

**Report of the Chief Officer (Financial Services)**

**Report to Corporate Governance and Audit Committee**

**Date: 14 December 2020**

**Subject: Internal Audit Update Report September to November 2020**

Are specific electoral wards affected? If yes, 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**

- This report provides assurance that the internal control environment is operating as intended through a summary of the Internal Audit activity for the period from September to November 2020 and highlights the incidence of any significant control failings or weaknesses.

**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**

- The Corporate Governance and Audit Committee is asked to
  - a) receive the Internal Audit Update Report covering the period from September to November 2020 and note the work undertaken by Internal Audit during the period covered by the report;
  - b) 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 provide a summary of the Internal Audit activity for the period September to November 2020 and highlight the incidence of any significant control failings or weaknesses.

## **2. Background information**

- 2.1 The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements, including matters such as internal control and risk management. The Committee also considers the Council's arrangements relating to internal audit requirements, including monitoring the performance of Internal Audit.
- 2.2 The reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended.
- 2.3 The reports issued by Internal Audit are directed by the Internal Audit Annual Plan. This has been developed in line with the Public Sector Internal Audit Standards (PSIAS) and has been reviewed and approved by the Committee.
- 2.4 Depending on the type of audit review undertaken, an assurance opinion may be assigned for the control environment, compliance and organisational impact. The control environment opinion is the result of an assessment of the controls in place to mitigate the risk of the objectives of the system under review not being achieved. A compliance opinion provides assurance on the extent to which the controls are being complied with. Assurance opinion levels for the control environment and compliance are categorised as follows: substantial (highest level); good; acceptable; limited and no assurance.
- 2.5 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.
- 2.6 Our protocols specify that we undertake a follow up review where we have previously reported 'limited' or 'no' assurance for the audited area. Our audit reports include an assurance opinion for each objective reviewed within the audited area. Follow up audits are undertaken for those areas where a specific objective within the review resulted in limited or no assurance in addition to those where the limited or no assurance opinion was provided for the review overall.

## **3. Main issues**

### **Audit Reports Issued**

- 3.1 Table 1 below includes the title of the audit reports issued between September and November 2020, including the level of assurance provided. This relates to reviews carried out under the 2019/20 and 2020/21 Internal Audit Annual Plans.

Table 1: Summary of Reports Issued September to November 2020

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
<b>Key Financial Systems</b>			
Payroll Central Controls	Substantial	Good	Minor
Financial Management Central Controls	Substantial	N/A	Minor
<b>Resources and Housing</b>			
Leeds Building Services Job Management and WIP	Acceptable	Good	Minor
<b>ICT and Information Governance</b>			
Information Asset Register	Acceptable	N/A	Moderate
<b>Children and Families</b>			
Personal Education Plans	Substantial	Acceptable	Minor
Cluster Model and Area Inclusion Partnerships (AIP)	Good	N/A	Minor
Funding for Inclusion	Acceptable	Acceptable	Moderate
<b>City Development</b>			
Flood Alleviation Scheme	Good	N/A	Minor
<b>Communities &amp; Environment</b>			
Funding from the Communities and Environment directorate to the third sector	Good	N/A	Minor
<b>Schools</b>			
Primary School 2020/21	Good	Acceptable	N/A
School Voluntary Fund audits x 4	N/A certification of account balances		

3.2

In addition to the reports detailed in table 1 above, the following letters of assurance have been issued to the funding bodies during the reporting period. These letters confirm that we are satisfied that the expenditure incurred is in line with the specific funding requirements, provides evidence that grant terms are met and reduces the risk of clawback.

3.3 The audit work undertaken in all grant claim reviews includes verification of the figures being declared to the relevant funding bodies to the financial accounting system, sample testing of expenditure to ensure that this is in accordance with the grant determination letter, and on a sample basis that the relevant internal approvals/decisions have been taken.

- Local Authority Bus Subsidy Ring Fenced (Revenue) Grant Determination 2019/20
- Local Transport Capital Block Funding - Integrated Transport and Highway Maintenance (September 2020)
- National Productivity Investment Fund - SCOOT for Leeds and A6120 Leeds ORR Cycle Superhighway (September 2020)

#### 2019/20 and 2020/21 Internal Audit Plan

3.4 During the reporting period, there have been no limitations in scope and nothing has arisen to compromise our independence. We have finalised 17 audit reviews (excluding data analytics, work for external clients and fraud and irregularity work) and we have not identified any issues that would necessitate direct intervention by the Corporate Governance and Audit Committee.

3.5 Each of the audits that have been completed in respect of the Council's key financial systems have received substantial or good assurance opinions. This provides the Committee with assurance that these systems are well established and operating as intended.

3.6 Of the audit reviews finalised during the period, no weaknesses have been identified that would result in a 'major' organisational impact and no audits have resulted in a limited or no assurance opinion.

#### *Flood Alleviation Scheme Stage 1 Operational Readiness*

3.7 During the period we completed a review of the arrangements in place to ensure the operational readiness of the first phase of the council's Leeds flood alleviation scheme (FAS). The FAS is one of the largest flood defence projects in the UK, providing protection from flooding to 3,500 homes and businesses. In developing the scheme, the council has drawn upon the expertise of the Environment Agency in conjunction with a contractor with experience of designing, implementing and maintaining water infrastructure around the world. This expertise has also been used to draw up a maintenance strategy and schedule to support the council's FAS Team in taking on operational and maintenance responsibility.

3.8 We found that arrangements are in place to ensure the Flood Risk Management (FRM) Team undertakes inspections and maintenance in accordance with independent expert advice and guidance. This is supplemented by annual inspections undertaken by the Environment Agency, and external knowledge is accessed to aid in the management of the scheme where the technical expertise is not held internally. Robust procedures are also in place to ensure that the FRM Team are ready to respond to potential flooding in a timely manner. This has included a training exercise to test operating procedures and decision making

processes should a flooding incident occur, and to identify actions required to drive continual improvement.

- 3.9 Having completed our review, we have provided an overall opinion of Good Assurance on the controls in place to prepare for and respond to potential flooding incidents. Our assurances are based on our assessment of supporting evidence to confirm systematic risk management and control activities. Recommendations have been agreed that will further strengthen the control environment through the regular review and monitoring of call out timescales to ensure appropriate actions are taken. Our review did not look in detail at the technical specification or operation of the FAS, as external expertise has been commissioned to provide appropriate support in these areas. Nor have we reviewed the arrangements in place to agree and implement the second stage of the scheme.

#### Counter Fraud and Corruption

- 3.10 The counter fraud and corruption assurance block within the Internal Audit Plan includes both the reactive and proactive approaches to the Council's zero tolerance to fraud and corruption.

#### *Proactive Anti-Fraud Work*

- 3.11 As previously reported 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. The work for the 2018/19 exercise has now concluded. Data is currently being submitted in accordance with the prescribed timetable, and results are expected to be received in January for investigation.
- 3.12 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.
- 3.13 Since the last update report we have continued to undertake post payment assurance on both the Business Support Grant and the Retail, Hospitality and Leisure Grant. We are utilising various data streams to inform further investigative work. We are liaising with colleagues, partners and relevant external bodies where the legitimacy of grant payments is unclear. To date we have analysed over 800 records. These records are a combination of NFI bank account validation checks, data provided through the Government's 'Spotlight' data analysis system, and information on businesses identified as higher risk through our analysis. We are investigating those businesses deemed to be higher risk and have approximately 50 queries outstanding.
- 3.14 To date our work with the Business Rates Team has recovered payments from two fraudulent applicants. A further two are with Legal services for action, and two are now with the Police.
- 3.15 We have also provided advice to the Council's Self-Isolation Payments workstream. The support given should help to ensure that all appropriate controls and checks are in place for these payments. Post payment assurance is being developed and will be undertaken in conjunction with the service.

3.16 International Fraud Awareness week took place on November the 15<sup>th</sup> to the 23<sup>rd</sup>. During this week we promoted the council's counter fraud polices, the fraud awareness training, and generally raised awareness of current and emerging fraud risks on our InSite page. This included information for staff on the steps to prevent bank mandate fraud, which is a growing risk across all organisations.

#### *Reactive Anti-Fraud Work*

3.17 During the reporting period we have received 18 potential irregularity referrals. All reported irregularities were risk assessed by Internal Audit and are either being investigated by ourselves, the relevant directorate or HR colleagues, as appropriate.

3.18 During the reporting period 31 referrals have been closed. There are 17 referrals that are currently open and being investigated. Four of the referrals are under investigation by police, including the two grants referred to at 3.14 above. Where relevant we have reported the work we have undertaken with the service area involved, and we will provide a detailed update to the committee once the police investigations have been concluded.

3.19 We successfully recovered approximately £25k from a bank mandate fraud. Staff processing bank account changes have been reminded of the correct procedure to follow, and this was also highlighted in our counter fraud page during International Fraud Awareness Week.

3.20 An analysis of the 17 open referrals is as follows:-

- All have been risk assessed;
- 12 have been allocated to the directorates for investigation and 4 are with Internal Audit. One is being jointly investigated.
- 4 were raised through Whistleblowing and 6 through the Raising Concerns Policies. The remaining 7 were raised through other routes, for example by directorate officers, or external bodies for example the DWP/HMRC.

#### **Other Internal Audit Work**

3.21 We continue to support the council's Core Business Transformation Programme by providing advice, input and oversight across a number of important work streams. A significant portion of our data analytics portfolio has also been directed towards aiding the development of financial dashboards. The dashboards will be key to the transformation of the financial service, and will provide dynamic and interactive analysis to budget holders and decision makers. Our work in this area demonstrates the adaptability of the team in supporting the ongoing achievement of the council's ambitions alongside our programme of assurance work.

#### **Internal Audit Performance**

3.22 We actively monitor our performance in a number of areas and encourage feedback. A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditee's opinion on a range of issues and asks for an assessment ranging from 5 (for excellent) to 1 (for poor). The results are presented as an average of the scores received for each question.

- 3.23 The results of the questionnaires are reported to the Audit Leadership Team and used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff.
- 3.24 For the period from 1 September 2020 to 30 November 2020 we have issued a total of 16 Customer Satisfaction Questionnaires and received 11 completed returns at a response rate of 69% in the period. A summary of the scores is presented in table 2.

Table 2: Results from Customer Satisfaction Questionnaires for the period 1 September 2020 to 30 November 2020.

Question	Average Score (out of 5)
Sufficient notice was given	4.73
Level of consultation on scope	4.64
Auditor's understanding of systems	4.36
Audit was undertaken efficiently	4.64
Level of consultation during the audit	4.55
Audit carried out professionally and objectively	5.00
Accuracy of draft report	4.45
Opportunity to comment on audit findings	4.82
Clarity and conciseness of final report	4.82
Prompt issue of final report	4.73
Audit recommendations will improve control	4.64
The audit was constructive and added value	4.73
<b>Overall Average Score</b>	<b>4.67</b>

- 3.25 Summarised versions of the 2019/20 and 2020/21 Audit Plans are appended to provide members with an overview of the objective of each review, along with the current status. The 2019/20 plan does not show a complete list, merely those reviews where there has been audit activity during the period. Some of these audits were completed for inclusion within the Head of Internal Audit Annual Report and Opinion, whilst work towards the completion of others will continue over the coming period. Our follow up review of Payments to Providers of Homecare in Adults and Health has been deferred until 2021/22. This will allow the service time to implement the recommendations and embed new controls ahead our follow up audit.
- 3.26 The June Committee approved the reprioritised 2020/21 Audit Plan. There have been no amendments to this plan during the period.
- 3.27 We continue to manage our available resources to direct these towards the highest areas of risk to ensure that an evidence based Head of Internal Audit opinion can be provided on the overall adequacy and effectiveness of the organisation's



framework of governance, risk management and control in accordance with the Public Sector Internal Audit Standards (PSIAS).

#### **4. Corporate considerations**

##### **4.1 Consultation and engagement**

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

##### **4.2 Equality and diversity / cohesion and integration**

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

##### **4.3 Council policies and the Best Council Plan**

4.3.1 The terms of reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the Council's corporate governance arrangements. This report forms part of the suite of assurances that provides this evidence to the Committee.

4.3.2 The Internal Audit Plan has links to risks that may affect the achievement of Best Council Plan objectives and the aims of council policies.

##### 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 The Internal Audit Plan includes a number of reviews that evaluate the effectiveness of financial governance, risk management and internal control arrangements, including coverage of procurement activity.

4.4.2 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates a commitment to continuous improvement in respect of efficiency and effectiveness.

##### **4.5 Legal implications, access to information, and call-in**

4.5.1 None.

##### **4.6 Risk management**

4.6.1 The Internal Audit Plan has been and will continue to be subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.

4.6.2 The risks relating to the achievement of the Internal Audit Plan are managed through ongoing monitoring of performance and resource levels. This information is reported to the Committee.

**5. Conclusions**

5.1 There are no issues identified by Internal Audit in the September to November 2020 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

**6. Recommendations**

6.1 The Corporate Governance and Audit Committee is asked to :

- a) receive the Internal Audit Update Report covering the period from September to November 2020 and note the work undertaken by Internal Audit during the period covered by the report;
- b) 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.

## Appendix A – Status of the Ongoing Audits from the 2019/20 Audit Plan and Follow Up Reviews

Audit Area	Overview of Assurance	Status / CGAC Meeting
ICT and Information Governance		
Community Cloud	To provide assurance that the Community Cloud project is being managed to deliver its intended outcomes.	In progress
Information Asset Register	To provide assurance that the Council is aware of all data that it holds so that it can be managed and secured in line with legislation.	Reported December 2020
Key Financial Systems		
Payroll Central Controls	To provide assurance over the integrity of central payroll functions, including the accuracy of payments made and the authorisation and processing of new starters and leavers.	Reported December 2020
Procurement		
Contract Specification and Management Follow Up	To review progress in implementing the recommendations made in the previous audit, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	In progress
Directorate Risks - Adult Social Care and Health		
Payments to Providers of Homecare Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2018 meeting.	Deferred until 2021/22
Income Recovery	To provide support to the directorate's Income Recovery Project to gain assurance that all income due is identified and there are appropriate processes in place to ensure that it is billed and collected.	Attendance at Project Board
Directorate Risks - Children and Families		
Cluster Model and Area Inclusion Partnerships (AIP)	A review of the arrangements in place to ensure that funding is spent effectively on intervention and inclusion, in support of the intended outcomes of the Cluster Model and AIPs.	Reported December 2020

Audit Area	Overview of Assurance	Status / CGAC Meeting
Funding for Inclusion	To provide assurance that the top up element of the funding is being correctly calculated in line with formal criteria and then appropriately remitted to the school	Reported December 2020
Personal Education Plans	To ensure that there are quality personal education plans in place that are clear and consistent, provide purposeful targets and are subject to regular review.	Reported December 2020
Budget Pressures	To gain assurance over the processes in place to manage the budget pressures within the directorate.	Attendance at Looked After Children's Payments and Placement Board
Directorate Risks – Housing		
Lettings Enforcement follow-up and new system review	The review will follow up on the recommendations which remain outstanding since the September 2018 follow-up review. Additional work will also be undertaken on the implementation of the new system and the roll out of the revised lettings policy.	Adjustment to plan - Major Adaptions being brought forward (20/21) due to COVID 19 implications. Now in progress
Leeds Building Services Assurances	Time set aside to provide assurance that key risks relating to Leeds Building Services are appropriately managed. Outline of specific assurance to be confirmed. To include gaining assurance that the recommendations made across previous audits are being tracked and implemented.	Reported December 2020
Council Housing Growth	To review the procurement strategy and provide assurance over the achievement of intended outcomes.	In Progress
Other Directorate Risks		
Funding from the Communities and Environment directorate to the third sector	To review the arrangements in place to gain assurance that third sector / not for profit groups are delivering their agreed services and objectives.	Reported December 2020

<b>Audit Area</b>	<b>Overview of Assurance</b>	<b>Status / CGAC Meeting</b>
Flood Alleviation Scheme	To review the operational readiness of the Flood Alleviation Scheme	Reported December 2020

Appendix B – Status of Planned Audits from the 2020/21 Audit Plan and Follow Up Reviews

Audit Area	Overview of Assurance	Status / CGAC Meeting
Grants and Head of Audit Assurances		
Grants and Head of Audit Assurances arising during the year	Independent examination of accounts and / or assurance that the grant claim has been spent in accordance with the grant determination.	Reported September 2020, December 2020 and ongoing
ICT and Information Governance		
Asset Management and Security	To provide assurance that there are appropriate controls in place to ensure assets are securely and effectively managed.	In progress
Privileged User Access Follow Up	To review the progress made in implementing the recommendations made in the 2019/20 audit.	Not planned for this quarter
Data Protection Impact Assessment	To provide assurance that there are appropriate controls in place to ensure that Data Protection Impact Assessments are completed where required.	Not planned for this quarter
ICT Projects	To review the arrangements in place for the management of ICT projects.	In progress
Key Financial Systems		
Key Financial Systems	To provide assurance that appropriate internal controls are in place and operating	Reported December 2020 and ongoing
Procurement		
Contract Management	Individual reviews of contract management arrangements on a sample of contracts to gain assurance that they are being managed to deliver their intended outcomes, incorporating a review of contract extensions and open book review where necessary.	In progress

Audit Area	Overview of Assurance	Status / CGAC Meeting
Social Value	To review the arrangements in place to ensure that social value outcomes are appropriately considered and delivered through procurement.	Not planned for this quarter
Directorate Risks - Adult Social Care and Health		
Customer Information System (CIS) Payments	To provide assurance that payments are only made in relation to people with an assessed need, have been correctly processed and are net of any client contribution. The review will also provide assurance on the adequacy of controls for identifying changes in circumstances. The review will cover all payments made through CIS for Residential and Nursing Care, Direct Payments and Homecare payments.	Not planned for this quarter
Financial Assessments	To provide assurance that all eligible customers in receipt of reviewable services have been financially assessed as appropriate, that assessments have been correctly calculated and that all income due has been collected.	In progress
Nursing and Residential Care Home Payments	To provide assurance that the revised processes for paying residential and nursing care providers are operating as intended.	Not planned for this quarter
Directorate Risks - Children and Families		
One Adoption West Yorkshire – Decision Making	To provide assurance that there are appropriate governance arrangements in place with regard to decision making for the organisation and that outcomes of the decisions are appropriately monitored and reported.	In progress
Children’s Centres – Little Owls Service	To provide assurance that there are arrangements in place to monitor performance against expected outcomes for the service, including financial outcomes, and that action is taken where issues are identified.	Not planned for this quarter
Special Educational Needs Out of Area Placements	To provide assurance that there are appropriate systems in place for assessing and approving the need for making out of area placements, ensuring that payments are accurate and that performance in relation to this is appropriately monitored.	In progress

Audit Area	Overview of Assurance	Status / CGAC Meeting
Schools		
Schools Audits	Individual audits of LCC maintained schools undertaken on a risk basis and audits of year end school voluntary fund accounts.	Reported December 2020 and ongoing
School Follow Up Audits	To follow up on limited assurance opinions issued within 2019/20.	Two complete and three in progress.
Directorate Risks – Housing		
Major Adaptations	To review the process in place to ensure major adaptations completed for both council and private houses are appropriate, completed to the required quality and timescale, and provide value for money.	In progress
Complaints Handling Process	A review of the processes in place for dealing with customer complaints, including ensuring root causes are identified and action taken on lessons learned.	Not planned for this quarter
Leaseholders	To review the process in place to manage leaseholder arrangements.	In progress
Private Sector Regulation – Selective Licensing	A review of the processes in place for ensuring that properties subject to selective licensing are licenced and inspected as appropriate.	Not planned for this quarter
Housing Disrepair	To assess the extent to which the Authority manages claims received in line with established best practice, ensuring that appropriate consideration has been given to the council's responsibilities in line with the Fitness for Human Habitation Act.	Not planned for this quarter
Fire Safety	To provide assurance over the controls in place to mitigate the risk of fire in Council properties.	In progress
BITMO Assurances	To provide support to Housing Partnerships in the management of the BITMO Assurance Framework.	Not planned for this quarter
Leeds Building Services Assurances	Time set aside to provide assurance that key risks relating to Leeds Building Services are appropriately managed. Outline of specific assurance to be confirmed.	In progress



Audit Area	Overview of Assurance	Status / CGAC Meeting
Housing Leads In-Year Follow Up Work and Contingency	To undertake follow up work as required during the year and respond to emerging risks within Housing Leads.	Not planned for this quarter
Other Directorate Risks		
Application of HR Policies	To gain assurance that a sample of HR policies are consistently and properly applied across the authority.	Not planned for this quarter
Invest to Save – Benefits Realisation Follow Up	To review the progress made in implementing the recommendations made in the 2019/20 audit.	In progress
Medium Term Financial Strategy Assurances	To review and provide assurance on the work being undertaken to ensure strategic planning and prioritisation of the council's resources.	Not planned for this quarter
Service Review Programme	Time set aside to contribute to the ongoing review of service delivery arrangements being undertaken through the Medium Term Financial Strategy.	In progress
High Value Stock Management	To review the processes in place to ensure the secure management of high value stock items. Directorates and services to be sampled on a cyclical basis.	In progress
Waste Strategy	To gain assurance that governance arrangements are in place to support the implementation of the Waste Strategy.	Not planned for this quarter
Taxi Service	To gain assurance that licenses are issued correctly and complaints are investigated appropriately. This includes reviewing compliance with the Suitability Policy to ensure drivers licenses are approved in accordance with new criteria.	Not planned for this quarter
Leeds Cultural Trust	To provide assurance on the governance arrangements in place for the Leeds Cultural Trust.	Not planned for this quarter