring the performance of Internal Audit.
- 2.2 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.
- 2.3 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.
- 2.4 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.
- 2.5 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.
- 2.6 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. Main issues

Audit Reports Issued

- 3.1 Table 1 below includes the title of the audit reports issued between December 2020 and January 2021, including the level of assurance provided. This relates to reviews carried out under the 2019/20 and 2020/21 Internal Audit Annual Plans.

Table 1: Summary of Reports Issued December 2020 to January 2021

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Key Financial Systems			
Business Rates	Substantial	Substantial	Minor
Sundry Income – Central Controls	Substantial	Substantial	Minor
Resources and Housing			
Major Adaptations	Substantial	Substantial	Minor
Housing Leeds – Lettings	Good	Good	Minor
Fire Safety management of Council Tenanted Properties Follow Up	Good	N/a	Moderate
Council Housing Growth	Good	N/a	Minor
Adults & Health			
Financial Assessments	Substantial	Good	Minor
Schools			
Primary School Follow Up 1	Substantial	Good	N/a
Primary School Follow Up 2	Limited	Limited	N/a
School Voluntary Fund audits x 3	N/A certification of account balances		

- 3.2 In addition to the reports detailed in table 1 above, the following letters of assurance have been issued to the funding bodies during the reporting period. These letters confirm that we are satisfied that the expenditure incurred is in line with the specific funding requirements, provides evidence that grant terms are met and reduces the risk of clawback.
- 3.3 The audit work undertaken in all grant claim reviews includes verification of the figures being declared to the relevant funding bodies to the financial accounting system, sample testing of expenditure to ensure that this is in accordance with the grant determination letter, and on a sample basis that the relevant internal approvals/decisions have been taken.
- Disabled Facilities Grant

2019/20 and 2020/21 Internal Audit Plan

- 3.4 During the reporting period, there have been no limitations in scope and nothing has arisen to compromise our independence. We have finalised 12 audit reviews (excluding data analytics, 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.
- 3.5 Each of the 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.
- 3.6 Of the audit reviews finalised during the period, no weaknesses have been identified that would result in a 'major' organisational impact and two audits have resulted in a limited or no assurance opinion.

Limited or No Assurance Opinions

Housing Leeds – Lettings

- 3.7 Although a Good Assurance was provided overall for our audit of Housing Lettings a limited opinion was provided in relation to one objective, that performance is monitored and reported at the appropriate level.
- 3.8 The lettings process transferred to the new Abrisas system in 2019 which introduced difficulties with producing accurate quarterly reports on lettings performance. As such for 2019/20 financial year these quarterly reports had not been produced. Recommendations were agreed to ensure reporting is resumed as soon as possible and action is taken to ensure reports produced are accurate. We also agreed recommendations that appropriate steps are taken to minimise reporting disruption as further system changes take place within the services.
- 3.9 We also identified control weaknesses with how the service undertake quality assurance processes in relation to the lettings policy. In particular we found a lack of segregation of duties in the checks that had been carried out and there was no holistic process to follow up on issues or to track and monitor issues that may be occurring across the services. Finally, it was also noted that the quality process was suspended at the time of review, following the COVID pandemic. We agreed recommendations that as part of the recommencing of the quality process the services should review how these checks are undertaken and how information and findings are utilised to help enable a programme of continuous and effective improvement.

Primary School Follow Up 2

- 3.10 The initial audit highlighted significant control weaknesses and errors in compliance with controls relating to the school voluntary fund. Since the issue of the report, a number of staffing changes have taken place, including a new School Business Manager, Headteacher and Chair of Governors. The current Headteacher has revisited all of the recommendations raised in the original audit report and has been proactive in assigning responsibility for action and ensuring that these are addressed quickly. The Headteacher has verbally confirmed that the

high priority recommendations have now been addressed and we have scheduled a follow up for the first quarter of 2021-22.

Follow Up Reviews

3.11 We have finalised two follow up reviews during the reporting period:

Fire Safety management of Council Tenanted Properties Follow Up

3.12 The initial review received an acceptable assurance opinion for the control environment. However, given the high profile nature and importance of fire safety we have undertaken a review of the progress made in implementing the recommendations made in the report. The follow up review found that there has been a positive direction of travel as the recommendations have either been implemented or are in the process of being implemented.

Primary School Follow Up 1

3.13 The initial audit highlighted significant control weaknesses and errors in compliance with controls in several of the areas reviewed, leading to an overall limited assurance opinion being provided for the control environment and compliance. Significant improvements have been made across all areas of financial management at the school. The majority of the recommendations raised have now been implemented with only minor areas for improvement remaining.

Counter Fraud and Corruption

3.14 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. Previously, updates on this work have been included within this report. In order to provide further clarity and to enable members to obtain a more detailed understanding of the counter fraud and corruption activity, we are proposing to present dedicated Counter Fraud and Corruption reports to members twice yearly, as detailed in the Committee work programme. To support this we will be undertaking a fraud workshop for members of the committee.

Other Internal Audit Work

3.15 We continue to support the council's Core Business Transformation Programme by providing advice, input and oversight across a number of important work streams. A significant portion of our data analytics portfolio has also been directed towards aiding the development of financial dashboards. The dashboards will be key to the transformation of the financial service, and will provide dynamic and interactive analysis to budget holders and decision makers. Our work in this area demonstrates the adaptability of the team in supporting the ongoing achievement of the council's ambitions alongside our programme of assurance work.

Internal Audit Performance

3.16 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.

3.17 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.

3.18 For the period from 1 December 2020 to 31 January 2021 we have issued a total of 15 Customer Satisfaction Questionnaires and received 10 completed returns at a response rate of 67% in the period. A summary of the scores is presented in table 2.

Table 2: Results from Customer Satisfaction Questionnaires for the period 1 December 2020 to 31 January 2021.

Question	Average Score (out of 5)
Sufficient notice was given	4.78
Level of consultation on scope	4.89
Auditor's understanding of systems	4.70
Audit was undertaken efficiently	4.56
Level of consultation during the audit	4.78
Audit carried out professionally and objectively	4.90
Accuracy of draft report	4.80
Opportunity to comment on audit findings	4.70
Clarity and conciseness of final report	4.70
Prompt issue of final report	4.60
Audit recommendations will improve control	4.67
The audit was constructive and added value	4.70
Overall Average Score	4.73

3.19 A summarised version of the 2020/21 Audit Plan is appended to provide members with an overview of the objective of each review, along with the current status. This also includes audits that have been carried forward into the current year from the 2019/20 Audit Plan. Planned audits are those that are anticipated to be completed for inclusion within the Head of Internal Audit Report and Opinion that will be presented to the Corporate Governance and Audit Committee at the meeting in July 2021.

3.20 The June Committee approved the reprioritised 2020/21 Audit Plan. There have been no amendments to this plan during the period.

3.21 We continue to manage our available resources to direct these towards the highest areas of 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 the 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.

4.3.2 The Internal Audit Plan has links to risks that may affect the achievement of Best Council Plan objectives and the aims of council policies.

Climate Emergency

4.3.3 Internal Audit will consider the Climate Emergency in the development of Annual Internal Audit Plans and in the scope of all relevant audits.

4.4 Resources, procurement 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, including coverage of procurement activity.

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 December 2020 to January 2021 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 :
- a) receive the Internal Audit Update Report covering the period from December 2020 to January 2021 and note the work undertaken by Internal Audit during the period covered by the report;
 - b) 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.

Appendix A – Status of Planned Audits from the 2020/21 Audit Plan and Follow Up Reviews

Audit Area	Overview of Assurance	Status / CGAC Meeting
Grants and Head of Audit Assurances		
Grants and Head of Audit Assurances arising during the year	Independent examination of accounts and / or assurance that the grant claim has been spent in accordance with the grant determination.	Reported September 2020, December 2020 and ongoing
ICT and Information Governance		
Community Cloud (2019/20)	To provide assurance that the Community Cloud project is being managed to deliver its intended outcomes.	In progress
Asset Management and Security	To provide assurance that there are appropriate controls in place to ensure assets are securely and effectively managed.	In progress
Privileged User Access Follow Up	To review the progress made in implementing the recommendations made in the 2019/20 audit.	Planned
Data Protection Impact Assessment	To provide assurance that there are appropriate controls in place to ensure that Data Protection Impact Assessments are completed where required.	In progress
ICT Projects	To review the arrangements in place for the management of ICT projects.	In progress
Key Financial Systems		
Key Financial Systems	To provide assurance that appropriate internal controls are in place and operating	Reported March 2021 and ongoing
Procurement		
Contract Specification and Management Follow Up (2019/20)	To review progress in implementing the recommendations made in the previous audit, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	In progress

Audit Area	Overview of Assurance	Status / CGAC Meeting
Contract Management	Individual reviews of contract management arrangements on a sample of contracts to gain assurance that they are being managed to deliver their intended outcomes, incorporating a review of contract extensions and open book review where necessary.	In progress
Social Value	To review the arrangements in place to ensure that social value outcomes are appropriately considered and delivered through procurement.	In progress
Directorate Risks - Adult Social Care and Health		
Customer Information System (CIS) Payments	To provide assurance that payments are only made in relation to people with an assessed need, have been correctly processed and are net of any client contribution. The review will also provide assurance on the adequacy of controls for identifying changes in circumstances. The review will cover all payments made through CIS for Residential and Nursing Care, Direct Payments and Homecare payments.	Planned
Financial Assessments	To provide assurance that all eligible customers in receipt of reviewable services have been financially assessed as appropriate, that assessments have been correctly calculated and that all income due has been collected.	Reported March 2021
Nursing and Residential Care Home Payments	To provide assurance that the revised processes for paying residential and nursing care providers are operating as intended.	In progress
Directorate Risks - Children and Families		
One Adoption West Yorkshire – Decision Making	To provide assurance that there are appropriate governance arrangements in place with regard to decision making for the organisation and that outcomes of the decisions are appropriately monitored and reported.	In progress
Children’s Centres – Little Owls Service	To provide assurance that there are arrangements in place to monitor performance against expected outcomes for the service, including financial outcomes, and that action is taken where issues are identified.	Adjustment to plan - to be considered for future audit coverage and No Recourse to Public Funds included.

Audit Area	Overview of Assurance	Status / CGAC Meeting
No Recourse to Public Funds	To provide assurance that the Council is only supporting those Children & Families who are eligible for support and that the payments being made are in line with legislation and guidance.	In progress
Special Educational Needs Out of Area Placements	To provide assurance that there are appropriate systems in place for assessing and approving the need for making out of area placements, ensuring that payments are accurate and that performance in relation to this is appropriately monitored.	In progress
Schools		
Schools Audits	Individual audits of LCC maintained schools undertaken on a risk basis and audits of year end school voluntary fund accounts.	Reported March 2021 and ongoing
School Follow Up Audits	To follow up on limited assurance opinions issued within 2019/20.	Four complete and one in progress.
Directorate Risks – Housing		
Lettings Enforcement follow-up and new system review (2019/20)	The review will follow up on the recommendations which remain outstanding since the September 2018 follow-up review. Additional work will also be undertaken on the implementation of the new system and the roll out of the revised lettings policy.	Reported March 2021
Council Housing Growth (2019/20)	To review the procurement strategy and provide assurance over the achievement of intended outcomes.	Reported March 2021
Major Adaptations	To review the process in place to ensure major adaptations completed for both council and private houses are appropriate, completed to the required quality and timescale, and provide value for money.	Reported March 2021
Complaints Handling Process	A review of the processes in place for dealing with customer complaints, including ensuring root causes are identified and action taken on lessons learned.	In progress
Leaseholders	To review the process in place to manage leaseholder arrangements.	In progress

Audit Area	Overview of Assurance	Status / CGAC Meeting
Private Sector Regulation – Selective Licensing	A review of the processes in place for ensuring that properties subject to selective licensing are licenced and inspected as appropriate.	Adjustment to plan – Housing Capital Programme being brought forward and these reviews included in 2021/22 audit plan
Housing Disrepair	To assess the extent to which the Authority manages claims received in line with established best practice, ensuring that appropriate consideration has been given to the council's responsibilities in line with the Fitness for Human Habitation Act.	
Housing Capital Programme	A review of how the capital programme for council housing is delivered	Planned
Fire Safety	To provide assurance over the controls in place to mitigate the risk of fire in Council properties.	Reported March 2021
BITMO Assurances	To provide support to Housing Partnerships in the management of the BITMO Assurance Framework.	In progress
Leeds Building Services Assurances	Time set aside to provide assurance that key risks relating to Leeds Building Services are appropriately managed. Outline of specific assurance to be confirmed.	In progress
Housing Leeds In-Year Follow Up Work and Contingency	To undertake follow up work as required during the year and respond to emerging risks within Housing Leeds.	In progress
Other Directorate Risks		
Application of HR Policies	To gain assurance that a sample of HR policies are consistently and properly applied across the authority.	In progress
Invest to Save – Benefits Realisation Follow Up	To review the progress made in implementing the recommendations made in the 2019/20 audit.	In progress
Medium Term Financial Strategy Assurances	To review and provide assurance on the work being undertaken to ensure strategic planning and prioritisation of the council's resources.	In progress
Service Review Programme	Time set aside to contribute to the ongoing review of service delivery arrangements being undertaken through the Medium Term Financial Strategy.	In progress

Audit Area	Overview of Assurance	Status / CGAC Meeting
High Value Stock Management	To review the processes in place to ensure the secure management of high value stock items. Directorates and services to be sampled on a cyclical basis.	In progress
Waste Strategy	To gain assurance that governance arrangements are in place to support the implementation of the Waste Strategy.	Included in 2020/21 audit plan
Taxi Service	To gain assurance that licenses are issued correctly and complaints are investigated appropriately. This includes reviewing compliance with the Suitability Policy to ensure drivers licenses are approved in accordance with new criteria.	In progress
Leeds Cultural Trust	To provide assurance on the governance arrangements in place for the Leeds Cultural Trust.	Planned
Strategic Investment Fund Acquisitions	To review the directorate's approach to, and governance of the Strategic Investment Fund. The audit will aim to provide assurance that there are appropriate controls over the acquisitions and management and that strategic investment fund plans are adequately scrutinised, approved and align with Council plans and wider best practice.	Planned