



**Appendix A**

**Leeds City Council**

**Internal Audit Annual Report**

**Opinion and Basis of Assurance 2023-24**

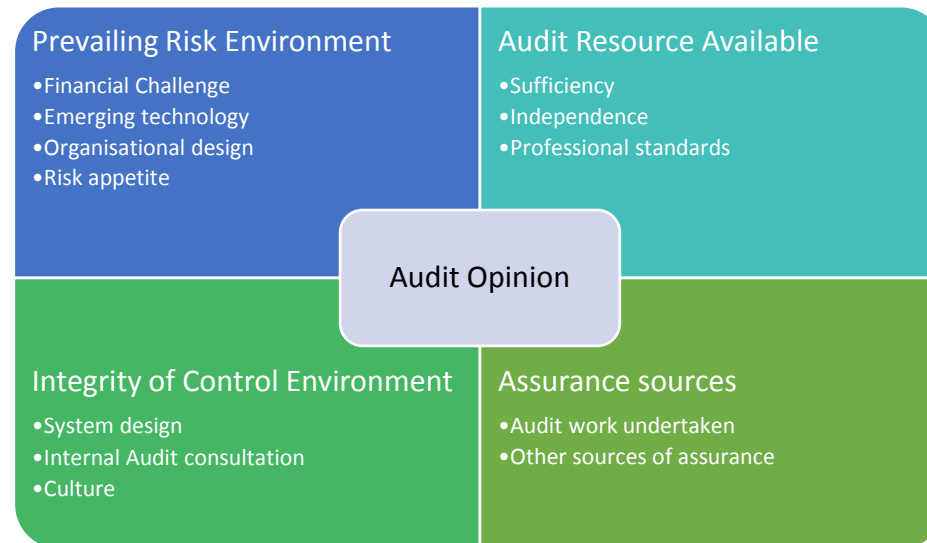
**Corporate Governance and Audit Committee**

**29<sup>th</sup> July 2024**

## INTERNAL AUDIT ANNUAL REPORT AND OPINION 2023/24

### 1 The Annual Reporting Process

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Audit Executive (*for the purposes of this report this title will refer to the Senior Head of Audit, Corporate Governance and Insurance*) to deliver an Annual Internal Audit opinion and report that can be used by the organisation to inform its governance statement. The Annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control and must incorporate:
- the opinion
  - a summary of work that supports the opinion
  - a statement on conformance with the PSIAS and the results of the Quality Assurance and Improvement Programme
- 1.2 This report is the culmination of the work performed by Internal Audit to fulfil the 2023/24 Internal Audit Plan objectives and provides the Chief Audit Executive opinion based on an objective assessment of the framework of governance, risk management and control. This includes an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems. As the audit function continues to modernise in its approach, the opinion is built up through a range of judgements and sources as represented in the table below:



## 2 Organisational Independence

- 2.1 The PSIAS require the Chief Audit Executive to confirm to the Corporate Governance and Audit Committee at least annually, the organisational independence of the Internal Audit activity. The Internal Audit Charter and the Council's Financial Regulations reinforce this requirement.
- 2.2 The Internal Audit Charter has been updated during the year to outline the safeguards to independence, and specifies that the Chief Audit Executive must report to a level within the Council that allows Internal Audit to fulfil its responsibilities.
- 2.3 The Authority's Financial Regulations state that the Chief Audit Executive 'must be able to report without fear or favour, in their own name to the Chief Executive, the Executive Board, the Corporate Governance and Audit Committee and the scrutiny function.'
- 2.4 Appropriate reporting and management arrangements are in place within LCC, including direct access to the Chief Executive and the Chair of the Audit Committee, which preserve the independence and objectivity of the Chief Audit Executive.

### **Declaration of independence and objectivity**

The reporting and management arrangements in place are appropriate to ensure the organisational independence of the Internal Audit activity. Robust arrangements are in place to ensure that any threats to objectivity are managed at the individual auditor, engagement, functional and organisational levels. Nothing has occurred during the year that has impaired personal independence or objectivity.

Chief Audit Executive

## 3 Opinion 2023/24

- 3.1 The Public Sector Internal Audit Standards (Performance Standard 2450) state that 'the chief audit executive must deliver an Annual Internal Audit opinion and report that can be used by the organisation to inform its governance statement.' This must be based on an objective assessment of the framework of governance, risk management and control and include an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

## **Chief Audit Executive Opinion for 2023/24**

The combination of audit work undertaken to deliver the objectives set out in the 2023/24 Internal Audit Plan leads to a conclusion that the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice.

This Annual Audit Opinion has been carefully considered in what has unquestionably been a challenging year for local government, where increasing demand and shrinking resources combine to put pressure existing control environments across local authorities. Whilst Leeds City Council is no outlier to this, the audit work undertaken over the course of the year has been able to substantiate increasing efforts to strengthen control in response to the challenging financial climate. In delivering the Annual Audit Opinion on the internal control environment it is important to note that financial outcomes, particularly in areas of rising demand, cannot simply be assumed to be a reflection on the control environment itself. Internal Audit has, over the course of the year, worked closely with various boards, committees and functions that have been established to identify pressures, challenge assumptions and agree income and savings proposals. Whilst the results may not be immediate, and there is ongoing work to embed the culture of spending money wisely, it underlines the commitment of organisational leadership to delivering a Medium-Term Financial Strategy designed to safeguard the authority over future years. We are aware that there are areas in which this is particularly challenging, and resources have been appropriately deployed to confront this.

Whilst increasing the consultancy and advisory work undertaken by Internal Audit to adapt to an ever changing risk profile, we have also continued to deliver a programme of core assurance work. This has included prioritised planned assignments outlined in the 2023/24 Audit Plan, as well as a range of audit work brought forward to reflect emerging risks and priorities. Audits have highlighted opportunities to further strengthen arrangements and we have worked with services to foster a culture of continual reflection and improvement. Where audits have resulted in 'Limited Assurance' opinions, and we have highlighted weaknesses that may present risk to the Council, we have agreed recommendations to further improve the arrangements in place. Whilst limited opinions have demonstrated the robust challenge that the internal audit function offers to the individual system areas that have been reviewed, the weaknesses identified are not material enough to have a significant impact on the overall opinion on the adequacy of the Council's governance, risk management and control arrangements at the year end.

In planning and directing the audit work undertaken to deliver this opinion we have relied on other sources of assurance where appropriate, enabling us to avoid duplication of effort. Even where these other assurances have identified areas for improvement in control, for example the Information Commissioner's Officer (ICO) audit, our own Internal Audit team has

been welcomed around the table to engage in the organisational response including the prioritisation and oversight of resulting actions. This reflects the respect given to Internal Audit and the evolving role of the service. The ability to evidence managerial commitment to implementing actions arising from this and other activities will be key to enabling positive assurances to be delivered over future periods.

Our recommendation tracking process has continued to evolve and develop over the course of the year, with increased engagement providing a key source of assurance for us that management are engaged in making continual improvements to the control environment. As a result, a **satisfactory** overall opinion is provided for 2023/24, based on the audit work and assurances summarised within this report.

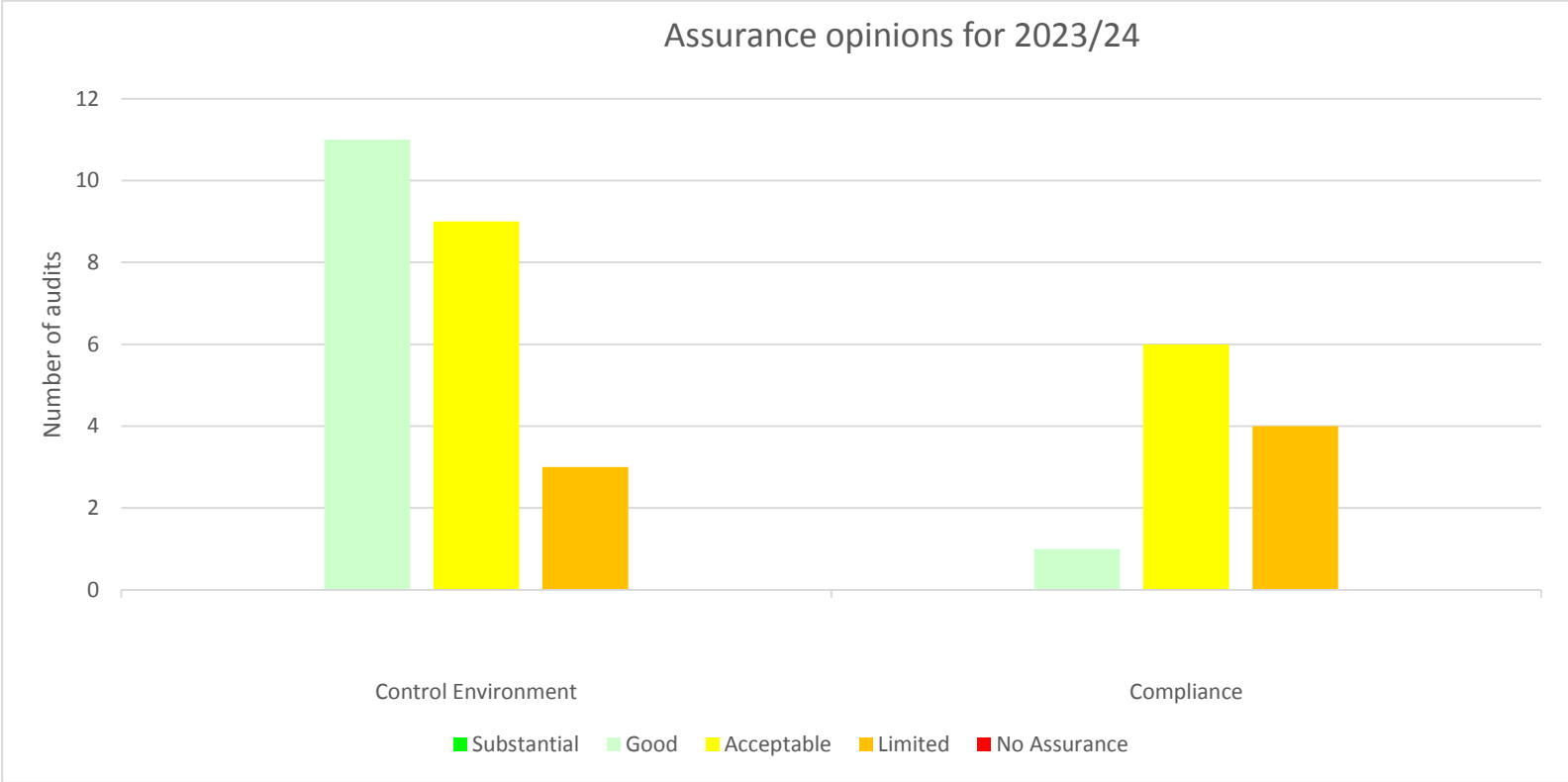
- 3.2 The audit work undertaken to support this opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.

#### **4 Basis of Assurance**

- 4.1 The annual opinion on the adequacy and effectiveness of the control environment for 2023/24 is based on the findings and assurance provided by the totality of Internal Audit activity, including the schedule of reviews undertaken throughout the year. The planned schedule of reviews for 2023/24 was prepared using a risk-based audit planning approach and was approved by the Corporate Governance and Audit Committee in March 2023.
- 4.2 As this is a risk-based plan, it included an allocation of contingency for unplanned work. As risks and priorities have changed throughout the year, we have altered the profile of the plan to ensure attention is focussed on areas of the highest risk in the most efficient and effective way. All material changes that have been made to the 2023/24 Internal Audit plan have been reported to the Corporate Governance and Audit Committee through our regular update reports.
- 4.3 The schedule of reviews included audit work that has resulted in a formal audit report along with a range of other audit work which has enabled us to provide ongoing assurance and advice in respect of internal control, governance and transformational activities. A summary of all audit work undertaken on which this opinion is based can be found in Appendix C of this report.
- 4.4 Where the audit work results in an audit report, this provides, where appropriate, an assurance opinion. Depending on the type of audit review undertaken, assurance opinions 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 may also be provided for the

area under review if assurance on the extent to which the controls are being complied with is required. Assurance opinion levels for the control environment and compliance are categorised as follows: substantial (highest level), good, acceptable, limited and no assurance.

- 4.5 Organisational impact is reported as either: major, moderate or minor. Any reports issued with a major organisational impact would be reported to the Corporate Leadership Team along with the relevant directorate’s agreed action plan. There have been no reports issued with a major organisational impact in 2023/24.
- 4.6 The graph below provides a high-level overview of the assurance opinion levels provided for the audits that we have completed during the year, further details of which are provided in Appendix C.





### ***Key Financial Systems***

- 4.8 The key financial systems audits are reviews of the Council's core financial functions. We review these functions to provide assurance that the financial systems that are fundamental to the Council's operations remain effective and are working well in practice. The Public Sector Internal Audit Standards require Internal Audit to set a risk-based plan to determine the priorities of the Internal Audit activity and therefore this approach has been applied to our coverage of the key financial systems audits.
- 4.9 Our reviews of the key financial systems support the opinion that the Council has effective financial governance, risk management and internal control arrangements in place. In addition, they also support the assertions made by the Section 151 Officer in their Annual Assurance report that has also been presented to the Corporate Governance and Audit Committee. Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that these controls continue to work well in practice. We have mainly focussed our attention on the transactional data within the key financial systems through the use of data analytics. Whilst no significant issues have been identified, this work provides an important source of ongoing assurance to management and is helpful when considering the direction of each piece of audit work.
- 4.10 Our role within the Core Business Transformation Programme has taken on increasing importance as we look to provide assurance that financial control and governance is appropriately considered within the introduction of the new core systems. We have been involved in the Finance Design Authority and the Core HR / Payroll Design Decision Panel. These panels have considered requests to adapt the existing systems for Council ways of working and we have provided input into this process to ensure that any potential control weaknesses and risks have been identified and considered as part of the service redesign. Our attendance at the Programme Board and the Delivery & Quality Assurance Board has provided assurance that there are adequate governance arrangements in place and that key decisions, such as the revision of the implementation timeline for Microsoft Dynamics Finance & Operations have been subject to robust check and challenge and have been appropriately approved.
- 4.11 Working towards increasing our data analytics maturity level as outlined in our Data Analytics Strategy, training has been delivered to the team on data analytics software, increasing our capacity to undertake data analytics. Delivering the remaining actions of the strategy remains a key area of focus for 2024/25.

### ***Procurement***

- 4.12 Our positive working relationship with Procurement and Commercial Services (PACS) means that we are consulted on procurement processes and controls throughout the year.



- 4.13 We have provided advice in relation to the contract management for the Resource Augmentation Framework contract within the Integrated Digital Service (IDS) and reviewed the draft documents. We have also provided assurance that procurement processes for the appointment of an Implementation Partner for the new finance system, and the selection of the HR/Payroll technology and implementation partner, have been undertaken in line with Contract Procedure Rules.
- 4.14 We have also delivered assurances in relation to contract management of specific contracts. A review of a specific contract in relation to the City Connect cycle highway did identify a number of weaknesses but also noted a strong response from the service who have subsequently implemented a large number of robust contract management procedures to address these and other issues.
- 4.15 One of the outcomes of the data analytics work outlined above at 4.9 involved working with PACS to increase efficiencies in payment processes for essential goods and services through purchasing cards, which should also increase the value of the rebate received from the card provider.
- 4.16 Through our ongoing role in the Core Business Transformation Programme, we remain involved in reviewing the Council's end to end purchasing systems and the way in which procuring on contracts can be encouraged by greater integration within the ordering and payment system. We have also continued to participate in a working group looking at the most effective ways of embedding good contract management practices across the authority in a proportionate and consistent manner. There have been further developments in the way in which contract management information is recorded and monitored, and PACS are actively engaged in efforts to raise awareness of good practice and ensure this is consistently embedded.

#### ***Information Governance and ICT***

- 4.17 Information Governance and ICT risks remains a significant priority for council. Assurance reports have been provided to committee throughout the 2023/24 year including the Annual Information Governance Report and the Annual Assurance Report of Integrated Digital Services. These reports provided updates to committee in relation to the effectiveness of control mechanisms in place in relation to information management and governance arrangements and the delivery of the Integrated Digital Services (IDS).
- 4.18 Our audit work within IDS provides assurances across a range of activities within Information Governance and Digital Services, of particular note we can give assurances around management of Cyber Security Risk within IDS but note areas for improvement through the documented consideration of risk appetite, and communication between IDS and wider business. Our work in relation to Core Business Transformation (noted in paragraph 4.10) also provides significant assurances in relation to the digital and information portfolio. We have reviewed the support and maintenance for the

systems post go live. We have also provided input into the assurance framework being developed by the Portfolio Management Office for the independent assessment of the status of change initiatives under the IDS portfolio.

- 4.19 In addition to our work undertaken above, there are several external assurances within Information Governance and ICT which support our overall audit opinion. Specifically, this includes the PSN Certification of which the council was recertified for another year and the external review by Information Commissioners Office. Updates to the committee were provided as part of the Annual Information Governance Report and did note a number of high-level recommendations. We have been engaged with the service regarding the response, prioritisation, and oversight of the resulting action plan.

### *Directorate Risks*

- 4.20 We have undertaken audits that provide assurance on governance, risk management and internal control arrangements across a range of operational and directorate risk areas during the year. Our work has had links to risks relating to safeguarding, health and safety, finance, compliance with legislation and internal procedures and a range of other risks that may affect the achievement of Council and directorate priorities.
- 4.21 Our audit work has provided assurances around processes that underpin the Council's core values and behaviours. We have also focussed attention on high profile areas of legislative and regulatory responsibility such as Children's Safeguarding and Education, Health & Care Plans. Our recommendations have been positively received by service areas and in some cases, these were actioned during the course of the audit.
- 4.22 We have contributed directly into several projects and working groups across the Council, as detailed in Appendix C, to provide a check and challenge role to ensure that potential risks and control weaknesses are highlighted and considered in any service redesign. This enables us to gain assurance regarding a number of areas including governance and decision making processes, financial management, business innovation and development and transformation. Attendance at these meetings also enables us to build intelligence and have greater insight regarding emerging risks. This is imperative in ensuring that the audit work completed over the course of the year remains relevant and risk focussed. Updates on the changes to planned activity have been provided to the committee throughout the year.
- 4.23 Through attending the meetings and working groups referenced above, we can ensure that the service(s) are maintaining momentum and actions are being taken, and progressed to move the projects and associated transformation forward. This is crucial given the current financial challenge. During the year we have undertaken specific work to support various Directorate projects in relation to:

- Procurement of goods, works and services to support Directorate priorities – ensuring the right people have been involved in signing off tender specifications, and reviewing documents to gain assurance that appropriate contract management arrangements are in place.
- Service redesign – we have provided input into process mapping in relation to Children’s Transport and Leeds Building Services. This enables us to gain assurance that relevant key factors have been considered and that there was appropriate consultation and co-ordination between specialist functions.

- 4.24 As part of our audit work, we have delivered critical reviews including a limited assurance report into Adult and Health Debt Recovery processes and a review of Finance Policies and Use of Section 17 Fund within Children & Families. Whilst these reviews have identified significant control weaknesses or errors that present a high risk to the process under review, these do not have a material impact on the Council overall.
- 4.25 The opinion over the controls in the Children & Families Directorate has been arrived at through the range of work that has been undertaken by Internal Audit (outlined in Appendix C) and through other independent sources of assurance as detailed below. This reflects our agile approach to auditing which enables us to focus on emerging risk areas and gain assurance from alternative sources in the areas of activity identified in our risk-based plan.
- 4.26 In March 2024 a joint targeted area inspection of the multi-agency response to serious youth violence and criminal exploitation in Leeds was carried out by inspectors from Ofsted, the Care Quality Commission, His Majesty’s Inspectorate of Constabulary and Fire & Rescue Services and His Majesty’s Inspectorate of Probation. The report praised the effective and well-coordinated response of the city’s agencies and the work of practitioners with children and families to reduce risks and inspire and divert children away from serious youth violence. We have placed some reliance on these assurances when planning and prioritising areas of audit activity over the course of the year.
- 4.27 During the year Children & Families leadership instigated a review of the end-to-end processes around Educational Health and Care needs Plans (EHCPs) to seek to better understand the challenges in relation to the timely completion of assessments and to highlight areas of opportunity and improvement. The review was supported by external consultants to bring specialist independent challenge and wider insight into the review process. The review work has been presented to Executive Board and Children and Families Scrutiny Board. This provides assurances that weaknesses in relation to the processes have been confronted during the year to ensure appropriate action planning has been put in place. We have maintained oversight of this work, which forms part of the wider transformation work within Children & Families through attendance at boards, including the Children & Families Delivery Board. We continue to attend these boards as part of our work in 2024/25 so we are well placed to challenge progress as the year progresses.

- 4.28 The Children and Families Scrutiny Board has received reports in relation to the city’s child safeguarding arrangements and the implementation of the recommendations from the Independent Review of Children’s Social Care led by Josh MacAlister.
- 4.29 We have continued to provide an audit programme at schools that is driven by a robust risk assessment process that enables us to focus on opportunities to add value and strengthen controls.

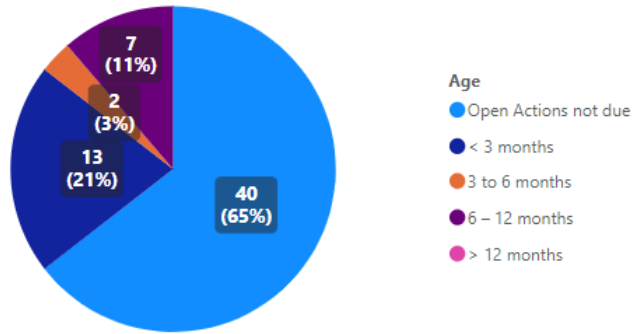
***Recommendation Tracking***

- 4.30 There is a process in place aimed at tracking the implementation of high and medium priority recommendations raised within our audit reports. A key factor in our determination of the overall audit opinion at the end of the year is the extent to which senior managers have implemented audit recommendations and responded to the risks highlighted through our work. Positive responses from management and a demonstrable commitment to continual improvement are important indicators of an appropriate culture and robust control environment. We have reported the performance on this in our previous update reports. Below is a summary of the recommendation tracking process for the year.
- 4.31 The table below details the number of high and medium priority recommendations that were open at the 1<sup>st</sup> April 2023 and provides details of the number that have been closed and raised during 2023/24. These leaves us with the total number of recommendations ongoing to be carried forward into future periods.

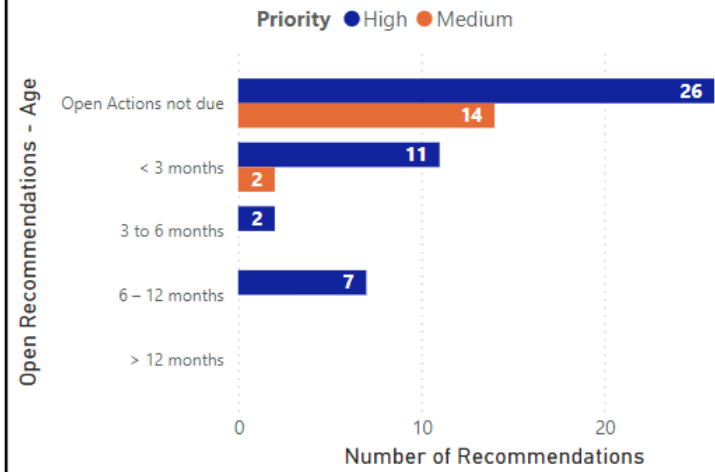
<b>Priority</b>	<b>Open Recs as at 1<sup>st</sup> April 2023</b>	<b>Recs closed in 2023/24</b>	<b>Recs opened in 2023/24</b>	<b>Open Recs as at 31<sup>st</sup> March 2024</b>
High	60	85	71	46
Medium	24	44	36	16
<b>Total</b>	<b>84</b>	<b>129</b>	<b>107</b>	<b>62</b>

- 4.32 The graphs below show the breakdown of open recommendations as at 31<sup>st</sup> March by age, priority and Directorate.

Open Recommendations as at 31 March 2024



Open Recommendations by Age and Priority



### Open Recommendations By Assurance Block, Age and Priority



- 4.33 During the year we have reviewed the recommendations where the target date has been missed to determine if there are any themes that may have led to the delays in implementation and these have been reported to committee through the update reports. This shows that there have been two main themes throughout the year.
- 4.34 The first has been around the limitations in available resource to fully complete the associated actions. We appreciate that balancing resources and conflicting priorities is a challenge for all colleagues across the organisation, and the recommendation tracking process helps keep actions in focus where they need to be.
- 4.35 The second is in relation to recommendations where completion is dependent upon the finalisation of digital solutions in progress. It is often the case that the complexity of the solution, and the requirement for resources to implement it, is not fully

understood until the work has commenced. In these cases we have considered a revision to the target date so as to retain an ongoing focus on progressing the implementation of the recommendation. During the year 10 dates have been revised. All revisions to target dates have been discussed with the service and agreed with the Chief Audit Executive.

- 4.36 The onus continues to be on directorate and service leads to update the trackers and ensure we have accurate information to analyse and report on. We continue to embed the process effectively and are proactively obtaining feedback to use this in the ongoing development of the tracking process. As directorate engagement improves, we will be introducing a sample checking process moving forward.

## **5 Counter Fraud and Corruption**

- 5.1 Leeds City Council is committed to the highest standards of openness, probity and accountability. To underpin this commitment, the council takes a zero-tolerance approach to fraud and corruption and is dedicated to ensuring that the organisation operates within a control environment that seeks to prevent, detect and take action against fraud and corruption.
- 5.2 As custodians of the council's anti-fraud and corruption policy framework and owners of the fraud and corruption risk, Internal Audit adopts an overarching responsibility for reviewing the council's approach to preventing and detecting fraud. In addition to Internal Audit, there are several specialist teams and services across the council that undertake counter-fraud/overpayment work, these include:
- Housing and Tenancy Fraud
  - Blue Badges (Disabled Parking Concessions)
  - Council Tax Support / discounts and Housing Benefits
  - Direct Payments
- 5.3 The Corporate Governance and Audit Committee (CGAC) receive a report on counter fraud activity, including the number of referrals and outcomes, through the twice-yearly Counter Fraud update reports. This provides assurances around the Council's arrangements in place to identify and mitigate the risk of fraud and corruption. The counter fraud team within Internal Audit takes a risk-based approach to ensure the risk of fraud is managed effectively with available resources.
- 5.4 The council's Whistleblowing Policy sets out the means by which serious concerns can be brought to the attention of the council. The Whistleblowing Policy is available on the intranet and internet and encourages anyone who has serious concerns about any aspect of the council's work, to come forward and voice those concerns, and for employees to do so without fear of reprisal.

- 5.5 Internal Audit are also the custodians of the Anti-Bribery and the Anti Money Laundering Policies. The purpose of the Anti-Bribery policy is to maintain the high standards of conduct which currently exist across the council by preventing or identifying bribery. The Anti-Money Laundering Policy sets out appropriate and proportionate anti-money laundering safeguards and reporting arrangements within the council. During the year the Anti Bribery Policy was reviewed against current legislation and best practice, updated, and promoted through relevant communication channels. The Anti-Bribery Policy on a Page was also introduced to promote the key messages on an easy-to-read document. The promotion and accessibility of these policies helps the council to be responsive to emerging risks that are identified.
- 5.6 During the year we have undertaken reviews on the basis of intelligence received through the counter fraud channels. This has resulted in a number of recommendations being made to strengthen the control environment across the council. The outcomes of this work are captured at Appendix C of this report and provide an important source of assurance contributing to the overall audit opinion.
- 5.7 As part of our proactive counter fraud work, we take part in the National Fraud Initiative (NFI). The NFI is an exercise conducted by the Cabinet Office every two years that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Where a match is found it may indicate that there is an inconsistency which requires further investigation to determine whether fraud or error has occurred, or if there is another explanation for the match. We coordinate this exercise with the relevant teams within the Council who work through the matches on a risk basis. Our participation in this provides assurance that the authority is taking positive action to detect potential fraud and prevent its recurrence.
- 5.8 Over the course of the year we have undertaken awareness raising activities to promote the counter fraud policies and how to report concerns. One of the methods for promoting this is through the Fraud Awareness Training package which is available to staff on the Performance and Learning System. The June promotion was timed to coincide with World Whistleblower's Day, with further communications in November during International Fraud Awareness Week. The Fraud Awareness Training package specifically tailored for school staff and governors was successfully launched as an e-learning package on the Leeds for Learning platform which gives us greater oversight of the uptake.
- 5.9 As members of the National Anti-Fraud Network (NAFN) we receive regular intelligence alerts on active or reported frauds experienced by other member bodies. Details of the fraud risks are shared with the relevant service. We also share this knowledge across the wider audit team as part of the audit preparation process so any risks can be considered within the scope of a review where relevant. This provides us with further confidence that we are appropriately meeting the requirements of the PSIAS, and helps to ensure that the work undertaken to support the annual opinion takes account of fraud risks. We have regular meetings with the Freedom to Speak Up Guardian (FTSUG) where any concerns that are considered to require Internal Audit investigation are discussed and actions agreed. These relationships enhance our ability



to identify and respond to emerging fraud risks and embed counter fraud policies and procedures. We have sought views as to whether the council's approach to fraud and corruption is well embedded through the Survey of Internal Control and have identified opportunities to strengthen awareness and engagement, demonstrating our commitment to continual improvement. Actions will feed into the Quality Assurance Improvement Programme (QAIP) over the coming year.

### ***Regulation of Investigatory Powers Act 2000***

- 5.10 The Head of Service (Legal) has confirmed that there have been no applications for directed surveillance or covert human intelligence source (CHIS) authorisations during this financial year. In addition, there has been no use of the powers to obtain communications data over the same period.