

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 30th July 2018

Subject: Internal Audit Annual Report and Opinion 2017-18

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 Head of Audit 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 2017/18.
4. The overall conclusion is that on the basis of the audit work undertaken during the 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. A satisfactory overall opinion is provided for 2017/18, based on the audit work detailed within this report. 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 2017/18 and note the opinion given. In particular:

- that on the basis of the audit work undertaken during the 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice
 - a satisfactory overall opinion is provided for 2017/18, based on the audit work detailed within this report
 - 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.
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 2017/18.

2 Background information

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require the Head of Audit 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 (revised 1 April 2017) require the Head of Audit to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control and must incorporate:
- the opinion
 - a summary of work that supports the opinion
 - a statement on conformance with the 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 Head of Audit 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 Head of Audit 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 the Head of Audit to confirm to the Corporate Governance and Audit Committee at least annually, the organisational independence of the internal audit activity. The Internal Audit Charter and the council's Financial Regulations re-inforce this requirement.
- 3.2.2 The Internal Audit Charter was reviewed, updated and approved by the Corporate Governance and Audit Committee at the meeting in April 2017. The Charter specifies that the Head of Audit 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 Head of Audit '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 Head of Audit.

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.

Head of Audit

3.3 Opinion 2017/18

- 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.

Head of Audit opinion for 2017/18

On the basis of the audit work undertaken during the 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice.

*We have audited several areas that have resulted in 'Limited Assurance' opinions, one area that has resulted in 'No Assurance' 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. A **satisfactory** overall opinion is provided for 2017/18, based on the audit work detailed within this report. The outcomes of the audit work that supports this opinion have been reported to members of the Corporate Governance and Audit Committee during the year.*

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.

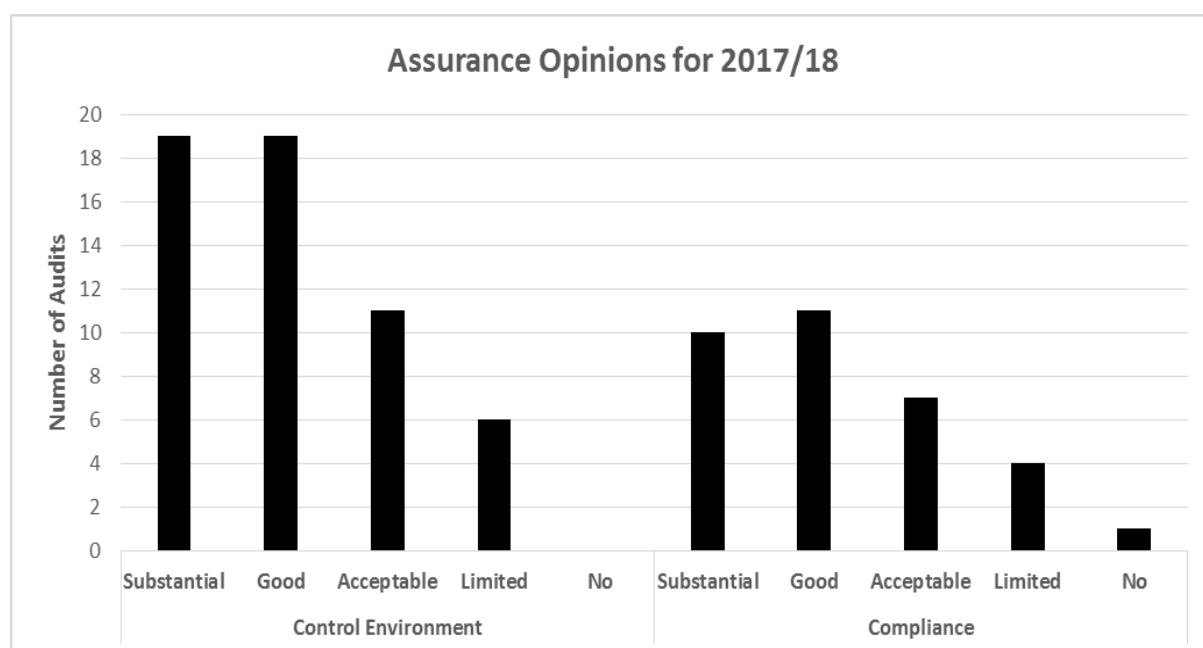
3.4 Basis of Assurance

- 3.4.1 The annual opinion on the adequacy and effectiveness of the control environment for 2017/18 is based on the findings and assurance provided by the schedule of reviews undertaken throughout the year. The schedule of reviews for 2017/18 was prepared using a risk based audit planning approach and was approved by the Corporate Governance and Audit Committee in April 2017.
- 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, assurance opinions may be assigned for the control environment, compliance and organisational impact. The control environment opinion is the result of an

assessment of the controls in place to mitigate the risk of the objectives of the system under review not being achieved. A compliance opinion may also be provided for the area under review if assurance on the extent to which the controls are being complied with is required. Assurance opinion levels for the control environment and compliance are categorised as follows: substantial (highest level), good, acceptable, limited and no assurance.

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.

3.4.4 The graph below provides a high level overview of the assurance opinion levels provided for the audits that we have completed during the year.



3.4.5 The PSIAS require us to report where we have placed reliance on other assurance providers. External audit perform testing over the housing benefit claim in line with the certification requirements of PSAA and DWP. For a sample of claimants, 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

3.5.1 The key financial systems audits are reviews of the council's core financial functions. We review these functions on an annual basis to provide assurance that the financial systems that are fundamental to the council's operations remain effective and working well in practice.

3.5.2 Our reviews of the key financial systems support the opinion that the council has effective financial governance, risk management and internal control arrangements

in place. 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.

- 3.5.3 There is an awareness of the particular risks that Local Authorities face as a result of the challenging financial picture, and the importance of operating within a robust system of budgetary control has taken on greater significance than ever. The high profile difficulties faced at other authorities not only present a stark warning of the potential pitfalls, but also an opportunity to review and challenge current practices against a backdrop of lessons learned. Whilst Leeds is exposed to the risk in the same way as any other authority tasked with managing a funding gap, we have confirmed that key areas of the financial control framework are in place to mitigate these risks. There are established governance arrangements in respect of the central coordination and setting of the budget, with cyclical monitoring information received through a central forum. Directorates are required to substantiate monthly projections and forecasts, and are challenged to explain material variances and report on progress against savings plans. The arrangements in place ensure that there is central leadership that sets a tone of responsible budget management across the authority.
- 3.5.4 In last year's Annual Report, we highlighted processes that required strengthening within the CIS Payments function (formerly Community Care Finance). This focussed on the processing of payments for residential and nursing care placements. The follow up review carried out in 2017/18 found that improvements were evident in the control framework and an increased level of assurance can now be provided in this area.
- 3.5.5 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 2017/18 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 and Contracts

- 3.5.6 Procurement audits have been carried out both centrally and within directorates over the course of the year. We have reviewed the effectiveness of controls in place at various stages of the procurement process, including the arrangements in place centrally to ensure tendering is carried out fairly and transparently, and also the procurement and subsequent management of a sample of significant contracts. Alongside this, we have also looked into the root causes of non-compliance with Contract Procedure Rules (CPRs) where expenditure has been identified as occurring outside formal contractual arrangements.
- 3.5.7 We have been able to provide some substantial assurances relating to specific examples of contract management. However, overall, our audit opinions have varied and we have identified a number of areas that will require further consideration.

- 3.5.8 The fundamental requirements of the procurement process are all formally set out within the constitution and policy framework including CPRs. However our audits have identified several areas where controls should be developed further to ensure that the policy requirements are fully embedded within working practices. Our work on the procurement approval process and the tendering system controls recommended a coordinated approach involving training, guidance and system development to build in greater compliance with the policy framework and ensure that decisions are consistently subject to the correct level of authority and transparency. This is particularly important to guard against the risk of challenge from potential contractors or bidders. Procurement and Commercial Services (PCS) have welcomed our audit recommendations.
- 3.5.9 We found there were some limitations in the links between procurement decisions taken and the council's strategic category management approach. Category management looks to group together related purchasing requirements across departments, with clear value to be obtained by maximising the economies of scale achievable during contract negotiation. In doing so, this should also further reduce the levels of off contract spending. PCS are refreshing the procurement strategy and CPRs and this will provide an opportunity to reaffirm the processes involved in securing best value for money.
- 3.5.10 The responsibility for contract management tends to sit within the service area that has been identified as the primary contract user. With various officers across the authority adopting responsibility for different levels of contract management alongside the requirements of their day to day roles, it is understandable that our audit opinions varied across the sample of contracts looked at. We found some good examples of contract management in each of the contracts reviewed, however there were disparities in the extent to which we are able to provide assurance that certain aspects are being carried out consistently, for example price monitoring and challenging. We have agreed specific recommendations with the services involved, while the continued development of central guidance to sit alongside CPRs should help to promote greater consistency going forward.
- 3.5.11 We have identified and responded to issues that may have led to non-compliance with CPRs across directorates. Root causes include the awareness and application of rules and procedures, and actions have been agreed that are being taken forward both within and outside PCS. In the wake of this we are expecting higher levels of compliance with CPRs in future, along with more rigorous sanctions where it is found that the correct process has not been followed.

Directorate Risks

- 3.5.12 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 operational directorate risk areas during the year. Our work has had links to risks relating to safeguarding, finance, compliance with legislation and internal procedures and other risks that may affect the achievement of council and directorate priorities.
- 3.5.13 Positive assurances were provided in respect of the non-financial risks reviewed during the year, in particular:

- As lead authority for One Adoption West Yorkshire (OAWY), Leeds City Council is responsible for ensuring that there are robust arrangements in place for finding suitable matches, providing training to and supporting adopting families. Our review resulted in substantial assurance in respect of the governance arrangements in place for the OAWY partnership and processes.
- Substantial assurance was also provided for the management of the 'safeguarding children risk'. The audit confirmed that the risk had been assessed, evaluated and managed in line with corporate risk management requirements.
- In the 'Reablement' audit, we provided assurance that there are appropriate processes and procedures in place to provide support to service users to enable them to regain their independence after an illness, a stay in hospital or a change in circumstances.

3.5.14 The audits of IR35 Legislation and Deprivation of Liberty Safeguards highlighted potential issues in respect of ensuring compliance with legislation:

- The new tax year that began on 6 April 2017 saw changes to the current intermediaries legislation, known as IR35. IR35 is applied to off-payroll working in the public sector. Where the rules apply, people who work in the public sector through an intermediary will pay employment taxes in a similar way to employees. One notable change is that the burden of deciding whether or not IR35 applies shifts from the worker's intermediary to the public authority. The council's taxation team had highlighted this as a risk to the Financial Services Group and our review was undertaken to gain assurance that the council is complying with these new responsibilities. The review found that more needs to be done to improve awareness of the legislation amongst engaging officers.
- The Deprivation of Liberty Safeguards (DoLS) are an amendment to the Mental Capacity Act 2005 (MCA). The DoLS under the MCA allows restraint and restrictions that amount to a deprivation of liberty to be used in hospitals and care homes, but only if they are in a person's best interests. The audit found that the control environment is not configured in a way to meet the timescales required by the DoLS legislation.

3.5.15 The issues highlighted above are not unique to Leeds and the management responses in committing to resolve the issues were positive in both cases.

3.5.16 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. The scope of our audit work has included coverage with links to risks relating to finance, contractor performance, quality of works completed, lettings, the customer experience, health and safety and information governance. Positive assurances were provided for the majority of these audits. The service had proactively asked Internal Audit to undertake the reviews which had

resulted in a low assurance opinion which indicates that management are aware of and keen to address the areas in need of improvement. The service has been responsive to the recommendations made in these reviews.

- 3.5.17 During the year, we have reviewed a broad range of financial risks across directorates, including systems relating to both payments made and income received. Overall, we found that good processes were in place to ensure that the payment types reviewed during the year are appropriate and correct. There were several areas where service areas need to improve processes to ensure that income due to the council is maximised and collected.
- 3.5.18 We also reviewed the financial governance and control arrangements in place for partnerships. We confirmed that a structure is in place to enable central oversight of the financial risks posed by joint working arrangements. We also identified opportunities to strengthen control through robust risk assessment and formalisation of the monitoring framework.

Information Governance and ICT

- 3.5.19 The mitigation of Information Governance and ICT risks remain a significant priority for the council. The Information Governance team has reported on the council's progress in addressing key information governance and ICT security risks and issues during the year. This has included the issues in respect of the council's status with the Public Services Network (PSN) and the risks associated with the General Data Protection Regulation (GDPR) coming into force on 25 May 2018. Internal Audit coverage during the year has supported the council's ongoing work by reviewing ICT project governance arrangements, the effectiveness of the controls in place over the security and integrity of general data created and saved, and through undertaking specific reviews on directorate information governance arrangements.
- 3.5.20 Our coverage has found mixed results, with several areas of good practice being identified and other areas where more work needs to be done to ensure that all parts of the authority have appropriate arrangements in place to comply with the requirements of GDPR. The findings from our reviews have been fed into the relevant Information Governance work streams and appropriate action has been taken or is planned to address the issues identified.
- 3.5.21 The council's approved methodology includes a requirement that major projects should be reviewed on completion and any lessons learnt documented where appropriate. Our coverage has found weaknesses in this area, reducing assurance that the business sponsor is able to demonstrate that expected outcomes have been achieved and increasing the risk that other ICT projects will not benefit from lessons learnt. This area will be subject to further audit coverage during 2018/19.
- 3.5.22 During the year, we have undertaken two reviews of specific business applications. The aim of these reviews is to provide assurance on the completeness, accuracy, security and effectiveness of input, processing and output of the application. One of these reviews highlighted the ongoing work undertaken by the Service in relation to improving compliance with the Payment Card Industry Data Security Standard (PCI DSS). This is an information security standard for organisations that handle branded

payment cards from the major card schemes. The PCI DSS work is currently being progressed through a cross council group with representatives from the Digital and Information Service team, Information Governance, Financial Services and Internal Audit.

Follow up Work

- 3.5.23 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.
- 3.5.24 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). We have undertaken two follow up reviews since the original audit and can provide assurance that the service now retains appropriate supporting records. These records provide evidence to confirm that once a suitable match has been identified, the correct process is followed in respect of the financial considerations of external placements.
- 3.5.25 Follow up areas that remain outstanding are in respect of the performance management of the relationship with the professional property and building services joint venture (NPS Leeds City Council) and the lack of evidence to confirm that Contract Procedure Rules are followed when Leeds Building Services allocate work to subcontractors. Both of these issues have been escalated within the relevant service areas and positive management responses have been received to confirm that appropriate action will be taken to address the weaknesses identified within these areas.

Data Analytics

- 3.5.26 Data analytics work is undertaken across directorates and service areas, providing an ongoing evaluation of the control effectiveness within key systems, and highlighting high risk transactions or events. This year we have completed testing on elements of the payroll process, purchasing card transactions, creditors and income bankings. Whilst no significant issues have been identified, this work provides an important source of ongoing assurance to management, and is helpful when considering the direction of each piece of audit work.
- 3.5.27 During the year, we also performed a data matching exercise to provide assurance that small business rates relief was only given to those that met the relevant criteria. This 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.

Anti-Fraud and Corruption

- 3.5.28 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.
- 3.5.29 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.
- 3.5.30 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.
- 3.5.31 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 who 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. These policies have been reviewed and updated during the year and were presented to the Corporate Governance and Audit Committee meeting in March 2018.
- 3.5.32 From 1st April 2017 to 31st March 2018, we received a total of 67 potential irregularity referrals (54 in 2016/17). Of these, 46 were classified under the remit of the Whistleblowing or Raising Concerns policies (36 in 2016/17). 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.
- 3.5.33 It is important 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 regularly review the council's whistleblowing procedures against best practice.
- 3.5.34 Of the cases closed during the year, 5 of the allegations were proven and resulted in relevant disciplinary and corrective action being taken. Recommendations were made to improve controls where relevant. All cases where criminal activity is

suspected are reported to the police in line with our zero tolerance approach to fraud and corruption. The council is also committed to ensuring that monies are recovered in cases of fraud or theft, wherever possible. There have been two cases where this has occurred during the year:

- We have previously reported to this Committee that our proactive anti-fraud work was successful in identifying fraudulent creditor payments at the Leeds Grand Theatre (LGT) in June 2013. The process to recover the monies concluded during the year and the funds were received by the council in January 2018.
- One of the cases included in last year's annual report 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 funds have been recovered and we have confirmed that appropriate financial controls are now in place at the school.

3.5.35 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. Internal Audit and the Schools Finance Team have worked collaboratively to prepare and deliver a training course aimed at improving 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. The course has been delivered to over 300 school based staff.

3.5.36 The latest NFI exercise (2016/17) included approximately 30,000 matches, of which approximately 7,000 had been categorised by the NFI as recommended to be investigated. The council has also participated in the additional flexible matching service offered by the NFI. To date, the exercise has recovered fraud, errors or overpayments totalling approximately £332,000 made up of 71 individual cases. Where we have identified that weaknesses in the processes have led to these payments, recommendations have been made to mitigate the risk of similar payments occurring in the future.

Other Work

3.5.37 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.

3.5.38 Following the sentencing of the former Leeds councillor and former Lord Mayor, Neil Taggart in July 2017, the Chief Executive asked Internal Audit to carry out an investigation into the council's arrangements in order to provide assurance that no council resources were used to commit his crimes. The investigation found no evidence that council equipment was used for the offences committed by Neil Taggart.

3.6 Summary of Completed Audit Reviews

3.6.1 This section provides a summary of all reports issued since 1st June 2017, along with the Corporate Governance and Audit Committee meeting date where the audits

were reported. Audit reviews completed from 1st June 2016 to 31st May 2017 were reported in the Internal Audit Annual Report for 2016/17. All reviews up to 31st May 2018 have already been highlighted to the Corporate Governance and Audit Committee in the Internal Audit Update Reports throughout the year.

Table 1: Completed Audit Reviews

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Key Financial Systems				
Financial Management Central Controls	Substantial	N/A	Minor	September 2017
Bank Reconciliation and Cashbook	Substantial	N/A	Minor	January 2018
Total Repairs	Substantial	Substantial	Minor	March 2018
Sundry Income Central Controls	Substantial	Substantial	Minor	March 2018
Income Management System	Substantial	N/A	Minor	March 2018
Business Rates	Substantial	N/A	Minor	March 2018
Housing Rents	Substantial	N/A	Minor	March 2018
Housing Benefits and Council Tax Support Assessment and Payments	Substantial	N/A	Minor	March 2018
Council Tax	Substantial	Substantial	Minor	March 2018
Housing Benefit and Council Tax Support Reconciliations	Substantial	N/A	Minor	March 2018
Payroll Central Controls	Good	Substantial	Minor	March 2018
Central Purchasing Cards Controls	Good	Substantial	Minor	June 2018

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Pension Fund Contributions	Memo issued – no issues identified			June 2018
FMS Creditor Purchase and Payments	Substantial	Substantial	Minor	June 2018
Treasury Management and Bankline	Substantial	Substantial	Minor	June 2018
CIS Payments (Community Care Finance Follow Up)	Good	Acceptable	Minor	June 2018
Procurement and Contracts				
Contract Extensions Follow Up	Good	Good	Minor	September 2017
Leeds Building Services Subcontractors Follow Up	Good	Limited	Minor	September 2017
Contract Review: Recycling and Energy Recovery Facility (RERF) PFI	Substantial	N/A	Minor	September 2017
Leeds Grand Theatre – Contract Procedure Rules Follow Up	Acceptable	N/A	N/A	January 2018
Contract Review: Vehicle Hire Framework	Acceptable	Acceptable	Minor	January 2018
Contract Review: Electricity	Limited	N/A	Minor	January 2018
Contract Review: Homecare	Substantial	N/A	Minor	June 2018
Contract Review: Joint Venture (NPS Leeds City Council) Follow Up	Memo issued – further follow up required			June 2018
Directorate Risks				
Community Infrastructure Levy	Limited	Acceptable	Minor	September 2017

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Community Asset Transfers	Acceptable	N/A	Minor	September 2017
Children's and Families Safeguarding	Substantial	N/A	Minor	September 2017
Primary School	Acceptable	Acceptable	N/A	September 2017
Sundry Income – Network Management	Good	Good	Minor	September 2017
Sundry Income – Sports Centre	Acceptable	Acceptable	Minor	September 2017
BITMO Assurance Framework: Customer Complaints, Satisfaction and Requests for Information	Good	Substantial	Minor	September 2017
BITMO Assurance Framework: Planned and Programmed Maintenance	Good	Substantial	Minor	September 2017
Better Care Fund	Memo issued			January 2018
Adult Social Care: Payments to Providers of Homecare	Good	Good	Minor	January 2018
Lettings Enforcement	Good	Good	Minor	January 2018
Housing Advisory Panel Grants	Good	Good	Minor	January 2018
Tenancy Management Follow Up	N/A	Good	Minor	January 2018
Members Improvements in the Community and Environment (MICE)	Good	N/A	Minor	January 2018
Ward Based Initiatives	Good	N/A	Minor	January 2018
Deprivation of Liberty Safeguards	Acceptable	Good	Moderate	March 2018

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Major Adaptions	Good	Substantial	Minor	March 2018
Nursery Fees Central Controls Follow Up	Acceptable	Good	Minor	March 2018
Flooding Grants	Good	Acceptable	Minor	June 2018
Approval for Care Proceedings and Payments to Providers of External Placements Follow Up	Good	N/A	Minor	June 2018
Adults and Health - Reablement	Substantial	Good	Minor	June 2018
IR 35 Legislation	Limited	Limited	Minor	June 2018
Financial Governance and Control Arrangements for Partnerships	Acceptable	N/A	Moderate	June 2018
Primary School	Limited	N/A	N/A	June 2018
Primary School	Acceptable	N/A	N/A	June 2018
Primary School Follow Up	Good	Good	N/A	June 2018
External Advertising Income	Limited	Limited	Minor	June 2018
Leeds Building Services – Out of Hours (Lifts)	Limited	No	Moderate	June 2018
Governance Arrangements for One Adoption West Yorkshire	Substantial	N/A	Minor	June 2018
Information Governance and ICT				
Adults and Health Risk Management Arrangements for Information	Substantial	N/A	Minor	September 2017

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Governance				
ICT Data Security	Acceptable	Acceptable	Moderate	September 2017
ICT Projects	Substantial	Good	Minor	January 2018
Implementation of the Client Information System (CIS) Follow Up	Memo issued			June 2018
Business Application Audit: C Series (BACS payment system)	Acceptable	N/A	Minor	June 2018
Business Application Audit: Income Management System	Good	N/A	Moderate	June 2018
Adults and Health Data Quality in relation to Safeguarding	Good	N/A	Minor	June 2018
Leeds Building Services - Information Governance (Records Management)	N/A	Limited	Moderate	June 2018

3.6.2 During the year, we have certified 19 School Voluntary Funds and completed 11 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 Block Funding Grant
- Cycling Ambition Grant Determination
- West Yorkshire Plus Capital Grant
- West Yorkshire Combined Authority Treasury Management Assurance
- Families First Grant Claims (September and March)
- Local Authority Bus Subsidy Ring-Fenced (revenue) Grant
- Disabled Facilities Grant
- Green Deal Grant

- Pot Holes Grant
- Flooding Grant

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

Internal Audit Performance

- 3.7.1 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.
- 3.7.2 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.
- 3.7.3 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.
- 3.7.4 The Internal Audit team won the national Government Counter Fraud Award in the Outstanding Proactive Detection category in September 2017. Following this award, we were invited by the Chartered Institute of Public Finance and Accountancy (CIPFA) to share our auditing best practice at two events across the country to support other counter fraud practitioners. The Government Counter Fraud judges made the following comments on our achievement:

'Leeds City Council's use of proactive data analysis, combined with robust and diligently executed internal audit techniques, exemplifies best practice. The steps taken highlight what can be achieved when rigour and proper processes are observed.'

Table 2: Reports to the Corporate Governance and Audit Committee (1st April 2017 to 31st March 2018)

Report	Purpose
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.
Whistleblowing Policy	Presented the updated Whistleblowing Policy to inform the Committee of the revisions and to provide an opportunity to comment prior to approval and publication.

Report	Purpose
Raising Concerns Policy	Presented the refreshed Raising Concerns Policy to inform the Committee of the revisions and to provide an opportunity to comment prior to approval and publication.
Annual Report 2016/17	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 2016/17.
Annual Audit Plan 2018/19	Presented the proposed Internal Audit Plan for 2018-19 for review and approval.

Resources

- 3.7.5 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 2017/18.

Proficiency and Due Professional Care

- 3.7.6 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.
- 3.7.7 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

Years of experience – local government auditing	FTE at 31/03/2018	FTE at 31/03/2017
Less than 1 year	0	4.2
1 – 5 years	7.0	4.0
6 – 10 years	2.0	2.61

Over 10 years	9.59	8.64
Total FTE	18.59	19.4

Quality

- 3.7.8 The annual independent review of the Internal Audit quality system was undertaken in December 2017. The assessment confirmed that the management system continues to conform to our own standards and procedures and is demonstrating continual improvement. We successfully transitioned to the requirements of the latest standard ISO 9001:2015. 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.
- 3.7.9 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 46 questionnaires received between 1st April 2017 to 31st March 2018. The results are presented as an average of the scores received for each question and the results for the 42 CSQs received for the same period in 2016/17 are provided for comparison.

Table 4: Average scores from Customer Satisfaction Questionnaires for 2017/18 and 2016/17

Question	Average score (of 46 CSQs) 2017/18	Average score (of 42 CSQs) 2016/17
Sufficient notice was given	4.80	4.90
Level of consultation on scope	4.67	4.76
Auditor's understanding of systems	4.41	4.52
Audit was undertaken efficiently	4.65	4.79
Level of consultation during the audit	4.71	4.79
Audit carried out professionally and objectively	4.85	4.93

Accuracy of draft report	4.64	4.64
Opportunity to comment on audit findings	4.87	4.90
Clarity and conciseness of final report	4.72	4.72
Prompt issue of final report	4.41	4.66
Audit recommendations will improve control	4.54	4.61
The audit was constructive and added value	4.54	4.67
Overall Average Score	4.65	4.74

- 3.7.10 The 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

- 3.7.11 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 the residual actions from our ongoing self-review and the external assessment reported to the Committee in January 2017.

Table 5 Quality Assurance and Improvement Action Plan 2017/18

Action	Timescale and Status	Comments
Assurance mapping will continue to be developed and evolve during the annual planning process.	Ongoing action carried forward to 2018/19	Maps have been drafted for each assurance area. These will be updated and refreshed during 2018/19.
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.	Complete	The Chair of the Corporate Governance and Audit Committee was involved in the process to recruit the Head of Audit. This was minuted at the meeting in January 2018.

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 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. A satisfactory overall opinion is provided for 2017/18, based on the audit work detailed within this report. 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 2017/18 and note the opinion given. In particular:
- that on the basis of the audit work undertaken during the 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice
 - a satisfactory overall opinion is provided for 2017/18, based on the audit work detailed within this report
 - 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
- 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