



## **Appendix A**

# **Leeds City Council Internal Audit Update Report**

**Corporate Governance and Audit Committee**

**24<sup>th</sup> September 2021**

## **INTERNAL AUDIT UPDATE REPORT 2021/22**

**1<sup>ST</sup> May 2021 to 31<sup>ST</sup> July 2021**

### **1 Purpose of this report**

- 1.1 This report provides the Committee with a summary of the work completed by Internal Audit during the period from 1st May 2021 to 31st July 2021. The work of Internal Audit offers a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended.

### **2 2021/22 Internal Audit Plan Progress**

- 2.1 The work of Internal Audit is directed by the annual 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.
- 2.2 Throughout the audit year we will develop our Annual Assurance Opinion based upon:
- Work carried over from the previous year.
  - Work contained within the 2021/22 Internal Audit Plan that was approved by the Committee in March 2021.
  - Unplanned work undertaken in response to emerging risks and priorities

### **3 Changes to the 2021/22 Internal Audit Plan**

- 3.1 At the beginning of the year provision is made in the allocation of audit resources for unplanned work, through a contingency. As requests for audit work are received, or more time is required for jobs or changes in priorities are identified, time is allocated from this contingency. Our quarterly reports will provide the Committee with details of audits that have been deferred, added to or deleted from the audit plan, as agreed in conjunction with management: At this stage there have been no changes relating to the 2021/22 Internal Audit Plan.

### **4 Final Internal Audit reports issued**

- 4.1 We have issued 20 audit reports (excluding external work) during the period from 1st May 2021 to 31st July 2021.
- 4.2 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.

- 4.3 Organisational impact is reported as either: major, moderate or minor depending on the severity of the issues identified within the audit. 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.
- 4.4 The following table provides a summary of the reports issued during the period from 1st May 2021 to 31st July 2021, along with the assurances provided where applicable.

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
<b>Finance including Key Financial Systems</b>			
Council Tax	Good	N/A	Minor
Housing Benefit Assessments and Payments	Substantial	Substantial	Minor
<b>ICT and Information Governance</b>			
Community Cloud Governance Arrangements	Good	N/A	Moderate
<b>Procurement</b>			
Social Value	Acceptable	N/A	Minor
<b>Directorate Risks – Adults and Health</b>			
Nursing and Residential Care Payments	Good	Good	N/A
Client Information System (CIS) Payments	Substantial	Substantial	Minor

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
<b>Directorate Risks – Children and Families</b>			
One Adoption West Yorkshire – Decision Making	Good	N/A	Minor
<b>Directorate Risks – Housing</b>			
Leaseholders	Good	Substantial	Minor
Leeds Building Services – Procurement	Acceptable	N/A	Minor
Housing Leeds – Complaints Handling Process	Acceptable	Good	Minor
<b>Other Directorate Risks</b>			
Taxi and Private Hire Licensing	Good	Good	Minor
<b>Schools</b>			
School Audit A	Good	Good	N/A
School Audit B	Good	Acceptable	N/A
School Voluntary Fund audits x 7	N/A certification of account balances		

## 5 Highlights

- 5.1 During the reporting period, there have been no limitations in scope and nothing has arisen to compromise our independence. We have not identified any issues that would necessitate direct intervention by the Corporate Governance and Audit Committee.
- 5.2 The audit of **Social Value** was undertaken following considerable interest shown by members of the Committee. Acceptable assurance was provided for the control environment with respect to the embedding of Social Value within the council's procurement processes and procedures. During the review we found that a range of good governance procedures had been established, including the incorporation of social value within relevant policies, training and guidance, complemented by central oversight and monitoring. The council has embraced the use of the Social Value Portal, which gives the opportunity for appropriate monitoring and reporting on individual contracts with a value in excess of £100k, and on a collective basis in relation to these contracts. Contracts below this value will be monitored and reported on by the appropriate Contract Manager within Directorates, although we are aware that Procurement and Commercial Services (PACS) are working on capturing this data centrally. Together, this provides a sound framework from which the benefits of social value can be maximised, while also giving assurance that the council has processes in place that will drive compliance with the requirements of the Social Value Act.
- 5.3 However, at the time of our review, we noted that Social Value had been considered and incorporated within only a small number of recently tendered contracts. It is perhaps inevitable that the pace of change to place Social Value as a key priority over the last 12 months has been slowed given the ongoing pandemic and the huge pressure on resources. We recognise that the direction of travel is broadly positive and have agreed a number of actions that will support the embedding of Social Value within the council's procurement practices. Our regular contract review work will enable us to maintain some level of continued independent oversight of progress.

## 6 Other Audit Work

Audit Work Completed	Details	Contribution to assurance
Children and Families – Troubled Families Grant Validation	Grant claim validation.	The work contributes to assurances in respect of financial management.
Maintained School Teaching Grant	Validation of external income grant claim.	The work contributes to assurances in respect of financial management.
Transport Grants	Validation of 9 separate transport grant claims.	Our work confirms we are satisfied that the expenditure incurred is in line with the specific funding requirements of the transport grants, provides evidence that the grant terms are met and reduces the risk of clawback.
Core Business Transformation – Work Packages	Provision of support to various work streams within Financial Services that have been set up to ensure that working practices are fit for purpose and in preparation for the introduction of the new core system.	The work contributes across a range of assurances including financial management and control, risk management, governance and decision making and business innovation.
Core Business Transformation – Programme Assurance	Ongoing work to provide review, advice and challenge to the Programme Board including specific work to ensure that contract documentation was adequately reviewed and signed off.	The work contributes across a range of assurances including financial management and control, risk management, governance and decision making, programme management and contracts and procurement.
Contracts Procedure Rules Review	Contribution to the annual review of the council's Contracts Procedure Rules.	The work helps to ensure that the council's Contract Procedure Rules remain up to date and fit for purpose.

<b>Audit Work Completed</b>	<b>Details</b>	<b>Contribution to assurance</b>
Local Government Association Peer Review – Procure to Pay	Participation in a Local Government Association led peer review of the council's systems and processes throughout each stage of procurement through to payment.	The work contributes to assurances around governance and decision making, procurement and contracting, contract management and the delivery of value for money through purchasing activities.
Community Cloud Executive Steering Committee	Ongoing work to provide review, advice and challenge to the Microsoft 365 transitional projects.	The work contributes across a range of assurances including governance and decision making, value for money and information security.
Verification of contribution payments to the PAYE Settlement Agreement 2020/21	Work undertaken to provide assurance that the correct calculations have been made for the PAYE Settlement Agreement in respect of Lord Mayor Expenses, Long Service Awards, MetroCards (home to office travel) and Examination / Performance Awards.	The work contributes to assurances around financial controls and processes and provides specific assurance to the council's Chief Finance Officer.

## 7 Other Audit Activities

<b>Audit Activity</b>	<b>Description</b>
Client Liaison Activities	Provision of professional advice to officers, including client liaison activities that promote the work of Internal Audit, and to reinforce the importance of robust controls and good governance.
Board, committee and working group attendance	Attendance at various boards, committees and working groups including Directorate and Service Leadership Teams.
Corporate Governance and Audit Committee support	Drafting reports and attending meetings of the Corporate Governance and Audit Committee. Responding to member queries.

## 8 Work In Progress

8.1 The following table provides a summary of audits in progress at the time of producing this report:

Assurance Block/ Audit Assignment	Fieldwork in Progress	Draft Report	Finalisation
Finance including Key Financial Systems – Central Purchasing Card Controls	✓		
Finance including Key Financial Systems – FMS Creditor Purchase & Payment; Central and Directorate Processes		✓	
Finance including Key Financial Systems – Invest to Save Benefits Realisation Follow Up			✓
ICT and Information Governance – Data Protection Impact Assessment	✓		
ICT and Information Governance – ICT Asset Management and Security		✓	
ICT and Information Governance – Privileged User Access Follow Up		✓	
Procurement – PFI Contract Management	✓		
Procurement – Temporary Staff Vetting Contract Review		✓	
Procurement – PPE Contract Review		✓	
Children and Families – Special Educational Needs Out of Area Placements		✓	
Children and Families – No Recourse to Public Funds			✓
Housing – Retirement Life/Wellbeing checks	✓		
Housing – Disabled Facilities Grant		✓	

Assurance Block/ Audit Assignment	Fieldwork in Progress	Draft Report	Finalisation
Housing – Belle Isle Tenant Management Organisation Assurance Framework – Review of the Modular Management Agreement			✓
Other Directorate Risks – High Value Stock Management	✓		
Other Directorate Risks – Strategic Investment Fund Acquisitions	✓		
Other Directorate Risks – Planning Decisions Review			✓
Schools – School Voluntary Fund Audit	✓		
Schools – High School Audit	✓		
Grants and Head of Audit Assurances – Schools Central Financial Controls	✓		
Grant and Head of Audit Assurances – National Productivity Investment Fund (Scoot and ORR cycle superhighway)	✓		

## 9 Internal Audit Performance

### *Feedback*

- 9.1 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.
- 9.2 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.

9.3 For the period from 1 May to 31 July 2021 we have issued a total of 24 Customer Satisfaction Questionnaires and received 10 completed returns at a response rate of 42% in the period. A summary of the scores is presented in table 2. Table 2: Results from Customer Satisfaction Questionnaires for the period 1 May to 31 July 2021.

Question	Average Score (out of 5)	Max Value	Min Value
Sufficient notice was given	4.71	5.00	3.00
Level of consultation on scope	4.56	5.00	3.00
Auditor's understanding of systems	4.56	5.00	4.00
Audit was undertaken efficiently	4.78	5.00	4.00
Level of consultation during the audit	4.78	5.00	4.00
Audit carried out professionally and objectively	5.00	5.00	5.00
Accuracy of draft report	4.80	5.00	3.00
Opportunity to comment on audit findings	4.80	5.00	4.00
Clarity and conciseness of final report	4.90	5.00	4.00
Prompt issue of final report	4.60	5.00	4.00
Audit recommendations will improve control	4.78	5.00	4.00
The audit was constructive and added value	4.78	5.00	4.00
<b>Overall Average Score</b>	<b>4.75</b>		

### *Quality Assurance*

- 9.4 Internal Audit work is undertaken in accordance with internal quality procedures incorporated in the quality management system, which has been ISO certified since 1998. The International Organisation for Standardisation (ISO) external assessment takes place on an annual basis and is due in November.
- 9.5 In April 2013 CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. The PSIAS set out the standards for Internal Audit. Compliance with the standards gives additional assurances to the Committee that audit activities are set and carried out within the appropriate regulatory framework. As part of our Quality Assurance and Improvement Programme, we undertake an annual self-assessment against the Public Sector Internal Audit Standards (PSIAS) which has been completed.
- 9.6 The PSIAS introduced a requirement for an external assessment of an organisation's internal audit function, which must be conducted at least once every five years. Our last assessment took place during 2016 which concluded that Leeds City Council's Internal Audit Service conforms to the requirements of the PSIAS. It has been agreed through the Core Cities Internal Audit Group that rotational peer reviews will be undertaken. Glasgow City Council are currently undertaking this assessment, which will assess the extent to which the Internal Audit function complies with the PSIAS. Once this work has been completed, members of the Committee will be provided with the full report at a future meeting.

### *Performance*

- 9.7 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 PSIAS.
- 9.8 As we continue to develop and refine our key performance indicators over the year, we will look to incorporate further performance information to demonstrate the effective use of our resources.

## **10 Head of Internal Audit Opinion**

- 10.1 The Head of Internal Audit must deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual 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.
- 10.2 Based on the audit work undertaken in the period, an overall adequate assurance opinion is considered to be appropriate.

10.3 A summary of our quarterly opinions for the year to date is as follows:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Assurance Opinion	Adequate			

10.4 Consideration of our overall opinion takes the following into account:

- results from the substantive audit assignments we have completed during the period;
- outcomes from our audit work not producing an assurance opinion;
- an assessment as to the timely implementation of internal audit report management actions.

## 11 Counter Fraud and Investigations

11.1 The Corporate Governance and Audit Committee receives a separate report summarising the general activities and work plan of the Internal Audit Counter Fraud Team, including both proactive work and fraud and irregularity investigations undertaken.