



## **Appendix A**

# **Leeds City Council Internal Audit Update Report**

**Corporate Governance and Audit Committee**

**17<sup>th</sup> December 2021**

## **INTERNAL AUDIT UPDATE REPORT 2021/22**

**1<sup>ST</sup> August 2021 to 30<sup>th</sup> November 2021**

### **1 Purpose of this report**

- 1.1 This report provides the Committee with a summary of the work completed by Internal Audit during the period from 1<sup>st</sup> August 2021 to 30<sup>th</sup> November 2021. The work of Internal Audit offers a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended.

### **2 2021/22 Internal Audit Plan Progress**

- 2.1 The work of Internal Audit is directed by the annual 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.
- 2.2 Throughout the audit year we will develop our Annual Assurance Opinion based upon:
- Work carried over from the previous year.
  - Work contained within the 2021/22 Internal Audit Plan that was approved by the Committee in March 2021.
  - Unplanned work undertaken in response to emerging risks and priorities.

### **3 Changes to the 2021/22 Internal Audit Plan**

- 3.1 At the beginning of the year provision is made in the allocation of audit resources for unplanned work, through a contingency. As requests for audit work are received, or more time is required for jobs or changes in priorities are identified, time is allocated from this contingency. As risks and priorities change throughout the year, we may also alter the profile of the plan to ensure attention is focussed on areas of the highest risk in the most efficient and effective way. Our quarterly reports will provide the Committee with details of audits that have been deferred, added to or deleted from the audit plan, as agreed in conjunction with management. Below is a summary of material changes that have been made to the 2021/22 Internal Audit plan to date. Schools are excluded from this information due to the dynamic nature of this area of the plan.

Directorate/Service	Audit Assignment Title	Deferred / Added / Removed
Proactive Fraud / Resources	Employee Outside Interests	<b>Added</b> - This will take the place of the Application of HR Policies that was detailed within the 2021/22 plan and will also use time from the Proactive Fraud and Procurement workplans.
Procurement	Management of Off-Contract Expenditure within Parks and Countryside	<b>Added</b> - This will form part of Contract Management work detailed within the 2021/22 plan.
Other Directorate Risks - Housing Leeds	Anti-social Behaviour advisory work	<b>Added</b> - This will use the time set aside for Housing Leeds contingency to address specific risks identified.
Head of Audit Assurances	Regional Growth Fund, Getting Building Fund, Growth Deal and Green Homes Grant	<b>Added</b> - These are new grants requiring independent verification by Internal Audit to support the sign off process.
Head of Audit Assurances	Leeds Public Transport Investment Programme	<b>Removed</b> – No longer required. WYCA informed us in summer that they did not require certification of this project this year.
Head of Audit Assurances	Blue Badge Grant	<b>Removed</b> – No longer required. This was carried out as a one-off in the previous year and sign off is no longer required.

#### 4 Final Internal Audit reports issued

- 4.1 We have issued 20 audit reports (excluding external work) during the period from 1<sup>st</sup> August 2021 to 30<sup>th</sup> November 2021.
- 4.2 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.
- 4.3 Organisational impact is reported as either: major, moderate, or minor depending on the severity of the issues identified within the audit. 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.
- 4.4 The following table provides a summary of the reports issued during the period from 1<sup>st</sup> August 2021 to 30<sup>th</sup> November, along with the assurances provided where applicable.

Report Title	Audit Opinion			Assurance Themes
	Control Environment Assurance	Compliance Assurance	Organisational Impact	
<b>Finance including Key Financial Systems</b>				
Invest to Save Benefits Realisation – Follow Up	Good	N/A	Minor	Governance and Decision Making, Financial Management, Value for Money, Performance Management, Business Innovation and Development
FMS Creditor Purchase and Payment; Central and Directorate Processes	Substantial	Good	Minor	Financial Management, Anti-Fraud & Corruption, Business Innovation and Development, Information Governance, Risk Management, Performance Management, Value for Money, Legislative / Regulatory Compliance

Report Title	Audit Opinion			Assurance Themes
	Control Environment Assurance	Compliance Assurance	Organisational Impact	
Central Purchasing Cards Controls	Good	Good	Minor	Financial Management, Anti-Fraud & Corruption, Risk Management, Performance Management, Value for Money, Legislative / Regulatory Compliance
Central Financial Controls of Local Authority Maintained Schools 2020-21	Good	N/A	Minor	Financial Management, Governance and Decision Making, Legislative / Regulatory Compliance, Performance Monitoring, Risk Management
<b>Procurement</b>				
Emergency PPE Contracts Review	Good	N/A	Minor	Procurement, Contracts and Commissioning, Legislative / Regulatory Compliance, Governance and Decision Making, Value for Money, Risk Management
Schools PFI	Good	N/A	Minor	Procurement, Contracts and Commissioning, Risk Management, Financial Management, Performance Management, Value for Money, Asset Management, Governance and Decision Making, Legislative / Regulatory Compliance
<b>ICT and Information Governance</b>				
ICT Asset Management	Good	N/A	Minor	Asset Management, Financial Management, Cyber Security, Anti-Fraud & Corruption
Privileged User Access Follow Up	N/A Memo Issued			Information governance, Cyber Security, Legislative / Regulatory Compliance, Risk Management

Report Title	Audit Opinion			Assurance Themes
	Control Environment Assurance	Compliance Assurance	Organisational Impact	
<b>Directorate Risks – Children and Families</b>				
No Recourse to Public Funds	Acceptable	Limited	Moderate	Legislative / Regulatory Compliance, Governance and Decision Making, Performance Management, Financial Management, Safeguarding, Value for Money
Special Educational Needs (SEN) Out of Area Placements	Acceptable	N/A	Minor	Safeguarding, Financial Management, Performance Management, Governance and Decision Making, Legislative / Regulatory Compliance, Risk Management, Value for Money
<b>Directorate Risks – Housing</b>				
Belle Isle Tenant Management Organisation Assurance Framework - Review of the Modular Management Agreement	N/A Memo Issued			Information Governance, Risk Management, Performance Management, Procurement, Contracts and Commissioning, Health and Safety, Partnerships
<b>Schools</b>				
School Voluntary Fund audits x 9	N/A certification of account balances			Financial Management

## 5 Summary of Audit Activity and Key Issues

5.1 During the reporting period, there have been no limitations to the scope, and nothing has arisen to compromise our independence.

## Limited or No Assurance Opinions

- 5.2 Of the audit reviews finalised during the period, no weaknesses have been identified that would result in “major” organisational impact. However, one audit received a limited compliance opinion, and one other audit included a specific objective for which limited assurance was provided.

## No Recourse to Public Funds

- 5.2.1 During this quarter we carried out an audit on No Recourse to Public Funds (NRPF) which refers people subject to “Immigration Control” who are not entitled to access welfare benefits, local authority housing and homelessness assistance. Our audit aimed to ensure that the arrangements in place to regarding NRPF families receive support and payments made in line with legislation and guidance. The audit provided limited assurance for compliance with the control environment as a result of issues identified with the accuracy of some payments. We also found that policy information was in need of updating. Management have responded positively, agreeing to all of our recommendations with actions ongoing at the time of reporting. We will be completing a follow up audit to provide assurance that actions have been implemented accordingly.

## Special Educational Needs (SEN) Out of Area Placements

- 5.2.2 An audit of Special Educational Needs (SEN) Out of Area Placements was carried out during this quarter, which relates to the legal duties that local authorities have to ensure the Special Educational Needs of children are assessed appropriately so that the correct support and education establishment is chosen. This may result in a child from Leeds receiving education from outside the area. The “Out of Area” relates to children who are classed as having special circumstances. This audit provided acceptable assurance overall, with robust procedures found to be in place to give assurance that statutory requirements are being complied with and that a range of factors are considered within placement decisions. However limited assurance was provided for a specific objective relating to the timely and accurate approval of payments, with several recommendations agreed around this area of the process. All of our recommendations have been agreed and management actions have already commenced around the payment process.

## Follow Up Reviews

- 5.2.3 Our protocols specify that we undertake a follow up review where we have previously reported “limited” or “no” assurance for the audited area.

#### Invest to Save – Benefits Realisation Follow Up

- 5.2.4 In November 2019 we reported limited assurance for Invest to Save – Benefits Realisation, highlighting that central governance arrangements had yet to be fully established during the period under review. Having now completed a follow up audit, good assurance has been provided for the control environment noting that the arrangements for the allocation and approval of funding have been strengthened and a clear framework now in place. This will be significant in supporting the delivery of the Medium-Term Financial Strategy.

#### Privileged User Access Follow Up

- 5.2.5 From an audit perspective, we have continued to monitor progress towards the implementation of recommendations made in our review of Privileged User Access reported in 2019/20. The Integrated Digital Service (IDS) has established a project to address the issues identified, with timescales for completion falling in 2021/22, upon which time we will formally review progress.

#### Other highlights

- 5.2.6 During the period we completed a piece of contract review work which focussed on the council's arrangements to procure PPE in response to the COVID pandemic. Good assurance was provided overall, recognising the efforts to apply good procurement and contracting practices in unprecedented circumstances. We were able to confirm that efforts were made to procure PPE in a transparent and competitive way despite the ever-changing market conditions. We have agreed recommendations aimed at evaluating the arrangements in place, and to ensure that a plan has been put in place for buying PPE on appropriate contracts should there be a need to purchase on the same scale again in the future.



## 6 Other Audit Work

Audit Work Completed	Details	Contribution to assurance
Transport Grants	Validation of 3 separate transport grant claims.	Our work confirms we are satisfied that the expenditure incurred is in line with the specific funding requirements of the transport grants, provides evidence that the grant terms are met and reduces the risk of clawback.
Disabled Facilities Grant	Validation of grant claim.	The work contributes to assurances in respect of financial management and governance.
Children and Families – Families First Grant Validation	Grant claim validation work carried out to support the Directorate	The work contributes to assurances in respect of financial management and governance.
Core Business Transformation – Work Packages	Provision of support to various work streams within Financial Services that have been set up to ensure that working practices are fit for purpose and in preparation for the introduction of the new core system.	The work contributes across a range of assurances including financial management and control, risk management, governance and decision making and business innovation.
Core Business Transformation – Programme Assurance	Ongoing work to provide review, advice and challenge to the Programme Board including specific work to ensure that contract documentation was adequately reviewed and signed off.	The work contributes across a range of assurances including financial management and control, risk management, governance and decision making, programme management and contracts and procurement.
Contracts Procedure Rules Review	Contribution to the annual review of the council's Contracts Procedure Rules.	The work helps to ensure that the council's Contract Procedure Rules remain up to date and fit for purpose.

Audit Work Completed	Details	Contribution to assurance
Community Cloud Executive Steering Committee	Ongoing work to provide review, advice and challenge to the Microsoft 365 transitional projects.	The work contributes across a range of assurances including governance and decision making, value for money and information security.
General audit queries and advice issued	Over the course of the year, we have received and responded to a number of queries and requests for advice from departments and service areas. These have covered a range of themes and areas, with a significant number relating to financial controls and decisions in schools.	The work contributes to assurance in a range of areas, in particular governance and decision making and financial control. The dialogue with service areas demonstrates how respected and valued the Internal Audit service is. It also provides a level of procedural oversight and a source of intelligence to feed into the audit planning process.
Planning Decisions Review	We have reviewed specific planning decisions in response to issues raised by Members of the Committee.	The work contributes to assurances around legislative and regulatory compliance, alongside governance and decision making.
Anti-social Behaviour – Housing Leeds	Advisory work with Housing Leeds around the procedures in place to manage risks relating to anti-social behaviour.	The work contributes to assurances around safeguarding and reputational risks.
Fraud Risk Mapping – Data Analytics	Initial work to assess fraud risks and compile systems maps with a view to developing data analytics reporting where appropriate.	The work will deploy modern auditing techniques, contributing to assurances around the management of fraud and corruption risks and helping to further instil the anti-fraud culture.
Management of risks relating to IR35	Ongoing work alongside Financial Management to ensure there are controls in place to mitigate risks relating to off-payroll working.	The work contributes to assurances around legislative and regulatory compliance.

## 7 Other Audit Activities

Audit Activity	Description
Client Liaison Activities	Provision of professional advice to officers, including client liaison activities that promote the work of Internal Audit, and to reinforce the importance of robust controls and good governance.
Board, committee and working group attendance	Attendance at various boards, committees and working groups including Directorate and Service Leadership Teams.
Corporate Governance and Audit Committee support	Drafting reports and attending meetings of the Corporate Governance and Audit Committee. Responding to member queries.
Audit and Risk Updates	Regular meetings between the Head of Audit and the Intelligence and Policy Service to share information around a number of areas that contribute to the risk management process.

## 8 Work in Progress

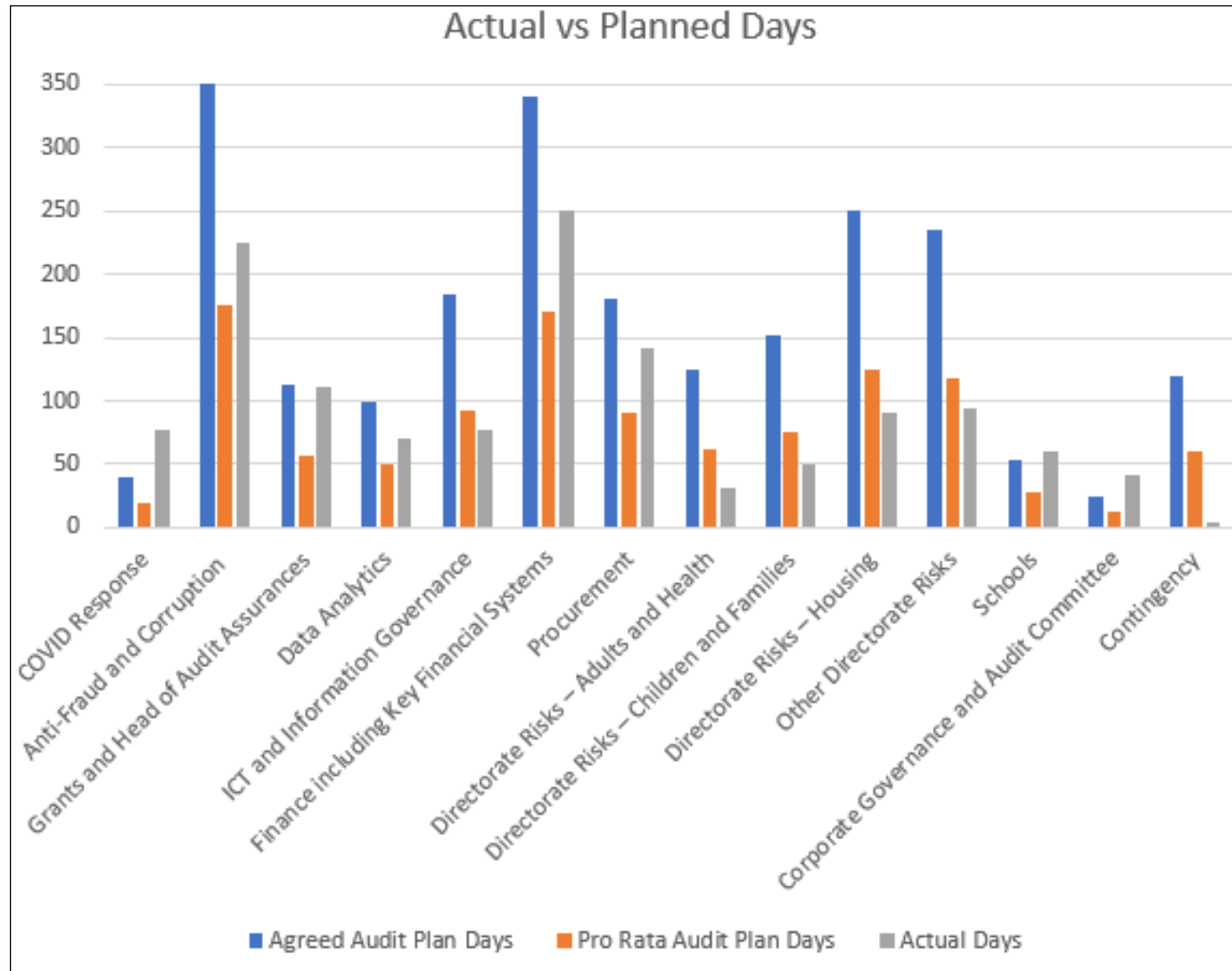
8.1 The following table provides a summary of audits in progress at the time of producing this report:

Assurance Block/ Audit Assignment	Fieldwork in Progress	Draft Report	Finalisation
ICT and Information Governance – Data Protection Impact Assessment		✓	
Procurement – Temporary Staff Vetting Contract Review		✓	
Procurement – Management of Off-Contract Expenditure in Parks and Countryside	✓		
Housing – Retirement Life/Wellbeing checks		✓	

<b>Assurance Block/ Audit Assignment</b>	<b>Fieldwork in Progress</b>	<b>Draft Report</b>	<b>Finalisation</b>
Housing – Asbestos	✓		
Other Directorate Risks – High Value Stock Management		✓	
Other Directorate Risks – Strategic Investment Fund Acquisitions		✓	
Other Directorate Risks – Employee Outside Interests	✓		
Other Directorate Risks – Direct Payments	✓		
Schools – School Voluntary Fund Audits	✓		
Schools – High School Audit		✓	
Schools – Primary School Audit	✓		
Green Homes Grant	✓		
Covid-19 Business Grants	✓		

## 9 Internal Audit Productivity

9.1 The following bar chart provides a comparison of agreed audit plan days against the days that have been used so far in the 2021/22 Internal Audit plan.



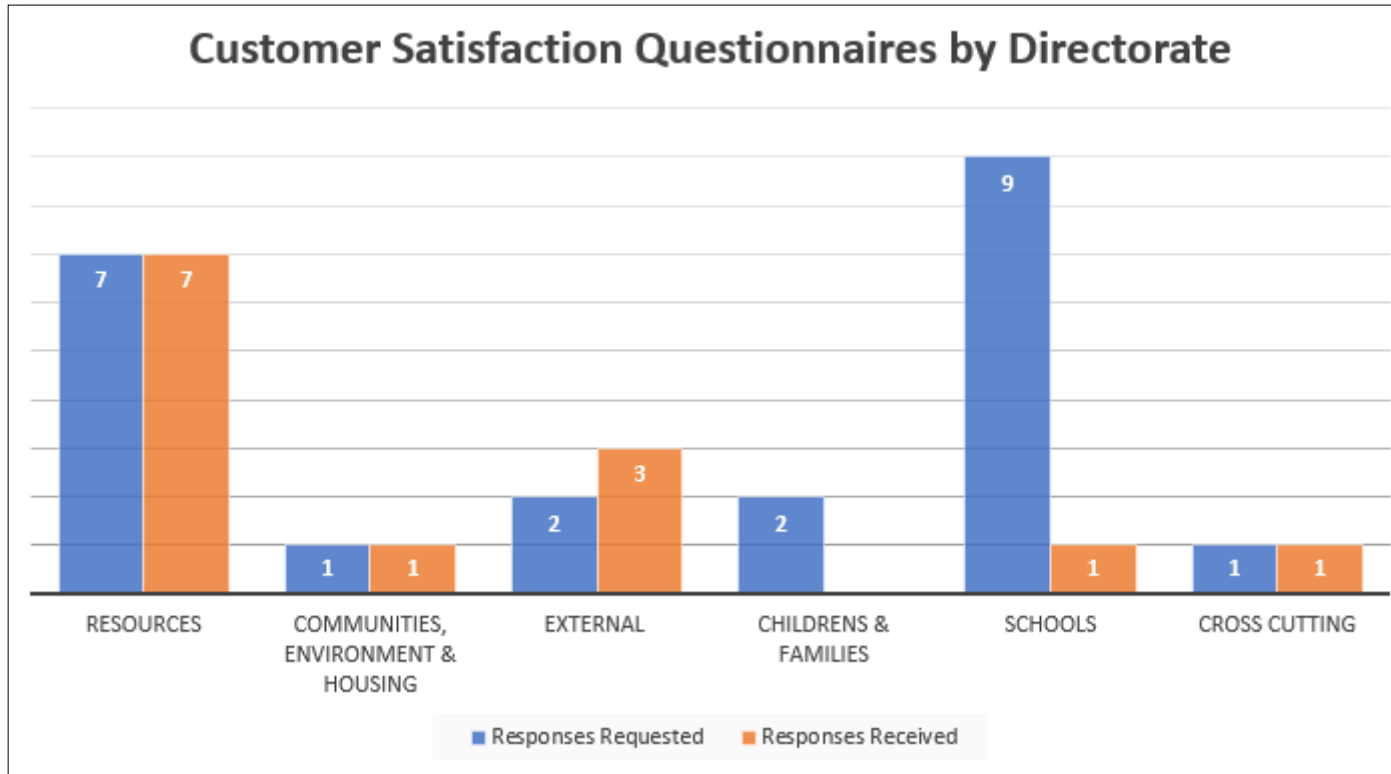
## 10 Internal Audit Performance

### *Feedback*

- 10.1 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.
- 10.2 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.
- 10.3 We have continued to look at ways of maximising our CSQ feedback, and the Chair of the Committee has recently written to the Chief Executive and the Director of Resources, who have asked for the support of the council's leadership team in helping to ensure all service areas provide feedback where requested. This message has also been circulated through the Best Council Leadership Team. Standard wording has been agreed amongst the Internal Audit team to emphasise and consistently promote the requirement of responding to CSQ's to enable continuous improvement within the Internal Audit process.
- 10.4 For the period from 1<sup>st</sup> August 2021 to 30<sup>th</sup> November 2021 we have issued a total of 22 Customer Satisfaction Questionnaires and received 13 completed returns at a response rate of 59% in the period. A summary of the scores is presented in the table below. We have also included a graph that shows the response rate by Directorate.

Question	Average Score (out of 5)	Max Value	Min Value
Sufficient notice was given	4.83	5.00	4.00
Level of consultation on scope	4.82	5.00	4.00
Auditor's understanding of systems	4.54	5.00	4.00
Audit was undertaken efficiently	4.62	5.00	1.00

Question	Average Score (out of 5)	Max Value	Min Value
Level of consultation during the audit	4.62	5.00	3.00
Audit carried out professionally and objectively	4.85	5.00	4.00
Accuracy of draft report	4.92	5.00	4.00
Opportunity to comment on audit findings	4.92	5.00	4.00
Clarity and conciseness of final report	4.92	5.00	4.00
Prompt issue of final report	4.50	5.00	4.00
Audit recommendations will improve control	4.58	5.00	3.00
The audit was constructive and added value	4.67	5.00	3.00
<b>Overall Average Score</b>	<b>4.73</b>		



## 11 Quality Assurance

- 11.1 Internal Audit work is undertaken in accordance with internal quality procedures incorporated in the quality management system, which has been ISO certified since 1998. The International Organisation for Standardisation (ISO) external assessment takes place on an annual basis and was undertaken in November 2021. The assessment confirmed that our quality management system continues to meet the requirements of the ISO standard and is demonstrating continual improvement.
- 11.2 In April 2013 CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. The PSIAS set out the standards for Internal Audit. Compliance



with the standards gives additional assurances to the Committee that audit activities are set and carried out within the appropriate regulatory framework. As part of our Quality Assurance and Improvement Programme, we undertake an annual self-assessment against the Public Sector Internal Audit Standards (PSIAS) which has been completed.

- 11.3 The PSIAS introduced a requirement for an external assessment of an organisation’s internal audit function, which must be conducted at least once every five years. Our last assessment took place during 2016 which concluded that Leeds City Council’s Internal Audit Service conforms to the requirements of the PSIAS. It has been agreed through the Core Cities Internal Audit Group that rotational peer reviews will be undertaken. Glasgow City Council have undertaken this assessment, which confirms that the Internal Audit function complies with the PSIAS.
- 11.4 The Quality Assurance Improvement Programme (QAIP) brings together our commitment to continually review and improve the way in which we deliver our internal audit service and embed our quality system into working practices. Over the last year there has been a considerable impetus across the team to identify areas for improvement that can be considered for inclusion in the QAIP. As a result, we now have a number of actions that are in the process of being addressed. These include actions recommended through the external assessment referred to above. The Action Plan is provided below.

Action	Timescale and Status
Assurance mapping will continue to be developed to support the annual audit planning process.	Ongoing – this work is being taken forward through our participation in a CIPFA assurance framework working group ahead of being rolled out across the teams.
Internal development of counter-fraud training for use on the Performance and Learning (PAL) system.	Substantially complete - the counter fraud training has been developed and is now at the testing phase.
A communications plan will be developed to roll out the counter-fraud training on a risk basis and further promote the council’s whistleblowing processes.	Substantially complete – the communications plan has been developed and will be used to support the roll out of the counter-fraud training in Q4 2021/22.

Action	Timescale and Status
Internal Audit Counter-Fraud Insite Page – To update the counter-fraud information available internally through the intranet.	Ongoing – to be refreshed in conjunction with updates to the Counter-Fraud Strategy and Whistleblowing Policy.
Internal Audit Performance Monitoring – internal performance measures, including KPIs, have been reviewed to support and drive completion of the annual audit plan.	Ongoing – Further work is required with the aim of producing additional performance monitoring information for the committee.
Internal Audit Reporting Protocols – to update and streamline directorate reporting protocols to drive timely completion of audit reports.	Ongoing – Revised protocols have been drafted and are currently at consultation stage ahead of being rolled out for the start of 2022/23.
<p>Internal Audit Reporting – to review and refresh the way in which our audit work is reported, with a view to identifying and implementing the most efficient and effective means and reflecting the needs of Members.</p> <p>Currently the Internal Audit team report on compliance with the PSIAS through the Annual Report and large Opinion. The external assessment recommended that compliance is referenced on a more regular basis, for example within each audit report.</p>	Ongoing – The Corporate Governance and Audit Committee reports have been consulted on and refreshed during the year. Work is ongoing to review the means through which our audit findings are reported to management. This will include consultation with relevant key stakeholders.
Internal Audit Technical Manual – To review and update the technical manual as a means of promoting auditing best practice across the team.	Substantially Complete – The technical manual has now been reviewed and is to be shared across the team in Q3 / Q4 2021/22.

Action	Timescale and Status
SharePoint Online Working Platform and Internal Audit Workflows – To review our usage of SharePoint Online in conjunction with the transition to the cloud, and to determine the most effective means of storing and accessing electronic information. This works alongside an effort to promote streamlined and standardised workflows in accordance with the section’s Quality Procedures.	Complete – The Internal Audit Hub has been created on SharePoint Online and all relevant data migrated across. A process flowchart has also been developed in accordance with the Quality Procedures, and this has been shared with the team and published on the Internal Audit Hub.
Internal Training Programme – To identify and address relevant training areas across the team.	Ongoing – The team has been consulted on areas in which additional training is required. To date this has resulted in: <ul style="list-style-type: none"> <li>• SharePoint Online Training – now completed.</li> <li>• Audit Time Management and Recording System – team members have been asked to highlight specific areas with training to be provided across Q3 / Q4 2021/22.</li> </ul>
The external assessment highlighted that the Head of Audit should have regular scheduled meetings with the Chief Executive.	Complete – Formal meetings are scheduled with the Chief Executive every quarter. This will provide an opportunity to brief the Chief Executive on key audit activity and obtain information on any emerging areas of risk or concern.
Whilst the Internal Audit Plan is kept under review and changes made as required throughout the year, the external assessment highlighted a need to formally document changes to the plan and ensure that these are reported to the Corporate Governance and Audit Committee.	Complete – changes to the Internal Audit Plan are now being reported within the quarterly update reports provided to the Corporate Governance and Audit Committee.

*Performance*

11.5 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 PSIAS.

11.6 As we continue to develop and refine our key performance indicators over the year, we will look to incorporate further performance information to demonstrate the effective use of our resources.

## 12 Head of Internal Audit Opinion

12.1 The Head of Internal Audit must deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual 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.

12.2 Based on the audit work undertaken in the period, an overall adequate assurance opinion is considered to be appropriate. A summary of our quarterly opinions for the year to date is as follows:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Assurance Opinion	Adequate	Adequate		

12.3 Consideration of our overall opinion takes the following into account:

- results from the substantive audit assignments we have completed during the period;
- outcomes from our audit work not producing an assurance opinion;
- an assessment as to the timely implementation of internal audit report management actions.

## 13 Counter Fraud and Investigations

13.1 The Corporate Governance and Audit Committee receives a separate report summarising the general activities and work plan of the Internal Audit Counter Fraud Team, including both proactive work and fraud and irregularity investigations undertaken.