

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 26th July 2019

Subject: Internal Audit Annual Report and Opinion 2018-19

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|----------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------------------|
| Are specific electoral Wards affected? If relevant, name(s) of Ward(s): | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| Has consultation been carried out? | <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 |
| Will the decision be open 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

1. Main issues

- 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.
- 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.
- This report provides the Annual Internal Audit Report and Opinion for 2018/19.
- The overall conclusion is that on the basis of the audit work undertaken during the 2018/19 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 2018/19, 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.

2. Best Council Plan Implications

- The work of Internal Audit contributes to Leeds City Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on accomplishing the Best Council Plan objectives.

3. Resource Implications

- A risk-based approach has been used to devise an Internal Audit plan that promotes the effective and efficient use of resources across the organisation.

4. Recommendations

- a) The Corporate Governance and Audit Committee is asked to receive the Annual Internal Audit Report and Opinion for 2018/19 and note the opinion given. In particular:
 - that on the basis of the audit work undertaken during the 2018/19 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 2018/19, 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.
- b) 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 2018/19.

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 her 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 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 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 2018/19

- 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 2018/19

On the basis of the audit work undertaken during the 2018/19 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 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 2018/19, 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.

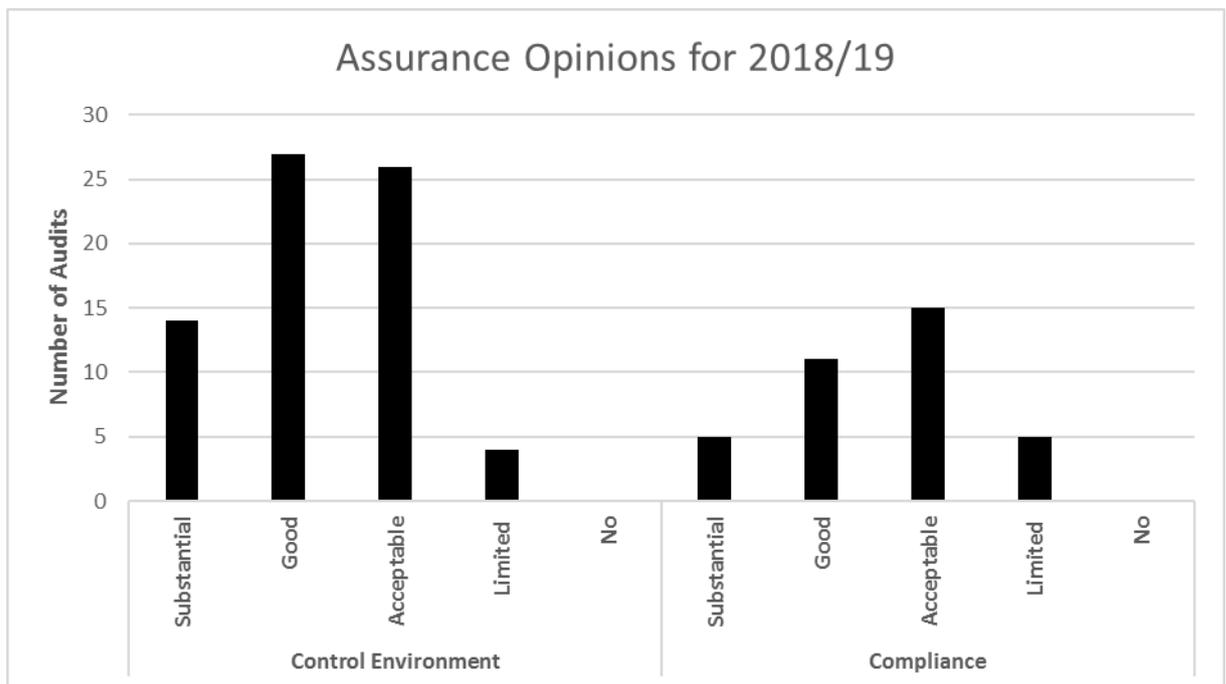
3.4 Basis of Assurance

- 3.4.1 The annual opinion on the adequacy and effectiveness of the control environment for 2018/19 is based on the findings and assurance provided by the schedule of reviews undertaken throughout the year. The schedule of reviews for 2018/19 was prepared using a risk based audit planning approach and was approved by the Corporate Governance and Audit Committee in March 2018.
- 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 The widely publicised difficulties encountered at other authorities have served to highlight the importance of financial control and resilience. We provided substantial assurance for the central controls in place for the setting and management of the council's budget, reflecting the fact that there is a framework in place that provides the opportunity for regular scrutiny of relevant financial information. Directorates are ultimately accountable for delivering within their own approved budgets, and the audit has reinforced the importance of ensuring that the central finance function continues to explore the most effective ways of providing robust challenge and emphasising key messages around financial sustainability.

Procurement and Contracts

- 3.5.4 Procurement audits have focussed on both central processes and directorate activity over the course of the year. A significant portion of our central focus has been directed towards the governance arrangements in place for the approval and management of waivers of Contract Procedure Rules (CPRs).
- 3.5.5 There are provisions within the council's CPRs that allow for exceptional circumstances in which certain requirements of the rules may be waived. Whilst retaining this degree of flexibility is an important factor in ensuring that the procurement process can react to unforeseen events and challenging market conditions, it should also be noted that any deviation from the rules can expose the authority to wide ranging risks around decisions that have been taken outside the legislative or strategic framework.
- 3.5.6 Any decision to waive CPRs is ultimately taken at directorate level by officers with appropriate delegated authority. In reviewing a sample of waivers, our audit identified some issues in the extent to which the waiver process had been correctly followed. We also highlighted a specific example where we felt that the expenditure being incurred under the waiver would benefit from stronger monitoring and challenge within the service itself. In this instance we wrote to the relevant Director and Chief Officer and are working with Procurement and Commercial Services (PACS) to ensure that it is addressed appropriately.
- 3.5.7 As owners of CPRs, it is important that PACS are consulted where a decision is taken at departmental level to waive certain requirements of the rules. We have sought to highlight the importance of promoting greater engagement between PACS and directorates, providing an opportunity for PACS to impart relevant expertise and influence during the procurement process. Strengthening control in this area will have the benefit of ensuring that the relevant financial, legal and transparency implications have been considered.
- 3.5.8 We found some limitations in the links between procurement decisions taken and the council's strategic category management approach, together with a gap in the extent to which waivers are reviewed and analysed to enable lessons to be learned and fed

back into the procurement process. Reinforcing PACS' oversight of waivers will ensure there is a greater level of awareness centrally around the volume of waivers being processed and the reasons for doing so. PACS have agreed our key recommendation to ensure that details of waivers are shared with Category Managers and used to identify opportunities to improve procurement practices across the authority. This approach will help to continually inform strategic procurement planning and support the council's efficient and enterprising ambitions.

- 3.5.9 Contract management audits have been undertaken across a variety of service areas during the year. The responsibility for contract management tends to sit within the service that has been identified as the primary contract user. Largely we have been able to point to good examples of contract management from the work undertaken during the last year. However, we have also identified opportunities to strengthen risk management and the monitoring and challenge of payments within specific areas. Embedding consistent practice continues to present a challenge with various officers across the authority adopting responsibility for contract management alongside the requirements of their day to day roles. We continue to work positively with PACS to highlight areas in which central guidance can help to promote greater consistency going forward.

Directorate Risks

- 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 operational directorate risk areas during the year. Our work has had links to risks relating to safeguarding, health and safety, finance, compliance with legislation and internal procedures and other risks that may affect the achievement of council and directorate priorities.
- 3.5.11 Our audit work has provided assurances around processes that underpin the council's core values and behaviours. We have also focussed attention on high profile areas of legislative and regulatory responsibility and although we have reported issues that may have a moderate impact on the control environment in a number of areas, all non-financial directorate risk audits have resulted in an 'Acceptable' or better assurance opinion overall. Our recommendations have been positively received by service areas and in some cases these were actioned during the course of the audit. For particularly high profile areas of work we have engaged support from individual directors and the Corporate Leadership Team to ensure that prompt action is taken to mitigate specific risks.
- 3.5.12 During the year, we have completed reviews that have focussed on the controls in place to identify and raise income due across specific service areas. Whilst our audits have identified areas that require management action and several resulted in a limited assurance opinion, a number of the income areas we reviewed were proactively brought to our attention by the senior management following issues that they had identified. We encourage this approach from management and perceive this as an indicator of a culture that is geared towards continual improvement. Recommendations to embed processes that apply a rigorous approach across key income streams in line with Financial Regulations have been agreed. The

implementation of these recommendations should ensure that the council is optimising relevant income opportunities.

Information Governance and ICT

- 3.5.13 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), including the requirement to decommission Microsoft Access 2003 databases and the risks associated with the General Data Protection Regulation (GDPR) which came into force on 25 May 2018.
- 3.5.14 Internal Audit coverage during the year has supported the council's ongoing work by reviewing the extent to which the authority was adequately prepared for the implementation of GDPR. This involved ensuring that there were appropriate governance arrangements in place to ensure that following the dissolution of the formal project, work continues to ensure GDPR becomes embedded as everyday working practice across the council. We have reviewed ICT project governance arrangements, the effectiveness of the controls in place over the security and integrity of general data created and saved and ensuring that the ICT infrastructure remains fit for purpose and secure, and through undertaking specific reviews on directorate information governance arrangements. We have also reviewed the key financial systems and provided assurances on the completeness, accuracy and security of input and processing of the application. In general, we found the processes in place to be satisfactory, with each of the reviews undertaken in respect of ICT and Information Governance resulting in 'Acceptable' or higher levels of assurance overall.
- 3.5.15 Our recommendations have included ensuring that appropriate action is taken to gain assurance that the ICT project will be delivered in an acceptable timeframe and implementing a framework to help ensure solutions architects and security leads have a consistent approach to hosted software.
- 3.5.16 During the year, we reviewed the council's password protocol and confirmed that it is based on best practice issued by the National Cyber Security Centre and password parameters for the network are set in line with the new policy. However, we have reported issues around the timeliness of information governance and technology policy reviews as our audits have highlighted that a number of these policies, procedures and guidance documents are still in the review process and have not been reviewed in line with their stated frequency. This has resulted in high priority recommendations in respect of target timescales, policy consultation, communication and monitoring. Progress against this is being monitored through the Information Policy Review Group and we continue to have input into this process to support the business with these reviews.

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.

3.5.18 A key factor in our determination of the overall audit opinion at the end of the year is the extent to which senior managers have implemented audit recommendations and responded to the risks highlighted through our work. Positive responses from management and a demonstrable commitment to continual improvement are seen as important indicators of an appropriate culture and robust control environment. Our follow up work has supported the overall satisfactory opinion for 2018/19 as sufficient improvement was evident to provide an increased level of assurance in all relevant follow up reviews completed during the year, with the exception of the following two audited areas:

- The 'In-House Fostering, Special Guardianship and Leaving Care Payments' follow up review identified that the key recommendations made in the previous audit in relation to implementing a relevant policy, work procedures and management oversight to prevent payment errors and ensure the accuracy and legitimacy of the payments made had not been actioned in line with the agreed timescales and were outstanding. Management responded positively to the follow up audit and advised that some progress had been made and that updates would be provided to their Directorate Management Team on the implementation of the audit recommendations.
- Our follow up review of the contract specification and management arrangements in place for a council wide contract identified that the new contract provides greater transparency over the rates applied. Improvements in the approach to contract management have enabled us to provide acceptable assurance for the overall control environment. However there is more that can be done to strengthen the monitoring of prices and when this is implemented an improved compliance opinion should be achieved.

3.5.19 We will undertake a further audit in these two areas during 2019/20 and escalate any outstanding issues as necessary.

Data Analytics

3.5.20 Data analytics work is undertaken across directorates and service areas, providing a systematic evaluation of the control effectiveness within key systems, and highlighting high risk transactions or events. This year we have mainly focussed our attention on the transactional data within the key financial systems, as a high area of risk. 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.

Anti-Fraud and Corruption

3.5.21 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.

- 3.5.22 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. In addition to Internal Audit, there are several specialist teams and services across the council that undertake counter-fraud/overpayment work, these include:
- Housing and tenancy fraud
 - Blue Badges (Disabled Parking Concessions)
 - Council Tax Support / discounts and Housing Benefits
 - Direct payments
- 3.5.23 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.
- 3.5.24 During the year we have reviewed and updated the council's Anti-Bribery and Anti-Money Laundering Policies. The purpose of the Anti-Bribery policy is to maintain the high standards of conduct which currently exist across the council by preventing or identifying bribery. The Anti-Money Laundering Policy sets out appropriate and proportionate anti-money laundering safeguards and reporting arrangements within the council. The updated policies were presented to the Committee at the January meeting and following input from Members, were approved by the Chief Officer (Financial Services).
- 3.5.25 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.
- 3.5.26 From 1st April 2018 to 31st March 2019, we received a total of 47 potential irregularity referrals (67 in 2017/18). Of these, 36 were classified under the remit of the Whistleblowing or Raising Concerns policies (46 in 2017/18). 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.

- 3.5.27 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 are conscious that there has been a reduction in referrals compared to the previous year. Whilst this may be seen as a positive indicator, we will continue to regularly review our processes to ensure that we operate in line with best practice in encouraging people to come forward with their concerns. We have included this as an action in our Quality Assurance and Improvement Plan in Table 6.
- 3.5.28 Of the cases closed during the year, 5 of the allegations were proven and resulted in relevant disciplinary and corrective action being taken (5 allegations were also proven in 2017/18). 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.
- 3.5.29 As part of our proactive anti-fraud work, we take part in the National Fraud Initiative (NFI). The NFI is an exercise conducted by the Cabinet Office every two years that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Where a match is found it may indicate that there is an inconsistency which requires further investigation to determine whether fraud or error has occurred, or if there is another explanation for the match. The matches are sent to the relevant council for review and we received over 24,500 data matches from the Cabinet Office at the end of June 2019. Relevant teams within the council (for example, Internal Audit, Housing, Benefits, Blue Badge and Adult Social Care) are currently working through the matches on a risk basis. As at 19th June approximately £79,000 of benefit overpayments made up of 31 individual cases, has been identified and is in the process of being recovered.
- 3.5.30 The council has also participated in a voluntary pilot exercise on Business Rates data matching. This exercise led to the cancellation of small business rates relief for 6 businesses, resulting in approximately £31,500 of income due to the authority on an annual basis, should the businesses circumstances remain the same.
- 3.5.31 During the year, we introduced counter fraud awareness e-learning training on the authority's Performance and Learning System. The training highlights the key fraud risks within local authorities, prevention controls and relevant policies and guidance in place within the council. The comprehensive roll out of this training across the council forms part of our Quality Assurance and Improvement Plan in Table 6 below for the coming year.

3.6 Summary of Completed Audit Reviews

- 3.6.1 This section provides a summary of all reports issued since 1st June 2018, along with the Corporate Governance and Audit Committee meeting date where the audits were reported. Audit reviews completed from 1st June 2017 to 31st May 2018 were reported in the Internal Audit Annual Report for 2017/18. All reviews up to 31st May 2019 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 | November 2018 |
| Capital Programme Central Controls | Substantial | Substantial | Minor | November 2018 |
| Income Management System | Substantial | Substantial | Minor | January 2019 |
| Business Rates | Substantial | N/A | Minor | March 2019 |
| Sundry Income Central Controls | Substantial | Substantial | Minor | March 2019 |
| Bank Reconciliation and Cashbook | Substantial | Substantial | Minor | March 2019 |
| Total Repairs | Substantial | Good | Minor | June 2019 |
| Housing Benefits Assessment and Payments | Substantial | Substantial | Minor | June 2019 |
| Housing Benefits Reconciliations | Substantial | N/A | Minor | June 2019 |
| Council Tax | Substantial | N/A | Minor | June 2019 |
| Capital Programme Central Controls | Substantial | N/A | Minor | June 2019 |
| Contribution Payments to West Yorkshire Pension Fund | Memo issued – no issues identified | | | June 2019 |
| Central Purchasing Card Controls | Substantial | Good | Minor | June 2019 |
| Payroll Central Controls | Good | Good | Minor | June 2019 |

| Report Title | Audit Opinion | | | Included in Report to CGAC |
|------------------------------------------------------------------|---------------------|------------|----------|----------------------------|
| | Control Environment | Compliance | Impact | |
| Customer Information System (CIS) Payments | Good | Good | Minor | June 2019 |
| Housing Rents | Substantial | N/A | Minor | June 2019 |
| Procurement and Contracts | | | | |
| Procurement Approval Process | Acceptable | Acceptable | Moderate | November 2018 |
| Tendering Systems Controls | Acceptable | Limited | Moderate | November 2018 |
| Contract Management Review: Frozen Foods | Acceptable | N/A | Minor | November 2018 |
| Waivers of Contract Procedure Rules | Acceptable | Acceptable | Moderate | January 2019 |
| Nursing and Residential Care Framework Contract | Substantial | N/A | Minor | January 2019 |
| Contract Management Review: Independent Living Support Service | Good | N/A | Minor | June 2019 |
| Directorate Risks | | | | |
| Central Financial Controls of Local Authority Maintained Schools | Good | N/A | Minor | November 2018 |
| Commercial Rents | Limited | Limited | Moderate | November 2018 |
| Unannounced Visit | Acceptable | Acceptable | Minor | November 2018 |
| Belle Isle TMO Assurance Framework 5 Year Review | Good | N/A | Minor | November 2018 |
| Taxi and Private Hire Licensing | Acceptable | N/A | Moderate | November 2018 |

| Report Title | Audit Opinion | | | Included in Report to CGAC |
|----------------------------------------------------------------------------|---------------------|------------|----------|----------------------------|
| | Control Environment | Compliance | Impact | |
| Flooding Operations | Good | Acceptable | Minor | November 2018 |
| Arrangements for Forecasting and Planning for School Places | Substantial | N/A | Minor | November 2018 |
| Management of School Deficits | Acceptable | N/A | Minor | November 2018 |
| Housing Disrepair | Acceptable | Acceptable | Moderate | November 2018 |
| Income Review - Car Parking | Acceptable | Good | Minor | November 2018 |
| Income Review – Room Hire | Acceptable | Limited | Minor | November 2018 |
| Income Review – Leeds International Beer Festival | Limited | Limited | Minor | November 2018 |
| Income Review – City Centre Box Office | Good | Acceptable | Minor | November 2018 |
| Income Review - Telecare | Limited | Acceptable | Minor | November 2018 |
| Apprentice Levy | Good | N/A | Minor | November 2018 |
| Safeguarding Clients Personal Assets | Acceptable | Good | Minor | November 2018 |
| Leeds Carnival and Black Music Festival Event Management Arrangements | Acceptable | N/A | Moderate | January 2019 |
| Electoral Roll | Good | Good | Minor | January 2019 |
| Homelessness and Temporary Accommodation (Homelessness Reduction Act 2017) | Good | Good | Minor | January 2019 |

| Report Title | Audit Opinion | | | Included in Report to CGAC |
|--------------------------------------------------------------------------|---------------------|------------|----------|----------------------------|
| | Control Environment | Compliance | Impact | |
| Learning Disability Pooled Budget | Acceptable | N/A | Minor | January 2019 |
| Private Sector Legislation – Homes of Multiple Occupancy | Acceptable | Acceptable | Minor | January 2019 |
| Payments for Special Education Needs Placements | Acceptable | Acceptable | Moderate | March 2019 |
| Belle Isle Tenant Management Organisation – Universal Credit Preparation | Good | N/A | Minor | March 2019 |
| Children and Families Decision Making | Acceptable | Good | Moderate | March 2019 |
| Application of HR Policies: Disciplinary Policy | Good | N/A | Minor | June 2019 |
| Processing of Right to Buy Applications | Good | N/A | Minor | June 2019 |
| Fire Safety Management of Council Tenanted Properties | Acceptable | N/A | Moderate | June 2019 |
| Electrical Inspections of Council Tenanted Properties | Acceptable | N/A | Moderate | June 2019 |
| Parking Services – Tickets, Permits and Appeals | Good | N/A | Minor | June 2019 |
| Mental Health Assessments | Good | Acceptable | Minor | June 2019 |
| High School | Good | Good | N/A | June 2019 |
| Primary School | Good | Acceptable | N/A | June 2019 |
| Management of Responsive Repairs | Acceptable | N/A | Minor | June 2019 |

| Report Title | Audit Opinion | | | Included in Report to CGAC |
|------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|------------|----------|------------------------------|
| | Control Environment | Compliance | Impact | |
| Annual Home Visits | Good | N/A | Minor | June 2019 |
| Information Governance and ICT | | | | |
| Housing Leeds ICT Solution Project | Good | N/A | Moderate | November 2018 |
| General Data Protection Regulation (GDPR) Service Leads | Memo issued – recommendations fed into the GDPR Implementation Board. | | | Memo issued November 2018 |
| Communities and Environment Information Governance | Good | N/A | Minor | November 2018 |
| Mobile Computing: Data Access | Acceptable | N/A | Moderate | November 2018 |
| Externally Hosted Software | Acceptable | N/A | Minor | January 2019 |
| Password Configuration | Good | N/A | Minor | March 2019 |
| Essential Services Programme | Good | N/A | Minor | June 2019 |
| Business Applications | Reported within relevant Key Financial Systems reviews | | | January, March and June 2019 |
| Follow Up Audits | | | | |
| Contract Specification and Management Follow Up | Acceptable | Limited | Minor | November 2018 |
| Leeds Building Services Stores Follow Up | Memo issued – subsequent changes in the method of service delivery mean that the original recommendations no longer apply. | | | Memo issued November 2018 |
| In-House Fostering, Special Guardianship and Leaving Care Payments Follow Up | Limited | N/A | Moderate | November 2018 |

| Report Title | Audit Opinion | | | Included in Report to CGAC |
|----------------------------------------------------------|---------------------|------------|--------|----------------------------|
| | Control Environment | Compliance | Impact | |
| Leeds Building Services Subcontractors Follow Up | Good | Acceptable | Minor | November 2018 |
| Leeds Building Services – Out of Hours (Lifts) Follow Up | Acceptable | Acceptable | Minor | November 2018 |
| Direct Payments Follow Up | Good | Acceptable | Minor | January 2019 |
| Leeds Building Services – Tools and Equipment Follow Up | Acceptable | N/A | Minor | March 2019 |
| Unannounced Establishment Visit Follow Up | N/A | Good | Minor | March 2019 |
| Primary School Follow Up x 2 | Good | N/A | N/A | March 2019 |
| Community Infrastructure Levy Follow Up | Good | N/A | Minor | June 2019 |
| Sundry Income (Telecare) Follow Up | Good | N/A | Minor | June 2019 |
| Electricity Contract Follow Up | Acceptable | N/A | Minor | June 2019 |

3.6.2 During the year, we have certified 5 School Voluntary Funds and completed 8 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
- West Yorkshire Plus Fund
- National Productivity Investment Fund
- Pot Holes Grant
- Bus Subsidy Ring-Fenced Grant

- Disabled Facilities Grant
- Families First Grant Claim (March)

3.7 Quality Assurance and Improvement Programme and Conformance with PSIAS 2018/19

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 The Public Sector Internal Audit Standards (PSIAS) require a quality assurance framework to be established, which includes both internal and external assessments of the work of Internal Audit. The activities we undertake to satisfy the requirements for internal assessments include:
- Ongoing supervision, performance management, quality assurance and regular review of the procedures that guide staff in performing their duties to ensure they conform to the PSIAS. The latest annual external review of our quality management system was undertaken in October 2018 and this resulted in continued certification, with no non-compliances or opportunities for improvement identified. Our quality management system has been ISO certified since 1998.
 - Customer Satisfaction Questionnaires (CSQs) are issued to clients at the end of each assignment and the information returned is used to identify training and development needs. The results of the returned CSQs are reported to the Committee at each meeting.
 - Self-assessments are undertaken against the PSIAS for conformance. The latest self-assessment was completed in October 2018 and identified no non-conformances.
- 3.7.3 The PSIAS 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.
- 3.7.4 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. The method and frequency of our next assessment was discussed at the Corporate Governance and Audit Committee meeting in November 2018 and it was agreed that the next assessment should take the form of a self-assessment undertaken by Internal Audit with this being validated by an independent third party. As the previous external assessment was undertaken in 2016, the next one must be completed by 2021 to conform with the PSIAS.

Table 2 Reports to the Corporate Governance and Audit Committee (1st April 2018 to 31st March 2019)

| 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. |
| Anti-Bribery Policy | Presented the updated Anti Bribery Policy to inform the Committee of the revisions and to provide an opportunity to comment prior to approval and publication. |
| Anti-Money Laundering Policy | Presented the refreshed Anti-Money Laundering Policy to inform the Committee of the revisions and to provide an opportunity to comment prior to approval and publication. |
| Annual Report 2017/18 | 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 2017/18. |
| Annual Audit Plan 2019/20 | Presented the proposed Internal Audit Plan for 2019-20 for review and approval. |

Resources

- 3.7.5 Resources have reduced since the Internal Audit Plan for 2018/19 was approved by the Committee. However, we have taken a risk based approach during the year and are able to confirm that resources have been appropriate, sufficient and effectively deployed to achieve the audit coverage necessary to deliver the annual Internal Audit opinion.

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, plan to study or are 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 Full Time Equivalent (FTE) staff in post

| Years of experience – local government auditing | FTE at 31/03/2018 | FTE at 31/03/2019 |
|--------------------------------------------------------|--------------------------|--------------------------|
| Less than 1 year | 0 | 0 |
| 1 – 5 years | 7.0 | 4.0 |
| 6 – 10 years | 2.0 | 3.0 |
| Over 10 years | 9.59 | 7.78 |
| Total FTE | 18.59 | 14.78 |

- 3.7.8 Staffing changes and the recruitment of two new trainee auditors has taken our resource levels at the time of this report to 15.78 FTE.

Quality

- 3.7.9 The annual independent review of the Internal Audit quality system was undertaken in October 2018. 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.
- 3.7.10 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 39 questionnaires received between 1st April 2018 to 31st March 2019. The results are presented as an average of the scores received for each question and the results for the 46 CSQs received for the same period in 2017/18 are provided for comparison.

Table 4 Average scores from Customer Satisfaction Questionnaires for 2018/19 and 2017/18

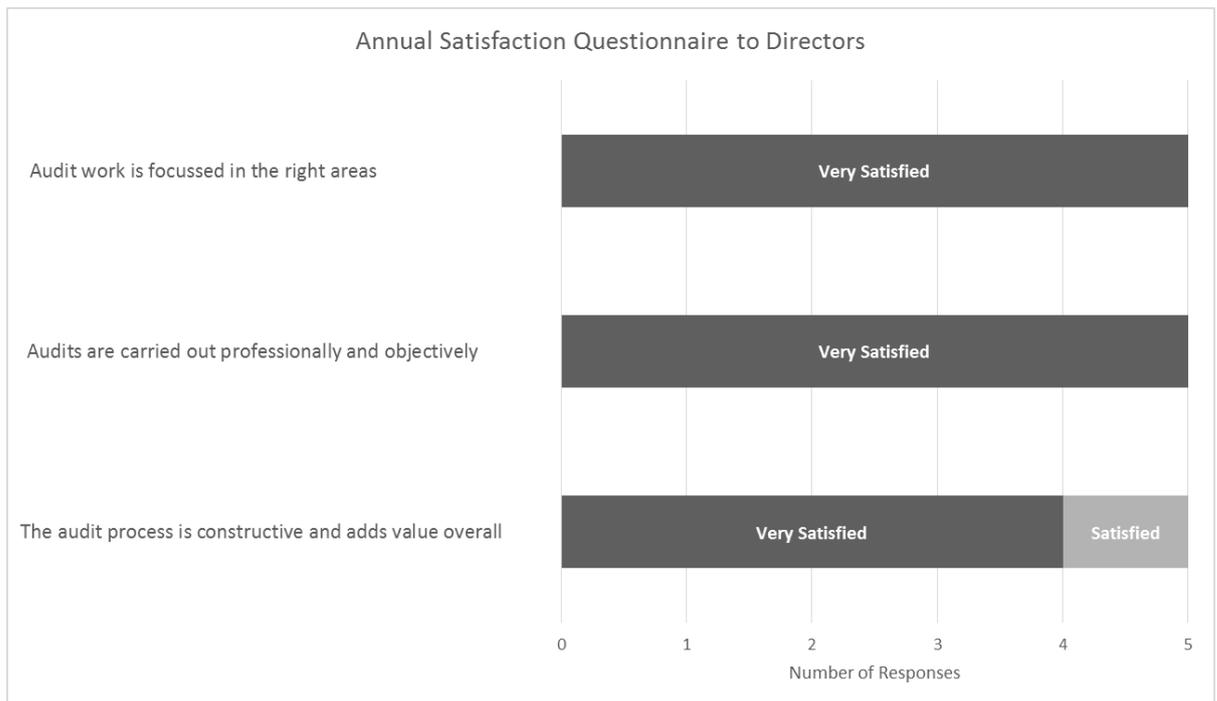
| Question | Average score (of 46 CSQs) 2017/18 | Average score (of 39 CSQs) 2018/19 |
|--------------------------------------------------|------------------------------------------|------------------------------------------|
| Sufficient notice was given | 4.80 | 4.71 |
| Level of consultation on scope | 4.67 | 4.70 |
| Auditor's understanding of systems | 4.41 | 4.36 |
| Audit was undertaken efficiently | 4.65 | 4.58 |
| Level of consultation during the audit | 4.71 | 4.67 |
| Audit carried out professionally and objectively | 4.85 | 4.82 |
| Accuracy of draft report | 4.64 | 4.46 |
| Opportunity to comment on audit findings | 4.87 | 4.79 |
| Clarity and conciseness of final report | 4.72 | 4.64 |
| Prompt issue of final report | 4.41 | 4.41 |
| Audit recommendations will improve control | 4.54 | 4.40 |
| The audit was constructive and added value | 4.54 | 4.44 |
| Overall Average Score | 4.65 | 4.58 |

3.7.11 We reported to the Committee at the meeting in November 2018 that we had received fewer CSQs back from clients than during the same period in the previous year. The Committee wrote to our director to encourage auditees to complete the CSQs and this resulted in an increase in the numbers received, with levels at the end of the year being comparable to the levels achieved in 2017/18. Of the ten core cities that we regularly liaise with as part of our continual improvement programme,

four other authorities collate CSQ data in a similar way to us. Of these, the percentage of CSQs returned is as follows; 7%, 36%, 38% (Leeds), 40% and 64%.

3.7.12 To supplement the established CSQ process, we also confirmed to the Committee that we would write to directors at the end of the financial year to ask for their views on our service and include the feedback in this Annual Report. We asked the directors to indicate their level of satisfaction with our service using a rating of 'very satisfied', 'satisfied', 'fairly satisfied' and 'not satisfied'. Responses were received from all five directors or their nominated representatives and the results are provided in table 5 below.

3.7.13 Table 5 Annual Satisfaction Questionnaire Issued to Directors



3.7.14 The questionnaire also invited any comments directors wished to make about our service. The comments received from directors are provided in full in the text boxes below.

The Audit Service's approach to Adults & Health audits is an excellent example of the whole being greater than the sum of its parts. As a service we are consulted about the proposed annual audit plan and are given an opportunity to include any areas of concern to ourselves, as well as having any observations that we may have about the proposed coverage being taken into consideration as part of the audits themselves. Draft reports are always shared with the relevant senior managers to ensure that there are no surprises and the quality of the work undertaken is always of an extremely high standard. The Audit Service is respected as a valued critical friend within the Adults & Health Directorate.

We are grateful for the work done by Internal Audit and the assurances provided. If there was one issue in the previous year it was the late notification of some governance related issues. We would appreciate as early notification as possible to Governance Officers so that remedial action can be taken in a timely manner.

Very good and objective audit support provided over the last year.

The Internal Audit Service works closely with the Directorate in setting out the audit forward plan and works collaboratively in setting priorities that add value to the Directorate's work. This approach helps to ensure that Audit's work plays a key role in managing risk in the delivery of the Directorate's services. This has been helpful and constructive over the past year in helping to identify areas for improvement.

Despite a significant reduction in resources, Internal Audit continues to provide an excellent service. As well as providing general assurance across a range of important areas, the service produces constructive recommendations which help drive improvement. A good example in my own department was the work undertaken on the Lift Service which pointed out important failings which needed to be addressed. The services manages to undertake its objective work without creating antagonism, which is a credit to the leadership of the unit.

Quality Assurance and Improvement Action Plan

- 3.7.15 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 6 below and includes the residual actions from our ongoing self-review.

Table 6 Quality Assurance and Improvement Action Plan 2019/20

| Action | Timescale and Status |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| Assurance mapping will continue to be developed and evolve during the annual planning process. Maps have been drafted for each assurance area. These will be updated and refreshed during 2019/20. | Ongoing action carried forward to 2019/20 |
| A communications plan will be developed to roll out the counter-fraud training on a risk basis and further promote the council's whistleblowing processes. | Ongoing through 2019/20 |

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.

Climate Emergency

- 4.3.3 Internal Audit will consider the Climate Emergency in the development of Annual Internal Audit Plans and in the scope of all relevant audits.

4.4 Resources, procurement and value for money

- 4.4.1 A risk-based approach has been used to devise an Internal Audit plan that includes coverage of procurement activity and promotes the effective and efficient use of resources across the organisation. The outcomes of these reviews are 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 Internal Audit 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 2018/19 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 2018/19, 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 2018/19 and note the opinion given. In particular:
- that on the basis of the audit work undertaken during the 2018/19 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 2018/19, 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