



Appendix A

Leeds City Council

Internal Audit Update Report – Assurance and Consulting Activities

Corporate Governance and Audit Committee

12th February 2024

INTERNAL AUDIT UPDATE REPORT 2023/24

1st September 2023 to 31st December 2023

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 September 2023 to 31st December 2023. 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 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 2023/24 Internal Audit Plan that was approved by the Committee in March 2023.
 - Unplanned work undertaken in response to emerging risks and priorities.

3 Changes to the 2023/24 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.
- 3.2 There have been changes in leadership and the structure of the internal audit team, as well as the economic environment and risk profile of the council changing dynamically in the period since the plan was initially approved. We are constantly reviewing the audit plan to ensure that it aligns to the key risks and priorities for the council and any new and emerging risks. Work is prioritised to ensure that we are able to deliver that which adds the most value to the Council and the S151 Officer.
- 3.3 Below is a summary of material considerations and changes that have been made to the 2023/24 Internal Audit plan to date. Schools are excluded from this information due to the dynamic nature of this area of the plan.

| Assurance Block | Highlights and Changes |
|---|--|
| <p>Directorate Risks – Children & Families</p> | <p>In this period, we have started to attend Children & Families Financial Health Task & Finish Group meetings. This enables us to provide support and challenge in relation to the directorate’s efforts to address the current financial challenge, including the arrangements in place to deliver their savings programme.</p> <p>In the last update report, we notified the committee that we had removed the Transport review as our proposed work has been superseded by work being undertaken within the directorate. Following attendance at Children & Families Delivery Board and conversations with key members of staff it was agreed that to support the service in their work Internal Audit would undertake an end-to-end review of the transport process, including the flow of data between services. This work has commenced during this period.</p> <p>The audit plan includes time for a review of Care Decisions. We have held discussions with the directorate leadership team and have agreed that this work is no longer an immediate priority as additional controls have been implemented in relation to care decisions as a result of the financial challenge.</p> |
| <p>Directorate Risks – ICT & Information Governance</p> | <p>In this period, we have commenced a review of the Essential Services Programme (ESP) which is a continuous annual programme of upgrade and refresh of Leeds City Council’s extensive core ICT infrastructure. The objectives of the review are to provide assurance that there are adequate arrangements in place to evaluate and select projects for inclusion in the programme, that the programme is appropriately monitored in terms of performance, benefits and outcomes.</p> <p>We have also commenced a review of the Purchase of Non-Standard IT Equipment. The objective of this review is to ensure that there is appropriate governance around the decision to purchase the equipment and that there is appropriate management and security of the actual equipment. This has opened up discussions on how we can support the evolution of digital governance more broadly.</p> <p>We included time in the plan to support the service with their preparation for the ICO visit and will provide support and challenge to the service in their response to the outcomes from this.</p> <p>The audit plan includes time for a review of the Major Incidents process. Our recent reviews of Business Continuity Management and Cyber Security Risk Management have provided assurance in relation to this process, therefore additional work is not required at this stage.</p> |

| Assurance Block | Highlights and Changes |
|---|---|
| Other Directorate Risks – City Development | In this period, we have commenced a follow up review of High Value Stock. The review will provide assurance that previous recommendations have been implemented and is being used as a pilot for our recommendation tracking sample checking process. |
| Other Directorate Risks – Finance & Key Financial Systems | <p>In this period we have issued a report on Budget Monitoring and Control review which contributes to assurances around the arrangements in place to embed the Budget Management Accountability Framework. Recommendations have been agreed that are linked to the implementation of Microsoft Dynamics. The progress in implementation of these recommendations will be monitored through attendance at various Core Business Transformation forums and through our recommendation tracking process.</p> <p>The work we have been undertaking in respect of the ongoing Financial Challenge encompasses various observations and actions that will combine to support and challenge directorates in the achievement of Budget Action Plans, therefore further work is not anticipated under this heading in the current year.</p> |
| Other Directorate Risks – Procurement | Several pieces of contract management review work are currently ongoing. These reviews have provided the opportunity to cover assurances in respect of both contract specifications and due diligence processes. |

4 Final Internal Audit reports issued.

- 4.1 We have issued 24 audit reports during the period from 1st September 2023 to 31st December 2023.
- 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 September 2023 to 31st December 2023 along with the assurances provided where applicable.

| Report Title | Audit Opinion | | | Assurance Themes |
|---|--|----------------------|-----------------------|--|
| | Control Environment Assurance | Compliance Assurance | Organisational Impact | |
| Finance and Key Financial Systems | | | | |
| Business Rates | Substantial | Substantial | Minor | Performance Management, Risk & Resilience, Financial Management, Legislative/Regulatory Compliance, Value for Money |
| Budget Monitoring and Control | Good | N/a | Minor | Performance Management, Risk & Resilience, Financial Management, Business Innovation & Development, Value for Money, Governance & Decision Making, Legislative / Regulatory Compliance |
| Children & Families Finance Policies and Use of Section 17 Fund | <p>N/a – memo issued</p> <p>We have undertaken a review of several finance policies within Children and Families to ensure that these are fit for purpose. This has identified a number of opportunities to strengthen the overall control environment.</p> <p>We will be undertaking a review of progress in implementing the recommendations made in 2024/25</p> | | | Financial Management, Legislative / Regulatory Compliance, Value for Money, Safeguarding |
| Other Directorate Risks – Adults and Health | | | | |
| CIS Payments | Substantial | Substantial | Minor | Financial Management, Business Innovation & Development, Risk & Resilience, Legislative/Regulatory Compliance, Safeguarding |

| Report Title | Audit Opinion | | | Assurance Themes |
|--|------------------------------------|----------------------|-----------------------|--|
| | Control Environment Assurance | Compliance Assurance | Organisational Impact | |
| Other Directorate Risks – Children and Families | | | | |
| Safeguarding | Good | N/a | Moderate | Safeguarding, Legislative/Regulatory Compliance, Governance & Decision Making, Partnerships |
| Other Directorate Risks – Communities, Housing, and Environment | | | | |
| Housing Application Assessment and Priority Awards | Good | Acceptable | Minor | Legislative/Regulatory Compliance, Governance & Decision Making, Performance Management |
| Disabled Facilities Grant 2022/23 | N/A – Certification of Grant Claim | | | Performance Management, Financial Management, Anti-Fraud & Corruption |
| Housing Leeds Assurance – BITMO Information Governance | Good | N/a | Minor | Information Governance, Legislative/ Regulatory Compliance, Partnerships |
| Other Directorate Risks – Strategy & Resources | | | | |
| Business Continuity Management | Good | N/a | Minor | Performance Management, Risk & Resilience, Financial Management, Anti-fraud & Corruption, Governance & Decision Making, Legislative/ Regulatory Compliance, Partnerships, Ethics & Culture |
| Local Authority Bus Subsidy (Revenue) Grant | N/A – Certification of Grant Claim | | | Performance Management, Financial Management, Anti-Fraud & Corruption |
| Other Directorate Risks – ICT & Information Governance | | | | |
| Cyber Security Risk Management | Acceptable | N/a | Moderate | Cyber Security, Risk & Resilience, Information Governance, Legislative/Regulatory Compliance |

| Report Title | Audit Opinion | | | Assurance Themes |
|--|---|----------------------|-----------------------|--|
| | Control Environment Assurance | Compliance Assurance | Organisational Impact | |
| Other Directorate Risks – City Development | | | | |
| National Productivity Investment Fund (ORR) Cycleway Grant | N/A – Certification of Grant Claim | | | Performance Management, Financial Management, Anti-Fraud & Corruption |
| Schools | | | | |
| School Voluntary Fund x 8 | N/A – Certification of account balances | | | Financial Management, Anti-Fraud & Corruption, Procurement, Contracts & Commissioning, Value for Money, Governance & Decision Making |
| Primary School 1 Follow Up | Acceptable | Limited | N/A | Financial Management, Anti-Fraud & Corruption, Procurement, Contracts & Commissioning, Value for Money, Governance & Decision Making |
| Primary School 1 | Acceptable | Limited | N/a | Financial Management, Anti-Fraud & Corruption, Procurement, Contracts & Commissioning, Value for Money, Governance & Decision Making |
| Primary School 2 | Acceptable | Limited | N/a | Financial Management, Anti-Fraud & Corruption, Procurement, Contracts & Commissioning, Value for Money, Governance & Decision Making |
| Primary School 3 | Good | Acceptable | N/a | Financial Management, Anti-Fraud & Corruption, Procurement, Contracts & Commissioning, Value for Money, Governance & Decision Making |

4.5 During this period, we have also undertaken a number of reviews for external clients which are not included within this report.

5 Summary of Audit Activity and Key Issues

5.1 During the reporting period, there have been no limitations to the scope, and nothing has arisen to compromise our independence.

Limited or No Assurance Opinions and Follow Ups

- 5.2 Of the audit reviews finalised during the period, no weaknesses have been identified that would result in “major” organisational impact and no reviews have been issued with no assurance opinions.
- 5.3 Our protocols specify that we undertake a follow up review where we have previously reported “limited” or “no” assurance for the audited area.

Primary School Audits and Follow Ups

- 5.4 We previously undertook a review of a primary school that resulted in a limited assurance opinion for both the control environment and compliance opinion. The audit highlighted gaps in the Governing Body’s ability to provide effective challenge during budget setting and budget monitoring. Whilst our follow up identified some improvements in the control environment, in particular relating to financial governance arrangements, issues have continued with regard to compliance. Similar issues have also been identified across other school audits during the period. In all cases, recommendations have been agreed with the Head Teachers and will be followed up.
- 5.5 Our established risk assessment process has steered us towards auditing specific schools in which it was clear that opportunities may exist to improve on practices, and our observations and recommendations enable value to be added at those particular establishments. The presence of the issues highlighted should not, however, be taken to reflect more systemic weaknesses across other schools. We maintain a watching brief across schools and are currently reflecting on our risk assessment process and the ways in which we can maximise the assurances derived from our coverage.

6 Recommendation Tracking

- 6.1 There is a process in place aimed at tracking the implementation of high and medium priority recommendations raised within our audit reports. This work is key to helping us understand where controls have been strengthened following our audits and also highlighting areas where we may want to re-visit the activity to ensure actions are being progressed appropriately. Currently all audits that receive a no or limited assurance opinion either overall or for a particular objective are subject to a further audit review, which includes reviewing the progress in implementing the recommendations raised within the previous report.
- 6.2 The table below details the number of recommendations that have been closed and created during the reporting period and those still ongoing for the period from 1st September 2023 to 31st December 2023. The opening position is based on the

figures reported to the committee in September 2023 in the Internal Audit Update Report and is all recommendations that were either not due or outstanding.

| Priority | All Outstanding Recs at September 2023 | Recs closed to December 2023 | Recs opened September to December 2023 | Total at December 2023 |
|----------|--|------------------------------|--|------------------------|
| High | 66 | 52 | 41 | 55 |
| Medium | 25 | 34 | 22 | 13 |
| Total | 91 | 86 | 63 | 68 |

6.3 Members have requested indicative information on how long recommendations had been overdue. The table below shows a breakdown of open recommendations by Directorate and age.

| Assurance Block | Open Actions not due | | | Actions where target date has been missed by: | | | | | | | | | | | | Total Open Recommendations At 31st December 2023 | | |
|------------------------------------|----------------------|--------|-------|---|--------|-------|---------------|--------|-------|---------------|--------|-------|---------------------|--------|-------|--|--------|-------|
| | | | | Less than 3 months | | | 3 to 6 months | | | 6 – 12 months | | | More than 12 months | | | | | |
| | High | Medium | Total | High | Medium | Total | High | Medium | Total | High | Medium | Total | High | Medium | Total | High | Medium | Total |
| Children & Families | 8 | 4 | 12 | 1 | 0 | 1 | 3 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 12 | 4 | 16 |
| Procurement | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Adults & Health | 0 | 0 | 0 | 2 | 0 | 2 | 3 | 0 | 3 | 4 | 0 | 4 | 0 | 0 | 0 | 9 | 0 | 9 |
| Communities, Housing & Environment | 8 | 1 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8 | 1 | 9 |
| City Development | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| ICT and Information Governance | 6 | 1 | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 | 1 | 7 |

| Assurance Block | Open Actions not due | | | Actions where target date has been missed by: | | | | | | | | | | | | Total Open Recommendations At 31st December 2023 | | |
|---------------------------------|----------------------|-----------|-----------|---|----------|----------|---------------|----------|----------|---------------|----------|----------|---------------------|----------|----------|--|-----------|-----------|
| | | | | Less than 3 months | | | 3 to 6 months | | | 6 – 12 months | | | More than 12 months | | | | | |
| | High | Medium | Total | High | Medium | Total | High | Medium | Total | High | Medium | Total | High | Medium | Total | High | Medium | Total |
| Finance & Key Financial Systems | 5 | 3 | 8 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 6 | 3 | 9 |
| Resources | 11 | 2 | 13 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11 | 3 | 14 |
| Schools | 0 | 0 | 0 | 1 | 0 | 1 | 1 | 0 | 1 | 1 | 0 | 1 | 0 | 0 | 0 | 3 | 0 | 3 |
| Total | 38 | 12 | 50 | 4 | 1 | 5 | 8 | 0 | 8 | 5 | 0 | 5 | 0 | 0 | 0 | 55 | 13 | 68 |

- 6.4 We have reviewed the recommendations where the target date has been missed to determine if there are any themes that may have led to the delays in implementation.
- 6.5 Part of the process of updating the recommendation trackers includes determining whether the target dates that were set when the reports were issued are still achievable or whether they may require revision. This is particularly relevant where it is clear that progress is being made, but there are evident reasons why an action cannot practically be completed yet. During this period we have reviewed target dates for a number of recommendations where completion is dependent upon the finalisation of a digital solution in progress. It is often the case that the resourcing requirements and complexity for digital solutions becomes evident once work has commenced, in which case we consider a revision to the target date as appropriate so as to retain an ongoing focus on progressing the implementation of the recommendation. All revisions to target dates have been discussed with the service and agreed with the Chief Audit Executive.
- 6.6 For all recommendations where the target date has been missed by more than three months, management within the service area have confirmed that the implementation of these is in progress. We appreciate that balancing resources and conflicting priorities is a challenge for all colleagues across the organisation, and the recommendation tracking process helps keep actions in focus where they need to be. Within the Adults & Health assurance block, a number of the actions recorded as still outstanding relate to the Debt Recovery review, and we have just commenced a follow up of this. As part of this work we will review the progress made in implementing the recommendations and where appropriate raise further recommendations to ensure that action is taken to address the issues identified.

6.7 The onus continues to be on directorate and service leads to update the trackers and ensure we have accurate information to analyse and report on. We continue to embed the process effectively and are proactively obtaining feedback to use this in the ongoing development of the tracking process. As directorate engagement improves, we will be introducing a sample checking process moving forward.

7 Other Audit Work

| Audit Work Completed | Details | Work Completed This Period | Assurance Themes |
|--|---|--|---|
| 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. | <p>We have provided consultancy work through the Finance Design Authority to aid in the development of the new processes within Microsoft Dynamics. This has been through a check and challenge role to support the service and ensure that potential risks and control weaknesses are highlighted and considered in the service redesign.</p> <p>We have provided consultancy work through the Core HR / Payroll Design Decision Panel to aid in the development of new processes within iTrent. This has been through a check and challenge role to support the service and ensure that potential risks and control weaknesses are highlighted and considered in the service redesign.</p> <p>We have also provided consultancy work through direct involvement in working groups on the interfaces between dynamics and Civica Pay.</p> | The work contributes across a range of assurances including financial management, risk management, governance & decision making, business innovation and development, procurement, social value, value for money and Legislative / Regulatory Compliance. |

| Audit Work Completed | Details | Work Completed This Period | Assurance Themes |
|--|---|---|---|
| Core Business Transformation – Programme Assurance | <p>Ongoing work to provide review, advice and challenge to the Programme Board including oversight and advice around the procurement process.</p> <p>The finance solution has been identified and KPMG have been appointed to assist officers in implementing the system.</p> <p>The procurement exercise to procure new Core HR and payroll technology alongside an Implementation and Transformation Partner is complete and Midland HR International have been appointed to implement their iTrent system.</p> | <p>We have presented one quarterly assurance reports to the Programme Board focusing on support and maintenance for the systems post go live and contract management across the programme.</p> <p>We have attended a variety of meetings including the Programme Board to provide review, advice and challenge.</p> <p>The Head of Finance – Internal Audit is the chair of the Delivery and Quality Assurance board set up for the implementation of finance solution. The purpose of this board is to assess project delivery performance and escalate any areas of concern to the Project Steering Group</p> | <p>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.</p> |
| Project Management | <p>Ongoing work to provide support and challenge to the service in the development in the new arrangements for the management of ICT projects.</p> | <p>We have provided advice in relation to the contract management for the Resource Augmentation Framework contract and reviewed the draft documents.</p> | <p>The work contributes across a range of assurances including project and programme management, governance and decision making procurement, contracts and commissioning and business innovation and development.</p> |

| Audit Work Completed | Details | Work Completed This Period | Assurance Themes |
|---|---|--|--|
| Children & Families Delivery Board | Attendance at a board set up to oversee the plan for guiding Children & Families improvement work during the period of transition out of the pandemic and recovering from its impacts | Attendance at several programme board meetings. Specifically we have provided internal audit input into the transport review being carried out by the service. We are supporting the service by undertaking an end to end review of the transport process, including the flow of data between services. | The work contributes across a range of assurances including financial management and risk and resilience, governance and decision making, project and programme management, business innovation and development, and transformation. |
| Children and Families – Families First Grant Validation | Grant claim validation work carried out to support the Directorate. | We were able to confirm the validity of the claim. | The work contributes to assurances in respect of financial management and governance. |
| Leeds Building Services Review | A task and finish group has been established to support service improvement within LBS. The group has 5 overarching workstream: IDS, quality management system, procurement, budget, and workforce. Internal Audit are providing attendance, support, and challenge across a number of these workstreams. | Attendance at several workstream update meeting and overarching group meetings. Specifically, we have also provided input into process mapping exercise under the quality management system workstream. | Financial Management, Business Innovation and Development, procurement, contracts, and commissioning |
| Purchasing Cards | In depth review of purchasing card transactions, including areas of high spend, choice of suppliers and opportunities to reduce spend. | We have supported the S151 officer with the current financial challenge, highlighting areas where action can be taken regarding purchasing cards to reduce spend. | Financial management, contracts and commissioning, value for money, risk and resilience. |

| Audit Work Completed | Details | Work Completed This Period | Assurance Themes |
|---|---|---|--|
| | | <p>This has resulted in:</p> <ul style="list-style-type: none"> • A reduction in the number of purchasing cards in use. • Targeted communication to remaining purchasing card holders and approvers to reinforce the spend freeze and spending money wisely value where spend is essential. • Ongoing work with procurement to increase both efficiencies in payment processes for essential goods and services and the value of the rebate received from the card provider. | |
| Financial Regulations | Contribution to the review of the Council's Financial Regulations | We have contributed to the cyclical review of Financial Regulations to ensure that key audit observations and recommendations are appropriately considered within the control environment. This has also included a review of ownership and oversight of the regulations. | The work helps to ensure that the Council's Financial Regulations remain up to date and fit for purpose. |
| General audit queries and advice issued | Over the course of the recent period, we have received and responded to a number of queries and requests for advice from departments and service areas. These have covered a range of themes and areas. | The dialogue with service areas demonstrates how respected and valued the Internal Audit service is. It also provides a level of procedural oversight and a source of intelligence to feed into the audit planning process. | The work contributes to assurance in a range of areas, in particular governance and decision making and financial control. |

8 Other Audit Activities

| Audit Activity | Description |
|--|--|
| 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. Key boards, committees and working groups are noted in the other audit work table above. |
| Corporate Governance and Audit Committee support | Drafting reports and attending meetings of the Corporate Governance and Audit Committee. Responding to member queries. |
| Audit and Risk Updates | Regular meetings between the Head of Audit and the Intelligence and Policy Service to share information around a number of areas that contribute to the risk management process. |

9 Counter Fraud and Investigations

- 9.1 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.