

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 23rd November 2020

Subject: Internal Audit Annual Report and Opinion 2019/20

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 considers the opinion provided by the Head of Internal Audit based on the work undertaken and completed relating to 2019/20 regarding the adequacy and effectiveness of the Authority's framework of governance, risk management and control. 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 2019/20 and note the opinion given. In particular:
- that on the basis of the audit work undertaken during the 2019/20 audit 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 2019/20, 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 2019/20.

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 to fulfil the 2019/20 Internal Audit Plan objectives, 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 reinforce 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, including direct access to the Chief Executive and the Chair of the Audit Committee, which 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 2019/20

- 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 2019/20

On the basis of the audit work undertaken during the 2019/20 audit year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice.

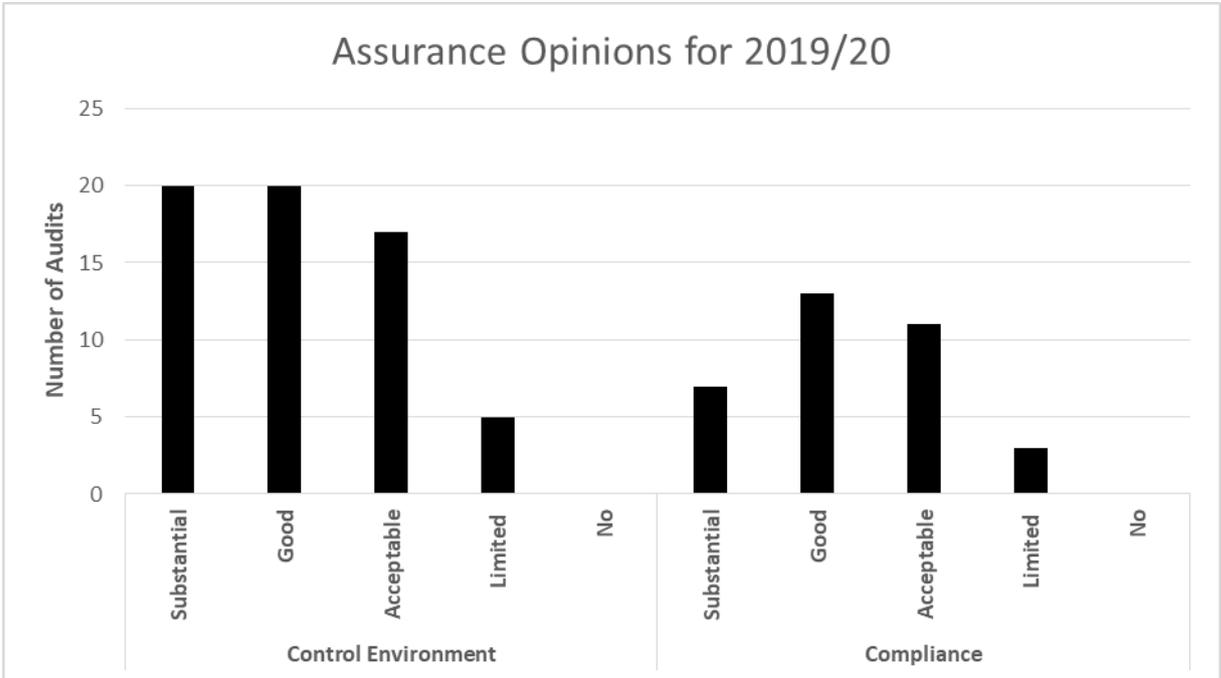
*We have audited several areas that have resulted in 'Limited Assurance' opinions and we have highlighted weaknesses that may present risk to the council. In these cases, we have made recommendations to further improve the arrangements in place. Although significant to the control environment in place 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 2019/20, 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.*

It is important that senior managers remain alert to, and focused on, maintaining an appropriate, risk-based and effective framework of controls during the recovery stage of the COVID 19 period whilst also working towards The Best Council Plan objectives. The audit work undertaken and planned for the current year has sought to take into account the change in risk appetite necessary to embrace and implement such significant change. Although the overall assurance opinion is satisfactory, it is essential that senior management retain a focus on embedding new and revised operational and governance arrangements (including the innovative service delivery methods that have arisen in response to COVID 19).

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 2019/20 is based on the findings and assurance provided by the schedule of reviews undertaken throughout the year. The schedule of reviews for 2019/20 was prepared using a risk based audit planning approach and was approved by the Corporate Governance and Audit Committee in March 2019.
- 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.



3.5 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. In addition, they also support the assertions made by the Section 151 Officer in their Annual Assurance report presented to the Corporate Governance and Audit Committee in March 2020. 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 In recent years, the widely publicised difficulties encountered at other authorities have served to highlight the importance of financial control and resilience. This is, and will continue to be, important for LCC as we recover from the financial impact of COVID. 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 as the authority continues to adjust to the challenging financial climate.

Procurement and Contracts

- 3.5.4 Procurement audits have focussed on both central processes and directorate activity over the course of the year. Our focus on central procurement processes was directed towards following up audits of both tendering system controls, and the governance arrangements in place for the approval and management of waivers of Contract Procedure Rules (CPRs).
- 3.5.5 We found good controls have been established within the tendering system to ensure that relevant contract details are published in accordance with regulatory requirements. The publishing of contracting opportunities and awards is recognised by the Crown Commercial Service as an important means of guarding against corruption in public procurement. Therefore the advancements that we were able to observe with respect to compliance with publishing requirements provides a key source of assurance that the council is acting fairly and transparently in its procurement and contracting practices.
- 3.5.6 There are provisions within 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.

- 3.5.7 CPRs have been refreshed during the year, and now require consultation with Procurement and Commercial Services (PACS) before a decision is taken to waive CPRs. Formalising the requirement to consult with PACS strengthens the central oversight in place to support the continuous review and improvement of procurement processes. The number of waivers processed across the authority has now fallen over each of the last three years, with 79 waivers processed in 2019/20 as opposed to 153 in the previous year.
- 3.5.8 We identified opportunities to build further on the improvements that have been made, and PACS have agreed our recommendation to develop and deliver training that will promote the importance of compliance with CPRs. This will serve to strengthen the close working between directorates and PACS 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. We have been able to point to good examples of contract management from the work undertaken during the last year. However, 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 contract management 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 have limited the assurances we are able to provide, we have worked closely with the services involved to agree actions that will strengthen the control environment moving forward. Our recommendations have been positively received by service areas and in some cases these were actioned during the course of the audit.

Information Governance and ICT

- 3.5.12 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.

- 3.5.13 Internal audit coverage this year has included a review of the council's work in relation to the management of major cyber incidents. This involved assessing the appropriateness of controls and monitoring mechanisms to ensure systems are adequately protected from cyber-attacks and ensuring effective risk reporting arrangements are in place. We undertook a review in relation to DIS's Application Portfolio Programme, which sought to provide assurance that there are processes in place to identify and address compliance issues with the application layer and we also undertook a review specifically looking at the council Access 2003 project, which has seen progress reported directly to the committee. We continued to provide coverage in relation GDPR, reviewing the central controls and service lead tasks, and provided a review into the benefits realisation for ICT related projects. In general, we found the processes in place to be satisfactory, with each of these reviews undertaken in respect of ICT and Information Governance resulting in 'Acceptable' or higher levels of assurance overall.
- 3.5.14 However, one review undertaken, Privileged User Access, which sought to provide assurance on how DIS manage system accounts with elevated levels of access to council digital estate, was provided with a 'Limited' assurance opinion. This was provided as control weaknesses were identified that impair our ability to provide assurance that enhanced permissions are only granted where required, are appropriate for the roles undertaken by the officers and represent the principles of least privilege which are removed when no longer required. A project has been established by DIS to address the weaknesses with a timelines provided to the committee in March 2020. Follow up work is scheduled for 2020/21.

Follow up Work

- 3.5.15 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.
- 3.5.16 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 2019/20 as sufficient improvement was evident to provide an increased level of assurance in the majority of follow up reviews completed during the year. However there were instances in which we have highlighted the need for further progress, with a range of mitigating factors at the root of this. We are in regular contact with the associated service areas and continue to provide independent challenge and guidance in order to sustain progress. We will undertake further follow up work during 2020/21 and escalate any outstanding issues as necessary.

Data Analytics

- 3.5.17 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.

- 3.5.18 In another key area, we have used data analytics where possible to provide pre and post assurance checks on grants paid to businesses, funded as part of the support measures announced by Central Government in respect of COVID-19. This work assisted the Business Rates Team in the timely transfer of grant money to eligible businesses.
- 3.5.19 We have also been working with colleagues across Resources and Housing as part of the ongoing service review. One element of our work involves the continuing development of financial dashboards which will provide dynamic and interactive analysis to budget holders and decision makers as part of the council's Core Business Transformation programme.

Anti-Fraud and Corruption

- 3.5.20 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.
- 3.5.21 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
- 3.5.22 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.
- 3.5.23 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, 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.

- 3.5.24 Internal Audit are also the custodians of the Anti Bribery and the 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.
- 3.5.25 From 1st April 2019 to 31st March 2020, we received a total of 46 potential irregularity referrals (47 in 2018/19). Of these, 32 were classified under the remit of the Whistleblowing or Raising Concerns policies (36 in 2018/19). 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.
- 3.5.26 An analysis of the 46 referrals received in the year is as follows:-
- 30 were allocated to the directorates for investigation, 14 undertaken by Internal Audit, and 2 were jointly investigated.
 - 16 were raised through Whistleblowing and 16 through the Raising Concerns Policies. The remaining 14 were raised through other routes, for example by directorate officers.
- 3.5.27 The 46 referrals covered a multitude of issues, including disciplinary, financial and cultural matters. One of these referrals is being investigated by the police. At the end of March, 10 cases remained open, 6 were with directorates and 4 with Internal Audit for investigation. Of the cases closed during the year, 4 of the allegations were proven and resulted in relevant disciplinary and corrective action being taken (5 allegations were proven in 2018/19).
- 3.5.28 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 for this exercise. Relevant teams within the council (for example, Internal Audit, Housing, Benefits, Blue Badge and Adult Social Care) have worked through the matches on a risk basis.

3.5.30 During this NFI exercise this work has identified:-

- total overpayments/errors identified (benefits and VAT) £204,771;
- prevented three right to buy sales, with estimated savings of £72k for each property. A possession order was also granted on one of these tenancies, with an estimated saving of £93k (the estimated savings are automatically calculated by the Cabinet Office).

3.5.31 To help ensure that there is an effective counter fraud culture in place within Leeds City Council, we have included time in the counter fraud block to undertake proactive fraud reviews. These reviews consider areas identified through various methods, including the use of best practice publications and our internal risk assessments. We undertake horizon scanning and liaison with established internal and external contacts throughout the year to identify emerging frauds and risk areas, to ensure that we take any mitigating actions promptly. We have concluded the following proactive reviews during the 2019-20 year:-

- Purchasing card transactions
- Anti Money Laundering arrangements
- Review of Employee Gifts and Hospitality

3.5.32 The counter fraud awareness e-learning training on the authority's Performance and Learning System has been promoted throughout the year. The training highlights the key fraud risks within local authorities, prevention controls and relevant policies and guidance in place within the council. We also raised awareness of the council's Anti-Fraud and Corruption Policies and fraud risks by promoting internal news items on InSite, and holding drop in sessions at various locations for staff to raise any queries or ask for advice.

3.6 Summary of Completed Audit Reviews

3.6.1 This section provides a summary of all reports issued since 1st June 2019, along with the Corporate Governance and Audit Committee meeting date where the audits were reported. Audit reviews completed from 1st June 2018 to 31st May 2019 were reported in the Internal Audit Annual Report for 2018/19. All reviews up to 31st August 2020 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	Moderate	November 2019
FMS Creditor Purchase and Payment; Central and Directorate Processes	Substantial	Good	Minor	November 2019
Treasury Management and Bankline	Substantial	Substantial	Minor	November 2019
Income Management System	Substantial	N/A	Minor	November 2019
Business Rates	Substantial	Good	Minor	January 2020
Bank Reconciliation and Cash Book	Substantial	N/A	Minor	January 2020
Benefits Reconciliations	Substantial	N/A	Minor	March 2020
Sundry Income Central Controls	Substantial	Substantial	Minor	March 2020
Council Tax	Substantial	N/A	Minor	June 2020
Capital Programme Central Controls	Substantial	N/A	Minor	June 2020
Sundry Income – Bereavement Services	Substantial	Substantial	Minor	June 2020
Housing Rents	Substantial	Substantial	Minor	June 2020
Benefits: Assessment and Payments	Substantial	N/A	Minor	June 2020
Total Repairs	Substantial	Good	Minor	June 2020

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Treasury Management	Substantial	Substantial	Minor	June 2020
Central Purchasing Card Controls	Substantial	Substantial	Minor	September 2020
Creditors	Substantial	Good	Minor	September 2020
Payroll Central Controls	Substantial	Good	Minor	To be included in December 2020 update
Procurement and Contracts				
Highways Maintenance Road Markings Contract Review	Acceptable	N/A	Minor	January 2020
Leeds Town Hall Roof Contract Review	Good	N/A	Minor	September 2020
Procurement of Plastic Wheeled Bins	Good	N/A	Minor	September 2020
Directorate Risks				
Civic Enterprise Leeds Income Collection	Acceptable	Good	Minor	November 2019
Schools Central Financial Controls	Good	N/A	Minor	November 2019
School 1	Limited	Limited	N/A	November 2019
School 2	Acceptable	Acceptable	N/A	November 2019
School 3	Limited	Limited	N/A	November 2019
LCC Vehicle Fleet Clean Air Zone Standards	Good	N/A	Minor	November 2019

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Invest to Save – Benefits Realisation	Limited	N/A	Moderate	November 2019
Payments to Providers of Residential Care and Independent Fostering Agencies	Good	Acceptable	Minor	November 2019
Estate Management	Acceptable	Acceptable	Minor	November 2019
Belle Isle TMO Assurance Framework – Rent Arrears	Good	Acceptable	Minor	January 2020
Children Looked After Services	Good	Good	Minor	January 2020
Universal Credit	Good	Acceptable	Minor	January 2020
Gas Servicing	Good	Good	Minor	January 2020
Third Sector / Not for Profit Organisations	Substantial	Good	Minor	January 2020
Strength Based Approach to Adult Social Care	Good	N/A	Minor	January 2020
Financial Due Diligence	Acceptable	N/A	Moderate	January 2020
School 4	Good	Acceptable	N/A	January 2020
Electrical Vehicle – Trial Scheme	N/A – update memo on proposed processes			March 2020
Client Information System (CIS) Payments	Substantial	Good	Minor	June 2020
IR35 Legislation – Central Controls and Directorate Reviews	Acceptable	Limited	Moderate	September 2020

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Faster Payments Scheme	Acceptable	Acceptable	Minor	September 2020
Short Break Service	Good	Good	Minor	September 2020
Leeds Building Services Job Management and Work in Progress	Acceptable	Good	Minor	To be included in December 2020 update
Funding to 3rd Sector for Not-for-Profit Organisation	Good	N/A	Minor	To be included in December 2020 update
Information Governance and ICT				
Management of Major Cyber Incident Risk	Acceptable	N/A	Moderate	November 2019
General Data Protection Regulations Central Controls and Service Lead Tasks	Good	N/A	Moderate	November 2019
Access 2003 Database Project	Acceptable	N/A	Moderate	November 2019
Privileged User Access	Limited	N/A	Moderate	March 2020
Applications Portfolio Programme	Acceptable	N/A	Moderate	June 2020
Information Asset Register	Acceptable	N/A	Moderate	To be included in December 2020 update
Follow Up Audits				
Joint Venture Contract Follow Up	Acceptable	N/A	Minor	November 2019

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Income Review – Leeds International Beer Festival Follow Up	Acceptable	N/A	Minor	November 2019
Tendering System Controls Follow Up	Good	Substantial	Minor	November 2019
Leeds Building Services Information Governance Follow Up	Acceptable	N/A	Minor	November 2019
Income Review - Room Hire Follow Up	Acceptable	Acceptable	Minor	January 2020
Housing Disrepair Follow-up	Good	Good	Minor	January 2020
Commercial Rents Follow Up	Good	N/A	Minor	March 2020
In-house Fostering, Special Guardianship and Leaving Care Follow Up	Acceptable	N/A	Minor	March 2020
ICT Projects - Benefits Realisation Follow Up	Good	Acceptable	Minor	March 2020
Waivers of Contract Procedure Rules (CPRs) Follow Up	Good	Acceptable	Minor	June 2020
External Advertising Income – Follow Up	Good	N/A	Minor	September 2020
Deprivation of Liberty Safeguards (DoLS) Follow Up	Limited	Acceptable	Moderate	September 2020

3.6.2 During the year, we have certified 12 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:

- West Yorkshire Plus Fund

- Cycling Ambition Grant x2
- Pothole Grant
- National Productivity Investment Fund Integrated Transport and Highway Maintenance
- National Productivity Investment Fund Leeds ORR Cycle Superhighway
- Local Transport Capital Block Funding Grant x2
- Local Public Transport Investment Programme Grant
- Bus Operators Grant
- Disabled Facilities Grant Claim

3.7 Quality Assurance and Improvement Programme and Conformance with PSIAS 2019/20

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 2020 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 and an annual summary is included at Table 4 below.
 - Self-assessments are undertaken against the PSIAS for conformance. The latest self-assessment was completed in August 2020 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 and is currently planned to take place in the second half of the year.

Table 2 Reports to the Corporate Governance and Audit Committee (1st April 2019 to 31st August 2020)

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.
Annual Report 2018/19	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 2018/19.
Annual Audit Plan 2020/21	Presented the proposed Internal Audit Plan for 2020/21 for review and approval.

Resources

- 3.7.5 Resources have increased marginally since the Internal Audit Plan for 2019/20 was approved by the Committee, and ongoing efforts have been made to maximise productivity with the available resource. We continue to take a risk based approach throughout 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 31/03/2019	FTE at 31/03/2020
Less than 1 year	0	1.57
1 – 5 years	4.0	4.0
6 – 10 years	3.0	2.0
Over 10 years	7.78	9.22
Total FTE	14.78	16.78

Quality

3.7.8 The annual independent review of the Internal Audit quality system was undertaken in October 2020. The assessment confirmed that the management system continues to conform to our own standards and procedures and is demonstrating continual improvement. All Internal Audit work is undertaken in accordance with internal quality procedures incorporated in the quality management system, which has been ISO certified since 1998.

3.7.9 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 2019 and 31st March 2020. The results are presented as an average of the scores received for each question and the results for the 39 CSQs received for the same period in 2018/19 are provided for comparison.

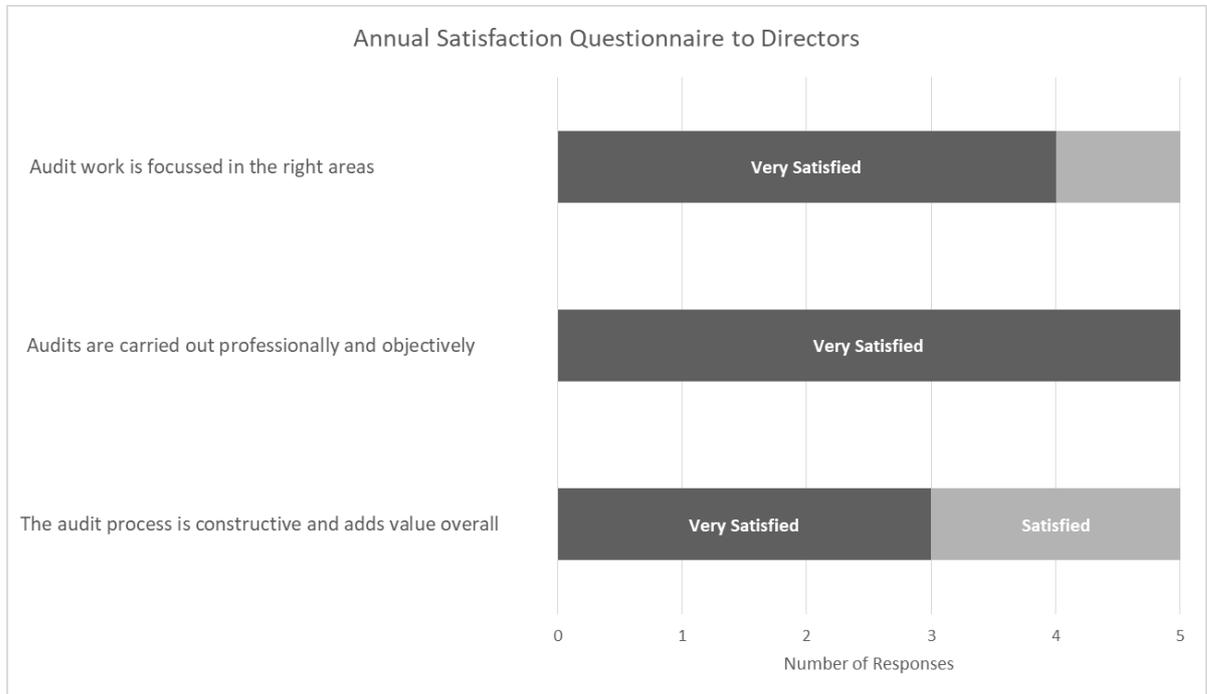
Table 4 Average scores from Customer Satisfaction Questionnaires for 2019/20 and 2018/19

Question	Average score (of 39 CSQs) 2018/19	Average score (of 46 CSQs) 2019/20
Sufficient notice was given	4.71	4.67
Level of consultation on scope	4.70	4.74
Auditor's understanding of systems	4.36	4.50
Audit was undertaken efficiently	4.58	4.76
Level of consultation during the audit	4.67	4.71
Audit carried out professionally and objectively	4.82	4.93
Accuracy of draft report	4.46	4.78
Opportunity to comment on audit findings	4.79	4.93
Clarity and conciseness of final report	4.64	4.83
Prompt issue of final report	4.41	4.63
Audit recommendations will improve control	4.40	4.64
The audit was constructive and added value	4.44	4.74
Overall Average Score	4.58	4.74

- 3.7.10 We have continued to look at ways of maximising our CSQ feedback. In November the Committee wrote to our director to encourage auditees to complete the CSQs and this resulted in a further increase in the numbers received.
- 3.7.11 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.

3.7.12 Table 5 Annual Satisfaction Questionnaire Issued to Directors



3.7.13 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 joint working with the directorate whilst retaining objectivity. 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.

The work of the audit team is extremely valuable, it provides a robust independent scrutiny that is appreciated. The process is transparent and fair, creating formal space for service leads to reflect in preparation and in discussion with internal audit colleagues to identify areas of strength and areas for development. Internal audit colleagues are professional and strike an effective balance in facilitating an inclusive approach, encouraging meaningful participation and ownership from service leads while maintaining complete independence. Audit reports and recommendations are clear and concise and accessible.

Audit provides an essential function to help ensure that the Council maintains effective controls across all of its functions and activities. In the current situation, the importance of this role remains. Targeting work to support the Council's work in delivering the medium term financial plan and its COVID recovery response will be important over the forthcoming audit plan period.

I only have positive things to say about the audit service.

The Internal Audit team have a wealth and breadth of experience that is an asset to the authority. I am confident that their work can be relied upon to provide an independent assurance on control, risk and governance. The team live and breathe the professional standards. Thank you for all your work and the opportunity to discuss the plan and the time and effort you take to discuss and agree recommendations.

The audit service manages to combine robust objectivity with a constructive contribution to the improvement of council services. This is achieved within a limited resource which has necessitated a tighter focus on priorities. I am keen to ensure that internal audit plays a strong role in supporting both Members and senior officers in the good governance of the city and in particular the management of risk.

Quality Assurance and Improvement Action Plan

- 3.7.14 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
<p>Assurance mapping will continue to be developed and evolve during the annual planning process.</p> <p>Maps have been drafted for each assurance area. These will be updated and refreshed during 2020/21.</p>	<p>Ongoing action through 2019/20 and carried forward to 2020/21</p>
<p>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.</p>	<p>Ongoing action through 2019/20 and carried forward to 2020/21</p>

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 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 2019/20 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 2019/20, 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 2019/20 and note the opinion given. In particular:
- that on the basis of the audit work undertaken during the 2019/20 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 2019/20, 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