

## Report of the Chief Officer (Financial Services)

### Report to Corporate Governance and Audit Committee

**Date: 20th June 2017**

**Subject: Internal Audit Annual Report and Opinion 2016-17**

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 (including matters such as internal control and risk management) and to consider the Annual Internal Audit Report.
2. The Public Sector Internal Audit Standards (PSIAS) require the Chief Officer (Audit and Investment) to deliver an annual internal audit opinion and report that can be used by the council to inform its governance statement.
3. This report provides the Annual Internal Audit Report and Opinion for 2016/17.
4. The overall conclusion is that on the basis of the audit work undertaken during the 2016/17 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. There are no outstanding significant issues arising from the work undertaken by Internal Audit. The 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.

### Recommendations

5. The Corporate Governance and Audit Committee is asked to receive the Annual Internal Audit Report and Opinion for 2016/17 and note the opinion given. In particular:

- that on the basis of the audit work undertaken during the 2016/17 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice
- that the work undertaken to support the 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
- that there are no outstanding significant issues arising from the work undertaken by Internal Audit

6. 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 bring to the attention of the Committee the annual internal audit opinion and basis of the Internal Audit assurance for 2016/17.

## **2 Background information**

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Officer (Audit and Investment) to deliver an annual internal audit opinion and report that can be used by the council to inform its governance statement.
- 2.2 The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the council's corporate governance arrangements. Internal Audit is a key source of independent assurance providing the Committee with evidence that the internal control environment is operating as intended.
- 2.3 The Chief Officer (Financial Services), as the council's Section 151 Officer, is responsible under the Local Government Act 1972 for ensuring that there are arrangements in place for the proper administration of the authority's financial affairs. The work of Internal Audit is an important source of information for the Chief Officer (Financial Services) in exercising his responsibility for financial administration.
- 2.4 On behalf of the Committee and the Section 151 Officer, Internal Audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.5 The terms of reference of the Committee require that it considers the council's arrangements relating to internal audit requirements including the Annual Internal Audit Report and monitoring the performance of the Internal Audit section.

## **3 Main issues**

### **3.1 The Annual Reporting Process**

- 3.1.1 The Public Sector Internal Audit Standards 2013 (updated March 2016) require that the Chief Officer (Audit and Investment) must 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 Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme

- 3.1.2 This report is the culmination of the work performed by Internal Audit during the course of the year and provides the Chief Officer (Audit and Investment) 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. In accordance with the requirements of the PSIAS, the Chief Officer (Audit and Investment) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

### **3.2 Organisational Independence**

- 3.2.1 The PSIAS require that the Chief Officer (Audit and Investment) must confirm to the Corporate Governance and Audit Committee at least annually, the organisational independence of internal audit activity. The Internal Audit Charter and the council's Financial Regulations re-inforce this requirement.
- 3.2.2 During the year, the Internal Audit Charter was reviewed and updated and this was approved by the Corporate Governance and Audit Committee at the meeting in April 2017. The Charter specifies that the Chief Officer (Audit and Investment) must report to a level within the council that allows Internal Audit to fulfil its responsibilities.
- 3.2.3 The authority's Financial Regulations state that the Chief Officer (Audit and Investment) '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.'
- 3.2.4 Appropriate reporting and management arrangements are in place within LCC that preserve the independence and objectivity of the Chief Officer (Audit and Investment).

#### **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 my personal independence or objectivity.*

Chief Officer (Audit and Investment)

### **3.3 Opinion 2016/17**

- 3.3.1 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 Officer (Audit and Investment) opinion for 2016/17

*On the basis of the audit work undertaken during the 2016/17 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. There are no outstanding significant issues arising from the work undertaken by Internal Audit.*

*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.*

- 3.3.2 During the year, we have audited one area that resulted in a 'No Assurance' opinion, several areas that have resulted in 'Limited Assurance' opinions and we have highlighted weaknesses that may present risk to the council. In these cases, we have made recommendations to further improve the arrangements in place. Although significant to the control environment in place for the individual system areas that have been audited, these weaknesses 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.

### **3.4 Basis of Assurance**

- 3.4.1 The annual opinion on the adequacy and effectiveness of the control environment for 2016/17 is based on the findings and assurance provided by the schedule of reviews undertaken throughout the year. The schedule of reviews for 2016/17 was prepared using a risk based audit planning approach and was approved by the Corporate Governance and Audit Committee in March 2016.
- 3.4.2 Each piece of audit work results in an audit report that provides, where appropriate, an assurance opinion. 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.

- 3.4.3 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. No audited area has been assessed as having a major organisational impact during the year.
- 3.4.4 The PSIAs require us to report where we have placed reliance on other assurance providers. During the year, External Audit has undertaken testing on the housing benefit system as part of the housing benefit subsidy claim. This includes recalculation of the actual benefit awarded. To avoid duplication, we did not re-perform this calculation as part of our housing benefit assessment and payment audit this year.

### **3.5 Assurance Areas**

#### ***Key Financial Systems and Financial Risks***

- 3.5.1 Our reviews of the key financial systems and other financial internal control audits support the opinion that, overall, the council has effective financial governance, risk management and internal control arrangements in place.
- 3.5.2 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. The level of assurance provided for all key financial systems reviews undertaken during the year was good or substantial, with the exception of the Community Care Finance audit. Governance arrangements in respect of the central coordination and setting of the council budget were found to be robust.
- 3.5.3 During the year, we have highlighted opportunities to improve the effectiveness and efficiency of several other financial processes. These areas were assessed to have a minor organisational impact with the exception of the Community Care Finance audit and the follow up work undertaken in respect of the commissioning of external residential and independent fostering agency placements within Children's Services.
- 3.5.4 In respect of Community Care Finance, we reviewed the processing of payments for residential and nursing care placements. The audit found that processes require strengthening to ensure that all changes in circumstances and all deferred and statutory charges are identified. Opportunities were also identified to improve the efficiency of the process in respect of recovering overpayments due from providers. We found that a number of issues were encountered with payments to providers following the introduction of the new customer record and finance system, the Customer Information System (CIS). The issues were addressed at the implementation stage through workarounds and by making payments outside of the system, which has caused some inefficiencies.
- 3.5.5 In the Internal Audit Annual Report for 2015/16, we reported limited 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).

- 3.5.6 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.
- 3.5.7 As previously, the key financial systems subject to audit were discussed with the external auditors to ensure that the work of internal and external audit are linked as efficiently and effectively as possible. KPMG has reviewed the findings of a sample of our work on key financial systems in 2016/17 and did not raise any concerns over the timeliness and quality. KPMG has confirmed that they use the work of internal audit to inform their risk assessment, including audit risks related to key financial systems.

### ***Procurement***

- 3.5.8 For the key procurement risk areas, we have reviewed procurement arrangements both centrally and within directorates, and considered whether policies and procedures were fit for purpose and being followed. Our reviews have covered the following areas:
- arrangements to identify and address expenditure not linked to a contract, and a review of whether Contract Procedure Rules (CPRs) are being followed in this area
  - the procurement, management and extension of contracts
  - commissioning arrangements
- 3.5.9 Acceptable, good or substantial audit opinions were provided for a number of these audit reviews. However for several audits we gave limited assurance opinions, and one no assurance opinion. The key issues identified related to the management of a cross-cutting contract and compliance with CPRs for expenditure not linked to a contract. Further details of the audits are provided below:
- 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.

- Seven directorate audits were carried out to review compliance with CPRs for expenditure not linked to a contract, and these all received limited assurance. 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. The main issue identified was that quotes had not been obtained and this approach had not been approved by the relevant chief officer, along with a written record being kept of the reason for this decision. We have reported similar findings in previous audits and we have therefore been working closely with directorates and the Projects, Programmes and Procurement Unit (PPPU) to better understand and address 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.

### ***Other Risks including Non-Financial, Information Governance and ICT***

- 3.5.10 We have undertaken a series of audits to provide assurance on the governance, risk management and internal control arrangements in place on a range of other, non-financial risk areas during the year. Our work has had links to risks relating to ethics, safeguarding, compliance with legislation and internal procedures and other risks that may affect the achievement of council priorities. We found these risks to be generally well managed, with each of the reviews providing acceptable or higher levels of assurance overall.
- 3.5.11 The purpose of our Risk Maturity Assessment was 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). 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. A key area where opportunities to improve existing arrangements were identified was in relation to partnership risks. Partnership arrangements are an increasingly important way of delivering council priorities and recommendations have been made to provide central guidance which will help to support the effective management of partnership risks.
- 3.5.12 Our review of the Best Council Plan 2017/18 refresh and performance management framework received good assurance overall. The process to refresh the Best Council Plan was confirmed as robust and delivery plans were found to be in place, with only minor recommendations made in these areas.
- 3.5.13 A key recommendation was made in relation to continuing the ongoing development of a formal performance management framework, which will ensure that the council's performance against the Best Council Plan can be effectively monitored and used to inform decision making. We confirmed that the approach being taken to develop the framework showed evidence of considering key elements of best practice, as did the revised set of 2017/18 Key Performance Indicators which support the Best Council Plan.



### ***Housing Partnerships Assurance Framework***

- 3.5.14 Housing Leeds manages and maintains council homes and provides a range of services for council tenants. The Housing Leeds Assurance Framework is designed to provide assurance that the risks associated with the effective delivery of these services are properly managed. During the year, the scope of our audit work has included coverage with links to risks relating to finance, contractor performance, quality of works completed, lettings and the customer experience.
- 3.5.15 Overall, the assurances provided have been positive, with 11 of the 12 audits resulting in either good or acceptable audit opinions overall.
- 3.5.16 No significant concerns have been raised within this assurance block and suitable action plans are in place to improve control in areas where weaknesses have been identified.

### ***Follow up Work***

- 3.5.17 Where our audit work has highlighted areas for improvement, recommendations have been made to address the risk and management action plans have been established. A follow up audit is undertaken to provide assurance on the actions implemented for all reviews that have resulted in limited or no assurance opinions. We have completed 22 follow up reviews during the year. With the exception of two areas highlighted above (expenditure not linked to a contract at 3.5.9 and commissioning of external placements at 3.5.5), improvements in control and/or compliance were evident in each of the follow up audits that have been undertaken. This provides assurances in respect of the commitment and effectiveness of management in implementing actions to improve risk management and internal control processes.
- 3.5.18 At the request of the Corporate Governance and Audit Committee, we have introduced a follow up tracker within our regular update reports. This provides a further layer of assurance to the Committee that outstanding audit issues are monitored and followed up as appropriate.

### ***External Work***

- 3.5.19 As in previous years, we have carried out audit work for several external clients and partners to generate income for the council. With the exception of the work completed for the Leeds Grand Theatre (LGT), the external work that we undertake is not reported to the Corporate Governance and Audit Committee or detailed within this report as it does not form part of the assurance arrangements for the council.
- 3.5.20 Audits undertaken during the year for LGT resulted in good assurance being provided for Budgetary Control and for Creditors and Payments to Visiting Companies. This reflects the significant work undertaken by LGT to embed key financial controls.
- 3.5.21 Limited assurance was provided for the audit of Contract Procedure Rules. Whilst improvements in the company's financial position are indicative of an ongoing drive to seek value for money, the theatre recognises the opportunity to strengthen

procurement controls in a manner that will be able to consistently demonstrate that best value has been achieved. Further to the completion of the audit we carried out a workshop with officers at the theatre aimed at promoting best practice in procurement, and progress against the actions taken by the theatre will be assessed during 2017/18.

### ***Continuous Audit and Data Analytics***

- 3.5.22 This cross cutting audit programme aims to evaluate control effectiveness across key systems on an ongoing basis, and highlight high risk transactions or events. This year 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 we can provide good assurance that the current self-service arrangements are working as intended.
- 3.5.23 We have also undertaken data analysis to confirm the existence and operation of key controls across the authority. The outcomes from this work have been included within the individual key financial system reports.

### ***Anti-Fraud and Corruption***

- 3.5.24 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.
- 3.5.25 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. Working alongside dedicated specialist teams and services across the council, we draw upon best practice and guidance from a number of sources to assist in steering the focus and direction of counter fraud activities.
- 3.5.26 The anti-fraud and corruption work undertaken includes both proactive anti-fraud and corruption activities (fraud strategies) and reactive work (investigations). The team takes a risk-based approach to ensure the risk of fraud is managed effectively with available resources. Proactive fraud exercises, data analytics work and participation in the National Fraud Initiative (NFI) provide assurance that the authority is taking positive action to detect potential fraud and prevent its recurrence.
- 3.5.27 The council's Whistleblowing Policy and Raising Concerns Policy set out the means by which serious concerns can be brought to the attention of internal audit. The Whistleblowing Policy is available on the intranet and encourages council employees and members, who have serious concerns about any aspect of the council's work, to come forward and voice those concerns without fear of reprisal. The Raising Concerns Policy is published on the council website and offers guidance to members of the public that may have concerns around aspects of the council's work. The promotion and accessibility of these policies helps the council to be responsive to emerging risks that are identified.

- 3.5.28 Internal Audit continues to act as the custodians of these policies. In 2016/17, we received a total of 54 potential irregularity referrals (88 in 2015/16). Of these, 36 were classified under the remit of the Whistleblowing or Raising Concerns policies (53 in 2015/16). All reported irregularities were risk assessed by Internal Audit and either investigated by ourselves, the relevant directorate or HR colleagues, as appropriate. Where the matter was referred to directorates or HR for investigation, we have made follow up enquiries to ensure all aspects of the referral have been addressed.
- 3.5.29 It is essential that council employees and members are aware of and have confidence in our Whistleblowing Policy and that members of the public are able to raise concerns with us so that we can take appropriate remedial action. We are reviewing possible reasons why there has been a reduction in the number of irregularity referrals and have increased efforts to ensure there is appropriate awareness of our whistleblowing channels. We regularly review the council's whistleblowing procedures in accordance with the Whistleblowing Code of Practice and have signed up to the Public Concern at Work First 100 campaign to demonstrate a commitment to upholding the principles of the code and embedding a culture in which concerns can be raised confidently through accessible channels.
- 3.5.30 Of the cases closed during the year, 3 cases resulted in the resignation of the employee concerned (4 employees in total) and 1 case resulted in a dismissal. All cases where criminal activity is suspected are reported to the police in line with our zero tolerance approach to fraud and corruption. Where investigations have taken place, either by Internal Audit or by directorates, improvements have been made to the control environment. We provide guidance to directorates during their investigations, and also provide ad hoc advice for example on fraud prevention controls.
- 3.5.31 We have previously reported to this Committee that our proactive fraud work was successful in identifying fraudulent creditor payments at the Leeds Grand Theatre (LGT) in June 2013. October saw the conclusion of the court case which resulted in the successful prosecution of two individuals, one of whom was the former Head of Finance at the theatre. Both faced charges of conspiracy to commit fraud by false representation and were found guilty following a trial that lasted nearly three weeks. The former Head of Finance received a sentence of five years imprisonment and the other party received a sentence of 16 months. We are currently in the legal process to recover the funds.
- 3.5.32 As part of our proactive fraud work programme we have focussed on the National Fraud Initiative (NFI) outputs and raised awareness of fraud risks across the council. We have done this through news items on InSite, the weekly Essentials e-mail which is sent to all staff with access to e-mail, and targeted communications to particular groups to raise awareness of specific risks.

### ***Other Work***

- 3.5.33 We have provided training and advice on a wide range of control issues in response to queries raised from across the organisation during the year and completed analytical review exercises to support work being undertaken within directorates.

### 3.6 Summary of Completed Audit Reviews

3.6.1 This section provides a summary of all reports issued since 1st June 2016, along with the Corporate Governance and Audit Committee meeting date where the audits were reported. Audit reviews completed from 1st June 2015 to 31st May 2016 were reported in the Internal Audit Annual Report for 2015/16. All reviews up to March 2017 have already been highlighted to the Corporate Governance and Audit Committee in the Internal Audit Update Reports throughout the year. Audit reports issued during the period April to June 2017 are included in the Internal Audit Update Report covering that period and are being presented to the Committee at the same meeting as this Annual Report.

Table 1: Completed Audit Reviews

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Key Financial Systems and Other Financial Risks				
Sundry Income year end reconciliation	Substantial		N/A	September 2016
Income Management System year end reconciliation	Substantial		N/A	September 2016
NNDR year end reconciliation	Substantial		N/A	September 2016
Council Tax year end reconciliation	Substantial		N/A	September 2016
Housing Benefit / Council Tax Benefit year end reconciliation	Substantial		N/A	September 2016
Creditors year end reconciliation	Substantial		N/A	September 2016
Payroll year end reconciliation	Substantial		N/A	September 2016
Bank Reconciliation and Cashbook	Substantial	N/A	Minor	September 2016
Central Purchasing Cards	Substantial	N/A	Minor	September 2016

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Direct Payments (Children's Services)	Acceptable	Limited	Minor	September 2016
Sundry Income – Events Follow Up x 2	Acceptable	Acceptable	Minor	September 2016 and June 2017
Sundry income – Lettings Follow Up x 2	Acceptable	Good	Minor	September 2016 and April 2017
Primary School	Good	Good	N/A	September 2016
Housing Rents year end reconciliation	Substantial		N/A	January 2017
Unannounced Establishment Visit (Adult Social Care) x 2	Good	Good	Minor	January 2017 and April 2017
Insurance	Good	Good	Minor	January 2017
Music Centre (Children's Services)	Acceptable	N/A	Minor	January 2017
Payments for services by voluntary organisations (Children's Services)	N/A	Good	Minor	January 2017
Income Management System	Substantial	N/A	Minor	January 2017
Bank Accounts: Electoral Services Account Follow Up	Good	N/A	Minor	January 2017
Central Sundry Income	Substantial	Substantial	Minor	April 2017
Business Rates	Substantial	Substantial	Minor	April 2017
Capital	Substantial	N/A	Minor	April 2017
Benefit Reconciliations	Substantial	Substantial	Minor	April 2017

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Housing Rents	Substantial	Good	Minor	April 2017
Community Care Finance	Acceptable	Limited	Moderate	April 2017
Central Purchasing Card Controls	Substantial	N/A	Minor	April 2017
Council Tax	Substantial	N/A	Minor	April 2017
Kirkgate Market Follow Up	Acceptable	Acceptable	Minor	April 2017
Primary School Follow Up	Acceptable	Acceptable	Minor	April 2017
Business Support Centre – Payroll and HR Administration	Substantial	Good	Minor	June 2017
Central Control and Monitoring of Nursery Fees	Acceptable	N/A	Minor	June 2017
Payments to Carers (Adult Social Care)	Good	Good	Minor	June 2017
Direct Payments (Adult Social Care)	Good	Good	Minor	June 2017
Direct Payments (Children's Services) Follow Up	Acceptable	N/A	Minor	June 2017
Housing Benefits Assessment and Payments	Substantial	N/A	Minor	June 2017
Local Welfare Support Scheme	Good	Good	Minor	June 2017
FMS Creditor Purchases and Payments	Good	Substantial	Minor	June 2017
Commissioning of External Residential Placements and Independent Fostering Agency Placements Follow Up	Acceptable	Acceptable	Moderate	June 2017

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Payments in relation to In-House Fostering, Special Guardianship Orders and Leaving Care	Good	Limited	Minor	June 2017
Treasury Management	Substantial	Substantial	Minor	June 2017
Central Financial Controls of Local Authority Maintained Schools	Acceptable	N/A	Minor	June 2017
Total Repairs	Substantial	Good	Minor	June 2017
<b>Procurement</b>				
FMS Contract Data	Acceptable	Good	Minor	September 2016
Contract Review: Professional Property and Building Services Joint Venture Follow Up	Good	Acceptable	Minor	January 2017
Contract Review – Independent Support Work	Good	Good	Minor	April 2017
Public Health Commissioning	Substantial	N/A	Minor	June 2017
Contract Specification and Management	Limited	No Assurance	Moderate	June 2017
Directorate Compliance with CPRs: Non and Off Contract Spend. (Seven directorate reports plus one central controls report)	Acceptable	Limited	Moderate	June 2017
<b>Non-Financial Risks</b>				
Planning Decisions	Substantial	Substantial	Minor	September 2016

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Employee Gifts and Hospitality	Good	Good	Minor	September 2016
Employee Declarations of Interest	Acceptable	Good	Minor	September 2016
Risk Management and Business Continuity (Adult Social Care)	Substantial	N/A	Minor	January 2017
Planning Enforcement	Good	Good	Minor	January 2017
Waste Recycling Key Performance Indicator	N/A	Substantial	Minor	January 2017
Customer Contact and Satisfaction	Acceptable	N/A	Moderate	January 2017
Safeguarding Clients Personal Assets Central Controls (Deputy and Appointee Procedures) Follow Up	Good	N/A	Minor	January 2017
Taxi and Private Hire Licensing Follow Up	Good	Good	Moderate	January 2017
Safeguarding Disclosure and Barring Service Checks and Health Care Professions Council Follow Up	Good	N/A	Minor	January 2017
Compliance with Corporate Risk Management Policy – Environment and Housing	N/A	Acceptable	Moderate	April 2017
Adult Social Care Safeguarding	Substantial	N/A	Minor	April 2017
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.			June 2017



Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Administration of Client Monies Follow Up	Substantial	Acceptable	Minor	June 2017
Risk Management and Business Continuity (Children's Services)	Good	N/A	Minor	June 2017
Best Council Plan Refresh and Performance Management Framework	Good	N/A	Moderate	June 2017
<b>Information Governance and ICT</b>				
Framework (Children's Services Case Management System) Business Application	Good	N/A	Minor	September 2016
Orchard (housing management system) Business Application	Good	N/A	Moderate	January 2017
Academy (benefits system) Business Application	Substantial	N/A	Minor	January 2017
ICT Business Continuity Planning	Good	N/A	Minor	April 2017
Implementation of the Client Information System (CIS)	Good	Acceptable	Moderate	April 2017
<b>Housing Partnerships Assurance Framework</b>				
Belle Isle TMO Equality and Diversity Strategy	Good	N/A	Minor	September 2016
Belle Isle TMO Void Management	Good	Good	Minor	September 2016
Lettings Enforcement	Good	N/A	Minor	September 2016
Housing Leeds Customer Complaints	Good	Acceptable	Minor	September 2016

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Leeds Building Services -Tools and Equipment	Acceptable	Limited	Minor	September 2016
Leeds Building Services - Sub-Contractors and Quality Management Systems	Acceptable	Acceptable	Minor	September 2016
Housing Leeds Direct Labour Organisation Follow Up	Acceptable	N/A	Minor	September 2016
Tenancy Management	Acceptable	Acceptable	Minor	January 2017
Tenant Involvement	Good	N/A	Minor	January 2017
Leeds Building Services - Stores	Good	Acceptable	Minor	April 2017
Rent Arrears	Good	Acceptable	Minor	April 2017
Housing Leeds Programmed and Planned Maintenance	Good	Acceptable	Minor	June 2017
<b>Leeds Grand Theatre</b>				
Creditors and Payments to Visiting Companies	Good	Good	N/A	September 2016
Budgetary Control	Good	N/A	N/A	September 2016
Contract Procedure Rules	Limited	Limited	N/A	January 2017

3.6.2 During the year, we have certified 15 School Voluntary Funds and completed 10 reviews which have provided assurance to various central government departments and other bodies that grant conditions have been complied with. These are listed below:

- Local Transport Capital Block Funding Grant

- Cycling Ambition Grant Determination
- West Yorkshire Plus Transport Grant
- Families First Grant Claims (May, September, January and March)
- Local Authority Bus Subsidy Ring-Fenced (revenue) Grant
- Disabled Facilities Grant
- Childhood Obesity Grant

### **3.7 Quality Assurance and Improvement Programme and Conformance with PSIAS 2016/17**

#### ***Internal Audit Performance***

- 3.7.1 Fundamental to the performance of Internal Audit is the assessment that Internal Audit performs in accordance with the PSIAS. The standards require that an external assessment is conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.
- 3.7.2 Our external assessment was undertaken in October 2016 and the results were reported to the Committee at the January 2017 meeting. The review concluded that the council's Internal Audit service conforms to the requirements of the PSIAS.
- 3.7.3 The Terms of Reference for the Corporate Governance and Audit Committee include the consideration of the council's arrangements for monitoring the performance of internal audit. This section of the report summarises the performance information that has been reported throughout the year to the Corporate Governance and Audit Committee.

Table 2: Reports to the Corporate Governance and Audit Committee (1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017)

<b>Report</b>	<b>Purpose</b>
Internal Audit Update Reports	Provided regular summaries of the work undertaken by internal audit and allowed the Committee to review the performance of the section.
Anti-Money Laundering Policy	Presented the updated Anti-Money Laundering Policy to inform the Committee of the revisions and to provide an opportunity to comment prior to approval and publication.
Public Sector Internal Audit Standards External Assessment	Nottingham City Council presented the outcome of their assessment of the extent to which the LCC Internal Audit section complies with the Public Sector Internal Audit Standards.

Report	Purpose
Internal Audit Charter	Presented a revised Internal Audit Charter which incorporated the recommendations made in the external assessment for review and approval.
Annual Report 2015/16	Provided an overview of the work undertaken by Internal Audit and the Annual Audit Opinion in respect of the council's governance, risk management and control arrangements for 2015/16.
Annual Audit Plan 2017/18	Presented the proposed Internal Audit Plan for 2017-18 for review and approval.

### ***Resources***

- 3.7.4 Resources have been appropriate, sufficient and effectively deployed to achieve the audit coverage necessary to deliver the annual internal audit opinion. We have delivered the audit days that were allocated for assurance work in the Annual Audit Plan that was approved by the Committee for 2016/17 (actual audit days for the year were 2,684, compared to 2,685 days allocated for assurance work in the audit plan).

### ***Proficiency and Due Professional Care***

- 3.7.5 Proficiency and due professional care is a key requirement of the PSIAS. All internal auditors have a personal responsibility to undertake a programme of Continuing Professional Development (CPD) to maintain and develop their competence. We have allocated time within the audit plan for CPD, training and personal development to be undertaken throughout the year to continuously improve the knowledge and skills within the internal audit section.
- 3.7.6 All members of the internal audit team are professionally qualified or studying for professional qualifications and table 3 demonstrates that there is also a good level of local government auditing experience within the team.

Table 3: Experience of staff in post as at 31/03/2017

<b>Years of experience – local government auditing</b>	<b>FTE</b>	<b>%</b>
Less than 1 year	4.2	21.39%
1 – 5 years	4.0	20.62%
6 – 10 years	2.61	13.45%
Over 10 years	8.64	44.54%
Total FTE	19.4	100%

### ***Quality***

- 3.7.7 The annual independent review of the Internal Audit quality system was undertaken in December 2016. The assessment confirmed that the management system continues to conform to our own standards and procedures and to the requirements of the ISO 9001:2008 Quality Standard and is demonstrating continual improvement. All internal audit work is undertaken in accordance with internal quality procedures incorporated in the quality management system, which has been ISO certified since 1998.
- 3.7.8 A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditee's opinion on a range of issues with an assessment ranging from 5 (for excellent) to 1 (for poor). Table 4 below shows the results for the 42 questionnaires received between 1st April 2016 to 31st March 2017. The results are presented as an average of the scores received for each question and the results for the 41 CSQs received for the same period in 2015/16 are provided for comparison.

Table 4: Average scores from Customer Satisfaction Questionnaires for 2016/17 and 2015/16

Question	Average score 2015/16	Average score 2016/17
Sufficient notice was given	4.65	4.90
Level of consultation on scope	4.41	4.76
Auditor's understanding of systems	4.41	4.52
Audit was undertaken efficiently	4.68	4.79
Level of consultation during the audit	4.54	4.79
Audit carried out professionally and objectively	4.7	4.93
Accuracy of draft report	4.55	4.64
Opportunity to comment on audit findings	4.75	4.90
Clarity and conciseness of final report	4.54	4.72
Prompt issue of final report	4.28	4.66
Audit recommendations will improve control	4.29	4.61
The audit was constructive and added value	4.36	4.67
<b>Overall Average Score</b>	<b>4.51</b>	<b>4.74</b>

3.7.9 The excellent customer satisfaction results reflect our commitment to delivering a quality product to the highest professional standards that adds value and improves the council's operations.

### ***Quality Assurance and Improvement Action Plan***

- 3.7.10 The PSIAS require that the results of the Internal Audit Quality Assurance and Improvement Plan are included in the annual report. The Action Plan is provided at table 5 below and includes all residual actions from 2015/16 and actions arising from the external assessment.

Table 5 Quality Assurance and Improvement Action Plan 2016/17

<b>Action</b>	<b>Timescale and Status</b>	<b>Comments</b>
<b>Actions carried forward from 2015/16</b>		
The external assessment mechanism for review of Internal Audit against the PSIAS to be agreed and the outcome of the review to be reported to the Corporate Governance and Audit Committee.	Complete	The Committee approved the Terms of Reference for the assessment at the June 2016 meeting.  The results of the assessment were reported to the Committee at the January 2017 meeting.
Assurance mapping will continue to be developed and evolve during the annual planning process.	Ongoing action carried forward to 2017/18	Maps have been drafted for each assurance area. These will be updated and refreshed during 2017/18.
Investigate options for integrated Audit Management Software (timesheets and working papers) including business case and implement new automated working practices/documentation.	Complete	The new version of the software was rolled out to staff in April 2017.
Ensure the recommendations made in the self-review of information governance arrangements within the section have been implemented.	Complete	We will undertake regular self-reviews of this area to ensure we continue to conform with best practice.
<b>Actions arising from external assessment</b>		
The external assessors made three recommendations to enhance and improve the Internal Audit Charter.	Complete	The Internal Audit Charter was reviewed and updated to address the recommendations made by the external assessors. The updated document was reviewed and approved by the Committee at the January 2017 meeting.

The external assessors reported a non-conformance with the PSIAS relating to the HR processes involved in the appraisal, recruitment and removal of the Chief Audit Executive.	Ongoing action carried forward to 2017/18	Colleagues in HR are currently reviewing this recommendation.
The external assessors recommended that assurances are both given and sought in relation to resources and limitation of scope when discussing the annual report and the audit plan.	Complete	These assurances are provided within this report.

## **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 for 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 to risks that may affect the achievement of Best Council Plan objectives and the aims of council policies.

4.3.2 The council's Financial Regulations require that an effective internal audit service is provided in line with legislation and the appropriate audit standards to help the organisation accomplish its objectives.

### **4.4 Resources and value for money**

4.4.1 In relation to resources and value for money, the internal audit work plan includes a number reviews and initiatives in line with the council's value of spending money wisely. These will be included in the regular update reports to the Committee.

4.4.2 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates that the efficiency and effectiveness of the section is continually improving.

### **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 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.

## **5 Conclusions**

- 5.1 The overall conclusion is that on the basis of the audit work undertaken during the 2016/17 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. There are no outstanding significant issues arising from the work undertaken by Internal Audit. 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

## **6 Recommendations**

- 6.1 The Corporate Governance and Audit Committee is asked to receive the Annual Internal Audit Report and Opinion for 2016/17 and note the opinion given. In particular:
- that on the basis of the audit work undertaken during the 2016/17 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice
  - that the work undertaken to support the 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
  - that there are no outstanding significant issues arising from the work undertaken by Internal Audit
- 6.2 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