

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 20th June 2017

Subject: Internal Audit Update Report April to May 2017

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the council's corporate governance arrangements. Reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended. This report provides a summary of the Internal Audit activity for the period from April to May 2017 and highlights the incidence of any significant control failings or weaknesses.

Recommendations

2. The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from April to May 2017 and note the work undertaken by Internal Audit during the period covered by the report. The Committee is also asked to note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.

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 April to May 2017 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 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 April to May 2017.

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 April to May 2017

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Key Financial Systems			
Business Support Centre – Payroll and HR Administration	Substantial	Good	Minor
Housing Benefits Assessment and Payments	Substantial	N/A	Minor
Local Welfare Support Scheme	Good	Good	Minor
FMS Creditor Purchases and Payments	Good	Substantial	Minor
Treasury Management	Substantial	Substantial	Minor
Total Repairs	Substantial	Good	Minor
Strategy and Housing			
Corporate Risk Maturity Assessment	Assessment of corporate risk maturity levels against 8 areas of best practice. 7 of the 8 risk maturity areas achieved or exceeded the minimum recommended level. The remaining area (partnership risk management) was assessed as being below the recommended level. Further details are provided at 3.2.3 below.		
Housing Leeds Programmed and Planned Maintenance	Good	Acceptable	Minor
Best Council Plan Refresh and Performance Management Framework	Good	N/A	Moderate
Children's and Families			
Central Control and Monitoring of Nursery Fees	Acceptable ¹	N/A	Minor
Payments in relation to In-House Fostering, Special Guardianship Orders and Leaving Care	Good	Limited	Minor
Risk Management and Business Continuity	Good	N/A	Minor

¹ Acceptable assurance was provided overall. Limited assurance was provided for one of the five objectives covered within the audit scope.

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Central Financial Controls of Local Authority Maintained Schools	Acceptable	N/A	Minor
Adults and Health			
Payments to Carers	Good	Good	Minor
Direct Payments	Good	Good	Minor
Public Health Commissioning	Substantial	N/A	Minor
Procurement			
Contract Specification and Management	Limited	No Assurance	Moderate
Schools			
School Voluntary Fund x 2	Certification of balances		
Follow Up Reviews			
Administration of Client Monies	Substantial	Acceptable	Minor
Sundry Income Events	Acceptable	N/A	Minor
Direct Payments (Children's and Families)	Acceptable	N/A	Minor
Commissioning of External Residential Placements and Independent Fostering Agency Payments Follow Up	Acceptable	Acceptable ²	Moderate
Directorate Compliance with CPRs: Non and Off Contract Spend. (Seven directorate reports plus one central controls report)	Acceptable	Limited	Moderate

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

- Troubled Families March 2017

² Acceptable assurance was provided overall. Limited assurance was provided for two of the four objectives covered within the audit scope.

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 31 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 Each of the 6 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.
- 3.2.3 During the reporting period, we completed an assessment of the organisation's corporate risk maturity to establish how robust and embedded the central risk management processes are when compared to best practice guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.2.4 We assessed the authority's corporate performance relating to this on a scale of 1 (risk naïve) to 5 (risk enabled) and found there was evidence that a large number of the best practice criteria set out by CIPFA are in place within the corporate arrangements at the council.
- 3.2.5 Best practice identifies that public services should attain at least level 3 in order to contribute to the overall control framework, and this was either met or exceeded in all but one area which related to partnership risk management.
- 3.2.6 Moving forward, not all of the eight risk maturity areas will necessarily need to meet level 5 and the additional resources required to achieve this will need to be considered compared to the authority's appetite to achieve full maturity. The recommendations made will be considered and implemented as appropriate by the service as part of their 2017/18 review of risk management.
- 3.2.7 An outline of the findings from the assessment are provided below:
- The highest levels of maturity (level 5: risk enabled) were reached in terms of categorising and prioritising risks, and demonstrating a clear understanding of how risks are to be managed.
 - The existing arrangements for risk identification and monitoring also compared positively against best practice and were assessed as meeting level 4 (risk managed).
 - Several areas that provide the foundation for effective risk management in the above areas were assessed as meeting level 3 (risk defined). These covered the risk management policy, risk responsibilities and embedding risk management into the council's processes. As well as making recommendations to be implemented by the central risk management function, recommendations were also made to review Corporate Governance and Audit Committee's role in relation to risk management, with best practice guidance being used as a basis for this review.

- The remaining area relating to partnership risk received the lowest maturity rating of our assessment (level 2: risk aware). Partnership arrangements are an increasingly important way of delivering council priorities and recommendations have been made to provide central guidance which will help to increase the council's risk maturity in this area and support the effective management of partnership risks.

Limited or No Assurance Opinions

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

Contract Specification and Management

- 3.2.9 During the period, an audit on a council wide contract resulted in limited assurance being provided for the control environment due to issues identified with the contract specification and contract management arrangements. No assurance was provided for compliance with the controls, reflecting the fact that we found variances between the rates charged and those agreed in the tender across the sample tested. Ongoing action is being pursued to address the matter, and lessons learned are being fed into the procurement of a new contract for provision of the services which we will audit later in 2017/18.

Directorate Compliance with Contract Procedure Rules (CPRs): Non and Off Contract Spend

- 3.2.10 Seven directorate audits were carried out to review compliance with CPRs for expenditure not linked to a contract, and these all received a limited assurance opinion. Four of these were follow up audits which had also previously received limited assurance opinions.
- 3.2.11 It is important to note that the majority of the council's expenditure is made on-contract with assurance taken that the primary considerations of achieving value for money have been addressed during the procurement of the contract. Our directorate reviews specifically targeted a restricted population of payments made off-contract. As with our previous audits, the main issue we identified was that quotes had not been obtained and this approach had not been approved by the chief officer, along with a written record being kept of the reason for the decision. We have been working with directorates and the Projects, Programmes and Procurement Unit to better understand the cause of the issues. The matter has been escalated to the Chief Officer PPPU and new recommendations have been agreed that should improve compliance in future. We will carry out further follow up work to review progress in this area during 2017/18.

Commissioning of External Residential Placements and Independent Fostering Agency Payments Follow Up

- 3.2.12 We have previously reported to this Committee that we were unable to gain assurance that value for money was being obtained when external providers of residential care and independent fostering agencies were being commissioned.

This is a significant area of expenditure and limited assurance was provided because evidence was not being retained to confirm that the provider offering the best value was selected from the available suitable matches (suitable matches are providers that meet the care needs of the child or young person).

- 3.2.13 Our follow up review has found that although some improvements have been made to the control environment there has been limited progress in evidencing how many suitable matches have been identified when attempts are made to place a child. As such we are again unable to provide independent assurance that value for money is being achieved in the brokerage of external placements. Recommendations have been agreed with the Service and a further follow up review will be undertaken during 2017/18 to assess the progress made.

Central Control and Monitoring of Nursery Fees

- 3.2.14 The 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. By undertaking action which had already been planned by the Service, and by addressing the recommendations in the audit, it will be possible to confirm that all income has been applied for and received.

Payments in relation to In-House Fostering, Special Guardianship Orders and Leaving Care

- 3.2.15 A review was undertaken of payments for in-house foster care, special guardians and for care leavers. Good controls are in place for the approval and processing of these payments. However, there were two processing errors in our sample (one of which has been corrected and the other is currently being investigated) and we were unable to confirm the accuracy of 26% of the sample, due to a lack of documentary evidence being retained. In all cases, however, we confirmed that the payments made were genuine. At the time of finalising the audit report improvements were being made to the processes that will help ensure that decisions are properly recorded. We will undertake a follow-up review to monitor progress in implementing our audit recommendations and assess the robustness of the new process.

Follow Up Reviews

- 3.2.16 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.

- 3.2.17 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

Audited area	Follow up audit status	Corporate Governance and Audit Committee report reference
Follow up results reported at the current meeting		
Administration of Client Monies	Closed	June 2016
Sundry Income Events	Closed	September 2016
Commissioning of External Residential Placements and Independent Fostering Agency Placements Follow Up	See 3.2.12	September 2015
Direct Payments (Children's and Families)	Further compliance testing will be undertaken later in the year	September 2016
Directorate Compliance with CPRs: Non and Off Contract Spend x 7	See 3.2.10	March and June 2016
Follow up reviews due in 2017/18		
Contract Extensions	In progress	March 2016
LBS Subcontractors and Quality Management Systems	In progress	September 2016
LBS Tools and Equipment	Planned	September 2016
Leeds Grand Theatre – Contract Procedure Rules	Planned	January 2017
Housing Leeds Tenancy Management – Use and Occupation	Planned	January 2017
Contract Review - Joint Venture: professional property and building services	Planned	January 2017
Community Care Finance	Planned	April 2017
Implementation of Client Information System	Planned	April 2017
LBS Stores	Planned	April 2017
Contract Specification and Management	Planned	See 3.2.9

Audited area	Follow up audit status	Corporate Governance and Audit Committee report reference
Commissioning of External Residential Placements and Independent Fostering Agency Payments Follow Up	Planned	See 3.2.12
Directorate Compliance with CPRs: Non and Off Contract Spend	Planned	See 3.2.10

- 3.2.18 During this reporting period we have finalised 11 follow up reviews and closed 2 of these to reflect the progress made since the previous audit. Further follow up work will be undertaken to review the outstanding issues in relation to directorate compliance with CPRs discussed above at 3.2.10, the commissioning of external residential placements discussed above at 3.2.12 and testing will be undertaken on a sample of direct payments (Children's and Families) to provide assurance that the controls in place to ensure that accurate payments are made are working in practice.

Continuous Audit & Data analytics

- 3.2.19 This cross cutting audit programme aims to evaluate control effectiveness across key systems on an ongoing basis, and highlight high risk transactions or events. The programme was developed to initially focus on the council's self-serve processes. Coverage has now been expanded to include testing in other parts of the council's operations. To date, we have completed testing on SAP travel and expense claims, Click Travel and purchasing card expenditure where this related to travel. No significant issues have been identified and overall, we can provide good assurance that the current self-service arrangements and are working as intended.

Counter Fraud and Corruption

- 3.2.20 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 across the authority.

Proactive Anti-Fraud Work

- 3.2.21 During the reporting period, we have continued to raise awareness of fraud risks and preventative action through communications with senior managers and reviews of the anti-fraud and corruption measures in place in key areas across the organisation.
- 3.2.22 Internal Audit resources have also been focussed on reviewing the National Fraud Initiative data matches and undertaking investigations as appropriate.

Reactive Anti-Fraud Work

- 3.2.23 During the reporting period we have received 9 potential irregularity referrals. Of these, 8 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.
- 3.2.24 During the reporting period 14 referrals have been closed. In accordance with our agreed protocols, a report is issued to the relevant director and chief officer for each investigation conducted by Internal Audit. The reports provide details of the allegations, findings and conclusions as well as value adding recommendations to address any control weaknesses identified during the course of the investigation. We have issued 2 such investigation reports during this period.

Internal Audit Performance

- 3.2.25 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.
- 3.2.26 All our work is undertaken in accordance with our quality management system and we have been ISO certified since 1998.
- 3.2.27 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.
- 3.2.28 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.
- 3.2.29 During the period 30th March to 31st May 2017, 8 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 30th March to May 2017

Question	Average Score (out of 5)
Sufficient notice was given	4.86
Level of consultation on scope	4.25
Auditor's understanding of systems	4.25
Audit was undertaken efficiently	4.88
Level of consultation during the audit	4.71
Audit carried out professionally and objectively	4.88
Accuracy of draft report	4.50
Opportunity to comment on audit findings	4.88
Clarity and conciseness of final report	4.75
Prompt issue of final report	4.75
Audit recommendations will improve control	4.71
The audit was constructive and added value	4.50
Overall Average Score	4.66

- 3.2.30 During the period, our resources have been focussed on completing the audit assignments in the Audit Plan for 2016/17. These have been included in the Annual Audit Report and Opinion 2016/17. A progress update against the new Internal Audit Plan for 2017/18 will be provided to the Committee at the next meeting.
- 3.2.31 Current levels of resources within Internal Audit are sufficient 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 April to May 2017 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

6 Recommendations

- 6.1 The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from April to May 2017 and note the work undertaken by Internal Audit during the period covered by the report. The

Committee is also asked to note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.

7 Background documents

7.1 None.