

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 22 January 2018

Subject: Internal Audit Update Report September to December 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 September to December 2017 and highlights the incidence of any significant control failings or weaknesses.
2. The detailed proposals for the Audit Plan for 2018/19 will be presented to the Corporate Governance and Audit Committee at the meeting in March 2018.
3. Members will recall that officers reported to the June 2017 meeting that in the most recent inspection report issued by the Office of Surveillance Commissioners, it was recommended that members should receive regular reports about the use of the council's surveillance powers under the Regulation of Investigatory Powers Act 2000 (RIPA). The Head of Service (Legal) has provided this information within this report.

Recommendations

4. The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from September to December 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.

5. Members are invited to provide any suggestions on the coverage of the Audit Plan for 2018/19 arising from the work of this Committee. These will be incorporated into the audit planning process.
6. The Corporate Governance and Audit Committee is asked to note the information provided by the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA.

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 September to December 2017 and highlight the incidence of any significant control failings or weaknesses.
- 1.2 The report also provides information from the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA.

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 September to December 2017.
- 2.4 This update report also provides information from the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA, as recommended by the Office of Surveillance Commissioners.

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 September to December 2017

| Report Title | Audit Opinion | | |
|---|-------------------------------|----------------------|-----------------------|
| | Control Environment Assurance | Compliance Assurance | Organisational Impact |
| Key Financial Systems | | | |
| Bank Reconciliation and Cashbook | Substantial | N/A | Minor |
| ICT and Information Governance | | | |
| ICT Projects ¹ | Substantial | Good | Minor |
| Resources and Housing | | | |
| Lettings Enforcement ² | Good | Good | Minor |
| Housing Advisory Panel Grants | Good | Good | Minor |
| Members Improvement in the Community and Environment (MICE) | Good | N/A | Minor |
| Ward Based Initiatives | Good | N/A | Minor |
| Schools | | | |
| School Voluntary Funds x 8 | Certification of balances | | |
| Adults and Health | | | |
| Better Care Fund | Memo issued | | |
| Payments to Providers of Homecare ³ | Good | Good | Minor |
| Procurement | | | |
| Vehicle Hire Framework Contract Review | Acceptable | Acceptable | Minor |
| Electricity Contract Review | Limited | N/A | Minor |

¹ Good assurance was provided for compliance with the control environment overall. However limited assurance was provided for compliance with the requirement to undertake benefits realisation exercises.

² Good assurance was provided for compliance with the control environment overall. However limited assurance was provided for compliance with the Staff Lets process and potential issues were identified with information security.

³ Good assurance was provided for the control environment overall. However limited assurance was provided for one objective covered due to the lack of a framework contract or other documentation in place to support the agreed rates for homecare provided for mental health service users.

| Report Title | Audit Opinion | | |
|---|-------------------------------|----------------------|-----------------------|
| | Control Environment Assurance | Compliance Assurance | Organisational Impact |
| Follow Up Reviews | | | |
| Housing Leeds Tenancy Management – Use and Occupation | N/A | Good | Minor |
| Leeds Grand Theatre – Contract Procedure Rules | Acceptable | N/A | N/A |

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

- Green Deal Grant Claim
- Pothole Fund
- Local Transport Block Funding

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 23 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.

Members in Communities and Environments (MICE) and Ward Based Initiative (WBI) grants

3.2.2 Following a request from members, reviews were conducted of the processes in place for MICE and WBI grants. The audit focussed on determining whether funding was allocated to eligible projects and used for its intended purpose and we confirmed that overall a good control environment was in place to support the effective assessment and administration of the funding. We identified opportunities to enhance the clarity of information issued to beneficiaries and to ensure the guidance appropriately reflects the current approval and delegation structure. As a result of the audit, the service has agreed to revise and recirculate the guidance with a target to complete by April 2018.

Limited or No Assurance Opinions

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

3.2.4 The following 4 audited areas resulted in a limited assurance opinion overall or a limited assurance opinion for part of the audit coverage:

- ICT Projects
- Payments to Providers of Homecare

- Lettings Enforcement
- Electricity Contract Review

ICT Projects

- 3.2.5 This review concentrated on assessing the procedures in place within Digital and Information Services (DIS) to ensure ICT related projects are managed in line with the council's approved methodology. The review resulted in a good assurance opinion overall for compliance with the control environment but weaknesses were found in relation to carrying out benefit realisation exercises. The council's approved methodology includes a requirement that major projects should be reviewed on completion and any lessons learnt documented where appropriate. Our audit found no evidence that a benefits realisation exercise had been completed for the two projects classified as 'major' in our sample that had reached completion. This reduces assurance that the business sponsor is able to demonstrate that expected outcomes have been achieved and increases the risk that other projects will not benefit from lessons learnt. A follow up audit will be undertaken which will specifically focus on how the benefits realisation process for ICT projects is being implemented across the authority.

Payments to Providers of Homecare

- 3.2.6 The audit reviewed the processes in place within Adults and Health to identify and approve the need for homecare for the service user and to ensure that payments are made in line with the approved package of care and these agreed to contractual rates where appropriate. The review resulted in a good assurance opinion overall for the control environment, however control weaknesses were identified in relation to homecare for mental health service users as there is no framework contract or other documentation in place to support the agreed rates for the care. The service is currently investigating the most appropriate route to address this issue and we will undertake a follow up audit to assess the progress in the implementation of the recommendations made in this area.

Lettings Enforcement

- 3.2.7 A review of lettings was undertaken to ensure that properties have been allocated in line with the lettings procedures. This resulted in a good opinion overall for compliance with the control environment as six of the seven types of lettings covered in the audit were found to be working as intended. An area of weakness was identified in respect of compliance with the Lettings to Staff section of the Lettings Policy. For these lettings, an additional level of authorisation is required to provide further rigour over the process. This additional authorisation was not always evident in our sample testing, however the audit confirmed that all the lettings in our sample had been allocated properly in line with the relevant procedure.
- 3.2.8 Recommendations were also made to improve information security in the storing and transferring of housing documentation. All recommendations have been agreed with the service and a follow up review will be undertaken during 2018/19 to assess the progress made.

Electricity Contract Review

- 3.2.9 A review of the Electricity Contract was undertaken to ensure that there are appropriate governance arrangements in place, that the contract is being appropriately administered and that there is accurate and relevant cost monitoring. Limited assurance was given for the control environment as although there is a contract management plan and a procurement strategy in place which is being followed, there are weaknesses in the checking process to confirm the accuracy of rates charged. The service is currently liaising with the contractor to increase their assurance around all elements of the billing process and a follow up review will be undertaken in 2018/19 to assess the progress made.

Follow Up Reviews

- 3.2.10 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.
- 3.2.11 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 | | |
| Housing Leeds Tenancy Management – Use and Occupation | Closed (see 3.2.12) | January 2017 |
| Leeds Grand Theatre – Contract Procedure Rules | Closed (see 3.2.12) | January 2017 |
| Follow up reviews due in 2017/18 and 2018/19 | | |
| LBS Tools and Equipment | Planned | September 2016 |
| Contract Review - Joint Venture: professional property and building services | Planned | January 2017 |
| Community Care Finance | In progress | April 2017 |
| Implementation of Client Information System | In progress | April 2017 |

| Audited area | Follow up audit status | Corporate Governance and Audit Committee report reference |
|--|-------------------------------|--|
| LBS Stores | In progress | April 2017 |
| Contract Specification and Management | Planned | June 2017 |
| Commissioning of External Residential Placements and Independent Fostering Agency Payments Follow Up | In progress | September 2015 and June 2017 |
| Direct Payments (Children's and Families) | Planned | September 2016 and June 2017 |
| Directorate Compliance with CPRs: Non and Off Contract Spend | Planned | March 2016, June 2016 and June 2017 |
| Central Control and Monitoring of Nursery Fees | In progress | June 2017 |
| Payments in relation to In-House Fostering, Special Guardianship Orders and Leaving Care | In progress | June 2017 |
| Community Infrastructure Levy | Planned | September 2017 |
| Primary School | Planned | September 2017 |
| Leeds Building Services Subcontractors | Planned | September 2017 |
| ICT Projects – Benefits Realisation | Planned | See 3.2.5 |
| Payments to Providers of Homecare | Planned | See 3.2.6 |
| Lettings Enforcement | Planned | See 3.2.7 |
| Electricity Contract Review | Planned | See 3.2.9 |

- 3.2.12 During this reporting period we have finalised 2 follow up reviews (Housing Leeds Tenancy Management – Use and Occupation and Leeds Grand Theatre – Contract Procedure Rules) and closed both of these to reflect the progress made since the previous audit.
- 3.2.13 The follow up reviews of LBS Tools and Equipment and the Contract Review of the Joint Venture were due to have started by this point in the year. We have been in contact with both service areas and have been advised that there has been some difficulty in progressing our recommendations to improve control due to staffing changes. Both service areas have advised that action is now being taken to address the issues that we identified during the audits and we will

undertake the follow up reviews to provide independent assurance in these areas in the final quarter of the year.

Continuous Audit & Data analytics

- 3.2.14 This cross cutting audit programme aims to evaluate control effectiveness across key systems on an ongoing basis, and highlight high risk transactions or events. Coverage has included elements of the self-serve processes, payroll, purchasing card transactions, duplicate payments and income bankings. No significant issues have been identified.
- 3.2.15 During the reporting period, we performed a data matching exercise to provide assurance that small business rates relief was only given to those that met the relevant criteria. This exercise led to the cancellation of small business rates relief for 12 businesses, resulting in approximately £36k of income due to the authority on an annual basis.

Counter Fraud and Corruption

- 3.2.16 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.

Proactive Anti-Fraud Work

- 3.2.17 Members will recall that we have previously reported that we were investigating potential fraudulent activity at one of our schools. This case has now concluded and resulted in court proceedings in December 2017. The School Business Manager admitted to illegally obtaining £53,000 through forgery and was sentenced to 16 months in prison. The bank has refunded the school and we have recently re-visited the school to complete a follow up review and provide assurance that appropriate controls are now in place.
- 3.2.18 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. Internal Audit and Schools Finance have worked collaboratively to prepare and deliver a Fraud Awareness course that will improve awareness of fraud risks, assist in improving the financial systems and controls within schools, and provide advice and guidance on new and emerging risks in relation to cyber fraud.
- 3.2.19 The course has been delivered to 259 school based staff (199 schools in total). The remaining 9 schools will be attending courses in January 2018. Following the course copies of the presentation and relevant supporting information have been provided to the attendees so that the information is available for future reference, and can be disseminated more widely to staff at each school. Feedback from schools following their attendance has been extremely positive.

Reactive Anti-Fraud Work

- 3.2.20 During the reporting period we have received 17 potential irregularity referrals. Of these, 12 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.
- 3.2.21 During the reporting period 12 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 three such investigation reports during this period. There are 16 referrals that are currently open and being investigated.

National Fraud Initiative update

- 3.2.22 The 2016/17 exercise included 179 reports containing a total of 29,524 matches. The NFI recommended matches that were prioritised for investigation totalled 7,012. These have been reviewed either directly by the council's Benefits Team, the Blue Badge Administration Team or Internal Audit. There are currently 83 matches that are being investigated which are mainly housing tenancy matches, in addition to some relating to payroll where potential conflicts of interest have been identified.
- 3.2.23 To date the exercise has identified fraud, errors or overpayments totalling £128,484. This balance is benefits related except for a payroll overpayment of £15,913 (which was reported in the last update report) and a residential care home payment of £43,000 made for the care of an individual after their death. All balances have been recovered or are in the process of being recovered.
- 3.2.24 We have identified the weaknesses in the process that resulted in the residential home care overpayment and have made recommendations to address these and improve the oversight arrangements which, if operating effectively, should identify any future issue of a similar nature. In light of the residential care home result, Adults and Health Finance has agreed to participate in a flexible matching exercise offered by NFI. This is a more frequent data match of our residential care home and direct payment data to DWP records of deceased persons. Data has been recently submitted for this with match output expected shortly.

Regulation of Investigatory Powers Act 2000

- 3.2.25 Members will recall that officers reported to the June 2017 meeting that in the most recent inspection report issued by the Office of Surveillance Commissioners, it was recommended that members should receive regular reports about the use of the council's surveillance powers under RIPA.
- 3.2.26 The Head of Service (Legal) has confirmed that there have been no applications for directed surveillance or covert human intelligence source (CHIS)

authorisations, since the June 2017 meeting. In addition, there has been no use of the powers to obtain communications data, over the same period.

Plan for 2018/19

- 3.2.27 Initial work has started on developing the Annual Audit Plan for 2018/19. The Head of Audit must provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. To support this, we must develop and deliver a risk based plan which takes into account the organisation's risk management framework and includes an appropriate and comprehensive range of work.
- 3.2.28 To develop this plan, there must be a sound understanding of the risks facing the council. The Corporate Risk Register will be used as a key source of information and the planning process for 2018/19 will again necessitate a thorough evaluation of the appropriate level and scope of coverage required to give stakeholders, including the Corporate Governance and Audit Committee, an appropriate level of assurance on the control environment of the council.
- 3.2.29 The detailed proposals for the Audit Plan for 2018/19 will be presented to the meeting of the Corporate Governance and Audit Committee in March 2018.

Internal Audit Performance

- 3.2.30 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.
- 3.2.31 All our work is undertaken in accordance with our quality management system and we have been ISO certified since 1998. We have recently had a surveillance review by our external assessors. The outcome of this is that we continue to be ISO certified and have successfully transitioned to the latest standard.
- 3.2.32 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.
- 3.2.33 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.
- 3.2.34 During the period 1 April to 31 December 2017, 34 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 1 April to 31 December 2017

| Question | Average Score (out of 5) |
|--|--------------------------|
| Sufficient notice was given | 4.81 |
| Level of consultation on scope | 4.65 |
| Auditor's understanding of systems | 4.47 |
| Audit was undertaken efficiently | 4.59 |
| Level of consultation during the audit | 4.67 |
| Audit carried out professionally and objectively | 4.85 |
| Accuracy of draft report | 4.68 |
| Opportunity to comment on audit findings | 4.82 |
| Clarity and conciseness of final report | 4.68 |
| Prompt issue of final report | 4.41 |
| Audit recommendations will improve control | 4.63 |
| The audit was constructive and added value | 4.65 |
| Overall Average Score | 4.66 |

- 3.2.35 Table 4 below provides an indication of progress against the Internal Audit Plan for 2017/18. The number of audits planned and delivered during the year will increase as the blocks of time allocated for areas of work (such as contract reviews and schools) are broken down to specific audit assignments and to address emerging issues through the use of contingency time. The table does not include fraud and irregularity work or advice issued to managers arising from adhoc requests for audit support.

Table 4: Audit Plan 2017/18 Progress

| Number of individual audit assignments | Planned | In progress | Completed |
|--|---------|-------------|-----------|
| Audit Plan 2017/18 and brought forward jobs from 2016/17 | 31 | 30 | 39 |
| Follow up audits | 12 | 6 | 4 |

- 3.2.36 Due to a number of staffing changes, overall resources for 2017/18 are now less than was anticipated when the audit plan was set. We will actively manage

resources to direct these towards the areas of highest risk to ensure that an evidence-based Head of Internal Audit opinion can be provided on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in accordance with the Public Sector Internal Audit Standards (PSIAS).

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report did not highlight any consultation and engagement considerations.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and 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 September to December 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 September to December 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.
- 6.2 Members are invited to provide any suggestions on the coverage of the Audit Plan for 2018/19 arising from the work of this Committee. These will be incorporated into the audit planning process.
- 6.3 The Corporate Governance and Audit Committee is asked to note the information in the report about the recent use of the council's surveillance powers under RIPA. The Corporate Governance and Audit Committee is asked to note the information provided by the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA.

7 Background documents

- 7.1 None.