KPMG

GOVERNMENT

Interim Audit Report 2009/10

Leeds City Council

June 2010

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Mike McDonagh, who is the engagement leader to the Authority, (telephone 0121 335 2440, e-mail michael.a.mcdonagh@kpmg.co.uk) who will try to resolve your complaint. . If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

This document summarises the key findings arising from our work to date in relation to both the 2010 use of resources assessment and the audit of the Authority's 2009/10 financial statements.

Scope of this report

This report summarises the key findings arising from:

- our work on the 2010 use of resources assessment up to April 2010; and

- our interim audit work at Leeds City Council ('the Authority') in relation to the 2009/10 financial statements.

We have completed some early work on your 2010 use of resources assessment. This included our:

- review of the progress the Authority's has made over the last 12 months against each of the Key Lines of Enquiry; and

- work to address the specific risk areas identified in our *Audit Fee Letter 2009/10*.

Our *Financial Statements Audit Plan 2009/10*, presented to you in June 2010, set out the four stages of our financial statements audit process and identified a number of specific risk areas. During January to April 2010 we completed our planning and control evaluation work. This covered our:

- review of the Authority's general control environment, including the Authority's IT systems;

- testing of certain controls over the Authority's key financial systems with the help of internal audit;

- review of the internal audit function to determine if we could place reliance upon their work; and

- review of the Authority's accounts production process, including work to address the specific risk areas and prior year audit recommendations.

The following page summarises the headline messages. The remainder of this report provides further details on each area.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.

- Section 3 outlines our key findings from our work on the 2010 use of resources assessment.

- Section 4 sets out our key findings from our interim audit work in relation to the 2009/10 financial statements.

Our general recommendations are included in Appendix A and our IT recommendations are included in Appendix B. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix C.

Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

Headlines

Our general recommendations are included in Appendix A and IT recommendations have been identified separately in Appendix B. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix C.

The table below summarises the key risks identified this year for the financial statements audit. The remainder of this document provides further details on these risks.

Use of resources assessment	We commenced our work on the 2010 scored judgement in February 2010. During the early stages of our work we focused on reviewing the progress the Authority has made over the last 12 months against each of the KLoEs. We also held initial meetings with key officers and held workshops on a number of the KLoE areas.
	We submitted our indicative scores and supporting narrative to the Audit Commission on 21 April 2010. However since this date the government has announced that the UOR assessment has been cancelled for 2009/10 and no further work will be undertaken. Scores will also not be released.
	Overall the Authority has maintained its performance across the UOR themes with improvements being made where our 2009 assessment flagged up areas for development.
Specific use of resources risks	Within the 2009/10 audit plan we identified two specific use of resources risks.
	The first related to addressing how the Authority has responded to the recession and the second how the Authority is addressing the sustainability agenda.
	In relation to the first risk, we will not be reporting separately on this as we have addressed this risk and continue to do so during our regular liaison meetings with the Authority and as part of our use of resources assessment. In relation to the sustainability risk we have been liaising with Internal Audit and are currently reviewing their work to assess whether any residual risks need to be addressed.
Organisational and IT control environment	We consider that your organisational controls are effective overall and we did not find any weaknesses that will have an impact on our audit strategy.
	We found a number of weaknesses in the IT control environment leading to ten recommendations. Of these, one was high priority in relation to access controls over the HR/Payroll system and action has already been taken to address this issue. We have raised three medium priority recommendations for which management are not proposing to take action, as they deem the risk to acceptable.
	We still consider that the system of control is effective overall and have made recommendations to further improve the IT control environment (Appendix B).

Headlines

Controls over key financial systems	The controls over the majority of your key financial systems are generally sound. However, we did note some weaknesses in respect of individual financial systems. We found one issue with an expenditure related reconciliation as part of our sampling. This has already been reported by Internal audit and subject to a review at the year end should not result in any changes to our audit testing – we will review this again as part of our final audit work. Internal audit gave moderate assurance for this system and included recommendations in their reports as appropriate.
Review of internal audit	We have a strong working relationship with the Internal Audit team at the Authority and again have been able to place full reliance on the work undertaken which reduces the impact on other officers at the Authority. We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place full reliance on internal audit's work of the key financial systems. We particularly noted improvements in terms of the quality of system documentation.
Accounts production and specific risk areas	We consider that the overall process for the preparation of your financial statements is adequate. The Authority has implemented the recommendations in our ISA 260 Report 2008/09 relating to the financial statements in line with the timescales of the action plan. We have laid out progress in more detail in the appendices to this report. We have met with the Authority's accounts team with our IFRS advisor to discuss preparedness for IFRS and did not identify any key issues to date.

Use of resources assessment

Our work on the 2010 use of resources scored judgement has been cancelled as a result of an announcement by the government.

Work completed

- The use of resources process requires us to make scored judgements on three themes which are further broken down in to Key Lines of Enquiry (KLoEs).

- We commenced our work on the 2010 scored judgement in February 2010. During the early stages of our work we focused on reviewing the progress the Authority's has made over the last 12 months against each of the KLoEs. We also held initial meetings with key officers and held workshops on a number of the KLoEs.

- We submitted our indicative scores and supporting narrative to the Audit Commission on 21 April 2010. However since this date the government has announced that the UOR assessment has been cancelled for 2009/10 and no further work will be undertaken. Scores will also not be released.

Key findings

- The Authority has maintained its performance across all KLoE focus areas and has made indicative further improvements where our 2009 assessment flagged up areas for further development.

- We have summarised our findings against each theme in the tables on the following pages:

Use of resources assessment

The Authority is able to demonstrate that it effectively manages its finances to deliver value for money.	**Theme**	**Summary of progress and findings**
	Managing finance	The Authority has demonstrated that financial planning has contributed towards the achievement of its strategic priorities. The capital programme is linked to their priorities, evidenced by the build of the Arena (cities culture priority), the BSF projects (narrowing the gap priority), the Urban Holbeck Village, and the expenditure on highways. In addition the revenue budget has been re-aligned to move more resources into Children's Services. The Authority however needs to demonstrate how they plan to manage their finances effectively given the Public Sector spending cuts due.
		There are clear examples of the use of cost and performance information to make decisions for example in revenue and benefits through the home working pilot which has resulted in, improved output of 15% for home workers, reduced sickness by 37% and reduced use of special leave by 62%.
		Whilst the downturn in the economic environment has affected the Authority's budget position with them projecting a £6m (0.3%) overspend at quarter three they have plans to manage this down. Our prior year experience is the Authority are strong in managing financial pressures and have a strong history of maintaining spend within budget. This overspend has been driven by increases in demand in Children's & Adult's Services and exacerbated by a decrease in income from fees and charges as a result of the economic position and the recent bad weather.
		The Authority can also demonstrate improvements in response to the economic down-turn with improved cash releasing efficiency gains year on year (£28.579m – £29.714m).
		The Authority's 2008/09 accounts were approved by the 30 June and published on the 30 September. All errors were posted by the Authority in 2008-09 and all errors found and reported were trifling and for isolated reasons. There is a strong commitment in the Authority to producing high quality accounts and working papers and this direction comes from the executive level.
		Recommendation
		The Authority should undertake a review and options appraisal of it's finances given likely reductions in spending and capping of Council Tax by the new government.
		Our review of the quarterly revenue budget reports identified that KPMG do not find these reports particularly user friendly and furthermore we identified that they can be unspecific in their description of budget issues. It is recommended that the Council consult with Members as to whether they may benefit was these reports being modified.

Use of resources assessment

Theme	Summary of progress and findings
The Authority governs itself well and commissions services that provide value for money to deliver better outcomes for local people.	Information from the needs assessment in Adult Social Care has been used to target areas for development and resulted in two main schemes being procured.
Governing the business	The Authority has won a PPF award for its stakeholder involvement in its Independent Living Project based on the following criteria: consultation with the local community and users; evidence that community and users have shaped both the contract and the design; and evidence that users and local residents are pleased with the final development, and use it. This project has redesigned the way the Authority delivers services.
	The Authority has a robust data quality framework with a corporate data quality champion and a well established Policy & Performance Team supported by a Data Quality Group and Performance Management Group.
	The Authority has worked hard to raise awareness of the ethical framework amongst the public of Leeds and to improve the perceptions of Councillor's behaviour through the Annual Report, the newsletter "Governance Matters" and openness regarding local assessment decisions.
	The Authority undertakes work with Data-tank to review Single Person Discount (SPD) cases which has delivered £1.2m of savings & claw backs for only £150k investment.
	The Authority has a dedicated housing benefits counter fraud team. There is a partnership with DWP which is called 'One City - One Team'. So far in 2009-10 the team had received 1,311 new referrals, closed 1,394 cases and raised £1.055m in recoverable overpayments.

Use of resources assessment

The Authority manages its physical assets and people to meet current and future needs and deliver value for money well.	Theme	Summary of progress and findings
	Managing resources	The Authority manages its physical assets and people to meet current and future needs and deliver value for money well. The Authority can demonstrate how it is using it's asset base to help deliver social, environmental & economic outcomes for the city: • Investment in the Arena links to the Authority's culture priority; • Refurbishment of the Roundhay mansion - as a visitor attraction and conference/wedding venue demonstrates private sector partnering; and • Through transferring two assets which are economically unviable to the community as community assets. Overall the Authority is able to demonstrate a number of positive outcomes in relation to organising and developing its workforce. They have been able to secure £2.5m of train to gain funding and as a consequence over 1,000 staff have completed NVQ2 in literacy and numeracy. Employee recognition arrangements celebrate the personal contribution of high achieving staff with Directorate and Authority wide awards. The quality of the process in Leeds enabled an employee to become national Authority Employee of the Year. The e-enabled recruitment process has delivered c. £0.5m p.a. of savings and an additional £2m has been saved through the introduction of absence challenge meetings which resulted in absence levels reducing by more than 1 day / year. As a result the Authority has achieved the Public Sector people manager's association national award for improving attendance. **Recommendation** **The Council should continue to look at ways to maximise the return from physical and human resources. The Council is the steward of £4bn of physical assets and employs over 30,000 people. Maximising the effectiveness, efficiency and cost of this will be crucial in the coming years.**

Specific use of resources risks

We have considered the specific use of resources risks we first set out in our *Audit Fee Letter 2009/10*.

Work completed

- Our *Audit Fee Letter 2009/10* included our initial assessment of the risks impacting on our 2010 use of resources assessment and value for money conclusion. For each risk, we consider the arrangements put in place by the Authority to mitigate the risk and the impact of the Authority's arrangements on individual KLoEs.

- We have re-considered all risk areas as part of our planning work and consider that no changes are necessary.

Key findings

- Below we set out our preliminary findings in respect of these risks. We will report our final conclusions in our *ISA 260 Report 2009/10*.

Key risk	Relevance to KLoEs	Risk	Preliminary work
Responding to the Recession	• VFM conclusion	Responding to the recession: The Authority's strategic plans (Corporate, MTFS etc) were prepared prior to the extent of the current recession being clear. In order to reach our VFM conclusion we believe we need to assess the extent to which these plans plus revisions are fit for purpose. We will build on our previous assessments with respect to Easel, Waste and BSF but will add consideration to the coherence of the overall planning framework. Our consideration will include the extent and contribution of partners to ensuring that plans remain relevant and effective.	The Authority need to continue to demonstrate how they plan to manage their finances effectively given the Public Sector spending cuts due. Currently the authority does not have a robust and costed methodology or impact assessment in place given the likely options pursued by the new government. The Council should consider undertaking a review of their finances based on possible cuts to spending.

Specific use of resources risks

We have considered the specific use of resources risks we first set out in our *Audit Fee Letter 2009/10*.

Key risk	Relevance to KLoEs	Risk	Preliminary work
Sustainability	• **VFM conclusion**	We will review the Authority's arrangements in respect of how it has approached the sustainability agenda. We will undertake a baseline assessment to not only gauge your position to date, but also to make suggestions for improvement and compare other best known practice. In addition we will provide you with assurance, as well as emerging practice, skills transference and ideas, on appropriate carbon footprint measurement and reporting. In addition we will assess your readiness to meet the requirements of the Carbon Reduction Commitment (CRC).	We have been liaising with Internal Audit and are currently reviewing their work to assess whether any residual risks need to be addressed.

Organisational control environment

Your organisational control environment is effective overall.

Work completed

- Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. Most of the organisational controls we assess are linked to our use of resources work, which also considers the Authority's system of internal control. In particular, the areas risk management, internal control and ethics and conduct also have implications for our financial statements audit.

- We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

- We consider that your organisational controls are effective overall.

- We did not find any weaknesses that will have an impact on our audit strategy.

Aspect	Assessment
Organisational structure	L
Integrity & ethical values	L
Philosophy & operating style	L
Participation of those charged with governance	L
Human resource policies and practices	L
Risk assessment process	L
Information systems relevant to financial reporting	L
Communication	L
Monitoring	L

Key:

- *Significant gaps in the control environment*
- *M Minor deficiencies in respect of individual controls*
- *Generally sound control environment*

IT control environment

Your IT control environment is effective overall and has been further strengthened in year.

We noted a number of areas for further improvement.

Work completed

- The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we use IT specialists to test controls over access to systems and data, system changes, system development and computer operations.

Key findings

- We found your IT control environment is effective overall and has been further strengthened in year. We noted a number of areas for further improvement.

- We have raised 10 recommendations in relation to the IT controls at the Authority. Of these, 1 was high priority and action has already been taken to address this issue. We have raised 3 medium priority recommendations for which management are not proposing to take action as they have reviewed the other controls in place to mitigate the relevant risk and decided no additional controls are required from a cost/benefit consideration.

- Full detail of the recommendations made are included in Appendix B.

Aspect	Assessment
Access to systems and data	**H**
System changes and maintenance	**M**
Development of new systems and applications	**L**
Computer operations, incl. processing and backup	**M**
End-user computing	**L**

Key:
- *Significant gaps in the control environment*
- *M Minor deficiencies in respect of individual controls*
- *Generally sound control environment*

Controls over key financial systems

The controls over the majority of the key financial system are generally sound.

However, there are some weaknesses in respect of non pay expenditure.

Work completed

- We work with the Authority's internal auditors to update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

- Our assessment of a key system will not always be in line with the internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

- The controls over the majority of the they key financial system are generally sound but we noted some weaknesses in respect of individual financial systems.

- We found one issue with an expenditure related reconciliation as part of our sampling, this has already been reported by Internal audit and subject to a review at the year end should not result in a change to our audit testing – we will review this again as part of our final audit work.

- Internal audit gave moderate assurance for the systems in the table opposite and included recommendations in their reports as appropriate.

- Recommendations are included in Appendix A.

Key system	Assessment
Financial reporting	L
Grant income	L
Housing rents income	L
Authority tax income	L
Business rates income	L
Sundry income	L
Payroll expenditure	L
Non-pay expenditure	M
Benefits expenditure	L
Cash	L
Treasury management	L
Capital expenditure	L
Asset disposals	L
Asset valuations	L

Key:
- Significant gaps in the control environment
- M Minor deficiencies in respect of individual controls
- Generally sound control environment

Accounts production process

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements.

Work completed

- We issued our Accounts Audit Protocol to the Authority in March 2010. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work.

- We continued to meet with officers on a regular basis to support them during the financial year end closedown and accounts preparation.

- As part of our interim work we specifically reviewed the Authority's progress in addressing the recommendations in our *ISA 260 Report 2008/09*. We also discussed your progress in preparing for the transition to International Financial Reporting Standards (IFRS), which local authorities are required to adopt from the 2010/11 financial year.

Key findings

- We consider that the overall process for the preparation of your financial statements is adequate.

- We have met with the Authority's accounts team with our IFRS advisor to discuss preparedness for IFRS and have not identified any key issues to date.

- The Authority has implemented the recommendations in our ISA 260 Report 2008/09 relating to the financial statements in line with the timescales of the action plan. We have laid out progress in more detail in Appendix C of this report.

The table below is summary of the Authority's progress against the recommendations.

Issue	Progress
Building Regulations 1998 There is a requirement under the Building (Local Authority Charges) Regulations 1998 for the Authority to ensure that the income received from its chargeable activities fully recover the cost of carrying out its building control functions over a rolling three year accounting period. For the three year period to 31 March 2009, the Authority has made a deficit of £336k, therefore breaching the Regulations. Given the current economic position, there is a risk to the Authority of further deficits if the position is not monitored and managed.	This issue is still in progress at the Authority – a deficit on the account is still being recorded due to a lack of development activity. The Authority have told us that plans are in place to address this, however under the new requirements of the SORP this information is no longer required in the Statement Of Accounts. As such we will not be formally following up on this issue.

Accounts production process (continued)

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements.

Issue	Progress
School Bank Accounts Over the past 2 years we have reported on the non-compliance of schools completing bank reconciliations. We identified that during 2007/08 there was one of the schools which had not completed any returns in year. In addition we found that at year end 17 out of 128 schools (13%) had not returned the year end reconciliation	Over the past two years the Authority has shown strong progress in ensuring all schools complete their bank reconciliations on timely basis. Therefore, due to the progress made and the low value of these balances we do not propose to follow up on this issue in the current year.

Specific risk areas

The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit

Work completed

- In our *Financial Statements Audit Plan 2009/10*, presented to you in April, we identified the key risks affecting the Authority's 2009/10 financial statements.

- Our audit strategy and plan remain flexible as risks and issues change throughout the year. There have been no changes to the risk previously communicated to date.

- We have been discussing these risks with finance staff as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

- You have taken these issues seriously and made good progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

- The table below provides a summary of the work the Authority has completed to date to address these risks.

Key audit risk	Issue	Progress
Private Finance Initiative - IFRS	All local authority accounts will be based on International Financial Reporting Standards (IFRS) from 2010/11. As part of the transition process, the revised accounting requirements for Private Finance Initiative (PFI) schemes are applied early under the 2009 Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP), to the 2009/10 financial statements. This is a technically complex change and may result in some assets being accounted for in the Authority's balance sheet that previously were not. The Authority has seven operational PFI contracts. They will need to re-evaluate these contracts under IFRS and potentially model the payments over the contract life to calculate the assets and liabilities to be accounted for. In addition, officers are considering the likelihood for two new PFI schemes to be approved which will also need to be assessed under the new accounting requirements	The Authority has now identified the contracts which may fall under the new accounting arrangements and has taken a view on how these will be treated. We have had regular contact with officers to agree the proposed treatments of these contracts and will review the accounting arrangements in detail during our final audit visit.

Specific risk areas

The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit

Key audit risk	Issue	Progress
Fixed Asset Valuation	During our 2008/09 audit we identified three audit adjustments relating to fixed asset balances. Two of these adjustments related to the fact that the non-enhancing spend write off in year had not been reviewed as part of the accounts closedown quality assurance process. The third fixed asset adjustment related to the fact that the revaluation of three fixed assets completed in year had not been picked up by the accounts team. The Authority need to ensure that they complete a detailed quality assurance review of their accounts closedown process to prevent similar issues arising in year and to ensure that the valuation of its asset base is not materially misstated.	The Authority has increased the number of staff working on the production of the accounts centrally by seconding staff internally into the accounts production team. Processes are now in place to ensure that the quality assurance process is more robust.
SORP Changes	In addition to the changes to the accounting for PFI schemes, the 2009 SORP introduces a number of other changes, which take effect in 2009/10, including: • Changes to the accounting treatment for Business Rates (NNDR) and Authority Tax in England; and • Changes to disclosure requirements which includes: 　• Officers remuneration disclosure now referring to "applicable regulations"; and 　• Five disclosure notes being removed. The Authority need to review and appropriately address these changes in the 2009/10 financial statements.	We have met with officers at the Authority on a regular to discuss proposed approaches to the changes in the SORP. It is evident that the Authority is aware of the required changes and has processes in place to action these.

Specific risk areas

The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit

Key audit risk	Issue	Progress
Local taxes / rent arrears	The Authority have experienced there is difficultly in the ability of local residents / businesses to meet their financial commitments given the economic downturn. The Authority will need to ensure that they have reflected this within their provision levels for Authority Tax, National Non Domestic Rates and Rents due. The Authority will need to review their collections rates for Authority Tax, National Non Domestic Rates and Rents due to ensure that they have appropriately provided for any amounts that may not be collectable in the current economic climate.	The Authority has reviewed and changed the provision rates for benefits after a thorough review and is also in the process of reviewing collection rates for other debts. We will review this in detail as part of our final audit visit.
Loan Valuation	Due to the economic downturn there has also been a reduction in the ability of organisations / companies to meet their financial commitments. As a consequence the Authority will need to ensure that the full value of any loans they may have issued are fully recoverable. Where the Authority have revised the terms of any loans issued, they need to ensure that the full value of these loans are recoverable and that any loans at less that commercial interest rates are appropriately accounted for within the financial statements.	We have met with officers at the Authority to discuss the Authority's loans to third parties. We will review the assumptions used and proposed accounting treatment to ensure it is in line with CIPFA requirements during our final audit visit.

Appendix A – Key issues and recommendations

We have given the recommendation a risk rating (as explained below) however have not sought a management response as this recommendation has been reported separately to the Authority by Internal Audit.

Priority rating for recommendation		
High Priority (H) : issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	*Medium Priority (M)*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	*Low priority (L)*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
1	M	Reconciliation of Council Tax Benefits per the Council Tax system to the Benefits System. Our review of Internal Audit's work identified one reconciliation which had not been fully reconciled in the month chosen for sampling. This has already been reported to you by Internal Audit and we will revisit the year end reconciliation as part of our final visit later in 2010. We have been informed that the difference on the reconciliation was due to a timing difference between the two system reports that has been present since Academy was introduced. At the current time we do not envisage that this will affect our work on the financial statements.	The system providers have made a number of amendments in order to help minimise the timing differences in the reports. Throughout the year the largest timing issue recorded on the reconciliation has been £3,396, against a net benefit payment in that quarter of over £49m. The final accounts and the benefit claim are adjusted to account for these minor timing differences.

Appendix B – IT issues and recommendations

We have raised 10 recommendations in relation to the IT controls at the Authority.

Of these, one was high priority in relation to access controls over the HR/Payroll system and action has already been taken to address this issue.

We have raised three medium priority recommendations for which management are *not* proposing to take action, as they deem the risk to acceptable.

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation		
High Priority (H) : issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	*Medium Priority (M)*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	*Low priority (L)*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Each recommendation has been accepted by management and then assessed as either agreed and completed, agreed and in progress or accepted by management but no action to be taken – due to time/cost constraints – we have summarised this in the table below

Risk rating	Risk Accepted and Action Taken	Risk Accepted and Action Proposed	Risk Accepted and No Action Proposed	Risk Not Accepted	Total
H	1	0	0	0	1
M	1	3	3	0	7
L	1	1	0	0	2
Total	**3**	**4**	**3**	**0**	**10**

Appendix B – IT issues and recommendations

It is possible for some members of the Payroll system development team to access both the development and production functions for SAP Payroll.

We have recommended that this is reviewed and prevented.

The Authority has already implemented this change.

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
1	H	**SAP Program Change Controls** It is good practice that those responsible for the implementation of system changes to the SAP Payroll production environment (i.e. the SAP BASIS Implementation Team) are also responsible for verifying that user testing has been satisfactorily completed. However, at the Authority this task is completed by those responsible for developing changes (i.e. the Development Team). We also noted that some members of the Development Team have access to the group (e.g. ZLCC BASIS) used for implementing the system changes to the SAP Payroll production environment, thus reducing segregation between development and production responsibilities. We recommend that management review the current SAP change control process and ensure that the SAP BASIS team independently verify the user acceptance testing prior to migrating the changes to live. We also recommend that access to 'ZLCC BASIS' group is reviewed and where appropriate, limited to those who require such access.	**Risk accepted and action taken** UAT completion and sign-off now included as part of the validation by the implementation team prior to live migration of SAP changes into live. All evidence now sent through via a dedicated mailbox. Changes only made live when sufficient evidence has been received. Access rights to ZLCC_BASIS group have been reviewed and all unnecessary access has been removed as of 12th March 2010.

Appendix B – IT issues and recommendations

In order to reset the password for an employees access to their computer and some Authority applications they must answer a series of security questions. We found that these questions were weak. The Authority does not propose to take action on these recommendations.	No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
	2	Ⓜ	**Network password resets** If a user requires their Novell Network password resetting which allows them access to a computer, they must contact the IT Helpdesk and answer a series of security questions. The questions relate to information that may easily accessible to some officers in the Authority. We recommend that the controls over network password resets are strengthened to avoid the use of easily obtainable information for security questions.	**Risk accepted and no action proposed** Officers believe that the risk of someone posing as another user in order to access their account is very low, and there is no recorded instance of this happening. In addition it is believed that the additional controls in the individual systems, significantly reduce any potential risk from inappropriate access. Therefore officers accept the risk and do not intend to change the process at this time.
	3	Ⓜ	**Application password resets** If a user requires their application password resetting, they must contact the IT Helpdesk for Orchard (the Housing system) and SAP and the Academy Support Team for Academy and FMS. We noted that the process for validation of user authenticity is weak. We recommend that the controls over application password resets are strengthened.	**Risk accepted and no action proposed** Orchard and SAP: Both applications require the requestor to supply an application identity, and both ICT and the business believes that the risk of someone posing as another user in order to access their account is very low. In addition, there is no recorded instance of this happening and officers in charge of the systems believe that there are mitigating controls within each system to minimise the risk. Therefore officers accept the risk and do not intend to change the process at this time. Academy and FMS: This principle also applies with a specific application id required to be provided by the requestor. Again, there is no recorded instance of someone posing as another user to gain access to their account and officers believe that there are mitigating controls within each system to minimise the risk.

Appendix B – IT issues and recommendations

We found that there is no documented, central monitoring of user access rights to a number of Authority IT applications.

The Authority believes there are sufficient controls to mitigate this risk and are not proposing to take any action.

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
4	M	**Application access monitoring** There are no centrally initiated reviews of user access for the in-scope applications (e.g. FMS, SAP, Academy, Orchard). The responsibility for monitoring application user access is with departments but no central co-ordination occurs to ensure the reviews are completed. For Academy, reviews of user access are completed every two years, however, we were unable to verify this because no evidence of the reviews is retained. We recommend that reviews of user access are centrally coordinated and monitored for compliance. The completion of the reviews should also be evidenced and retained.	**Risk accepted and no action proposed** Discussions between the officers who are responsible for the applications and ICT, have concluded that there are sufficient mitigating controls to significantly reduce any potential risk from inappropriate access. It is therefore the view of the officers involved that the administrative cost of a centralised procedure for monitoring user access across the applications cannot be justified based on the risks involved.

Appendix B – IT issues and recommendations

We found that roll out of user awareness for information security has not yet been carried out.

The Authority are developing this at the moment and have set a date for implementation.

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
5	Ⓜ	**Information Security Policy and User Awareness** User awareness of the Authority information security policies has not been rolled out yet. However the Information Knowledge Management team are currently developing a strategy for information sharing and user awareness. User awareness will be increased via presentations as well as policies and procedures in line with the Government Connect and Information Risk Management policy requirements. We recommend that user awareness of Authority information security policies is rolled out as soon as is practicable.	**Status – Agreed and Action Proposed** The Information Assurance Maturity Model (IAMM) is being introduced to provide a framework to measure compliance and ongoing maturity in key areas of information assurance, such as Governance & Leadership; Training & Awareness; Information Risk Management; Through-Life Measures (technical); and, Information Sharing & Compliance. The IAMM will be used to produce an Information Assurance Strategy for the Authority. This will be underpinned by a number of key policies including protective marking, information risk management and information sharing. It will also require a review of existing policies including the Information Security Policy. An initial assessment has been undertaken and established that there are gaps in all areas, but particularly in respect of Information Assurance training and awareness. The Training & Awareness Strategy will encompass these requirements. It is anticipated that a draft Information Assurance Strategy will be ready by August 2010 and that the underpinning policies will be drafted by the end of 2010, though some are already under consultation. Furthermore, the Authority is looking at developing resource capacity across the organisation to ensure it can deliver the Information Assurance Strategy throughout the Directorates. **Officer:** Lee Hemsworth **Due Date:** Information Assurance Draft Strategy August 2010, All policies March 2011

Appendix B – IT issues and recommendations

The last Data Recovery test for the HR Payroll system took place 18 months ago and failed due to time constraints.

There has been no formal Disaster Recovery test undertaken on this system since.

The Authority has agreed to review the Disaster Recovery Schedule on a more regular basis to ensure that a failed test is followed up on a more timely basis and that a test is run on this system in May 2010.

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
6	M	**Disaster Recovery (DR)** We noted that the last DR test for SAP (the HR/Payroll system) was completed in July 2008 and was not successful. The DR test was unsuccessful because of a number of issues that were encountered in preparing and completing the test, which led to the recovery team running out of time. We noted that no further formal DR tests have been completed on SAP since the unsuccessful test in July 2008. However, it is acknowledged that a recovery from production to development test has since been completed and these were successful. We recommend that all key in-scope applications are subject to annual DR tests as a minimum.	**Risk accepted and action proposed** Several issues, which caused delays, were encountered during the test and these were documented as part of the trial. Though none of these issues were 'show stoppers', the time allocated for the trial was exhausted, and resources had to be reassigned to other work. The issues identified have since been addressed, and the documentation has now been revised and updated, to enable clearer recording of recommendations and status. Since the trial, several successful migrations of live data into the test/DR environment have taken place. Though not official DR trials, these recoveries have given high levels of confidence in ICTs ability to recover in a DR situation. A DR schedule is maintained for all key applications, detailing previous successful/unsuccessful trials and those planned for the coming year. Service reviews with the business owners include, as a standard agenda item, Disaster Recovery and the most recent SAP review undertaken on 18/11/2009 identified a need to schedule a DR trial. This resulted in a SAP DR trial being scheduled for 31/05/2010, and the time allocated has been increased to enable a successful trial to occur. Also, to increase visibility of the schedule, and to ensure trials are undertaken annually, a review of the DR schedule has now been included as a standard agenda item on the monthly Infrastructure Services Review meeting. **DR failure investigation - complete** **DR testing - May 2010** **DR schedule review - ongoing**

Appendix B – IT issues and recommendations

We found that the password parameters for the Authority's benefits system were weaker than Authority standards.

The Authority has agreed to put procedures in place to strengthen this control.

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
7	Ⓜ	**Academy User Access Administration** Academy (the Revenues & Benefits system) system's password parameters do not meet the Authority's standards, in particular in relation to the enforcing of alphanumeric characters. We recommend that Academy password parameters are brought in line with Authority standards. We also noted that when a new Academy user is created, the account is set without a password and the user must create a password upon first log on. There are currently no controls operating to ensure the user logs in and creates a password on a timely basis. We noted the application owners are aware of the risk and are currently seeking to implement a solution that does not impact on service delivery. We recommend that a password is assigned to new Academy user accounts which are only known by the Academy Support Team. The user should then be instructed to log on and change the password on a timely basis.	**Risk accepted and action proposed** The Academy support team are to introduce a new process of creating users with a password being allocated at the time the user is created. As Academy is one of the applications that works with Single Sign on (Novell Secure Login) then initial testing will be required, along with amended procedure notes and the single sign on guidance notes for Academy users. Academy will not, as yet, prompt users to change their password on initial log in and whilst we can tell them the process to follow we cannot force a user to change their password although of course they will be prompted to do so after 40 days. An amendment to the system to force strong passwords (incl. the need to use an alpha numeric password) is currently being tested. **Officer:** Kathryn Glasby - Business Continuity Manager Revenues & Benefits **Due Date:** June 2010

Appendix B – IT issues and recommendations

We found that controls over changes to FMS could be strengthened by ensuring that those responsible for implementing changes to FMS are also responsible for independently verifying that satisfactory testing has been completed.

This has been actioned by the Authority.

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
8	M	**FMS Program Change Controls** We noted that reliance is placed on the Development Team to have verified that appropriate user acceptance testing has been completed prior to a change being implemented on the live FMS (the Finance system) environment. Good practice recommends that verification of user acceptance testing and other acceptance criteria for a change should be performed by those responsible for the implementation of the change to the live environment (in this case the FMS Implementation team). We noted that the Authorising Manager in the Development team does not verify that the user acceptance testing has been successful and signed off by the Finance department before signing the notification form for migration to live. We recommend that management review the current FMS change control process and ensure that independent verification of the user acceptance testing prior to migrating the changes to live occurs.	**Risk accepted and action taken** FMS program change controls processes have been amended to include the change record number, a plain English description of the change and UAT/testing sign-off needs to be attached to the request before the change is signed-off by management and passed to the implementation team. **This updated process is already in place.**

Appendix B – IT issues and recommendations

We found that there is no authorised list of those members of staff who are able to approve new users of the Authority's benefits system.

The Authority has agreed to implement this recommendation

We found that there is no evidence that access rights to the server room are monitored. We have recommended that this be implemented.

This has been actioned by the Authority.

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
9	L	**Academy User Access Administration** An 'approvers list' identifying those staff who are able to approve a new user access request for Academy is not documented. As a result, reliance is placed on personal knowledge that the 'approver' is an appropriate member of staff. We recommend that a defined list of approvers for new user access requests is developed, reviewed periodically and where appropriate updated to reflect any changes.	**Risk Accepted and Action Proposed** Agreed - a defined list of approvers for new user access requests will be developed, reviewed periodically and where appropriate updated to reflect any changes. **Officer:** Kathryn Glasby - Business Continuity Manager Revenues & Benefits **Due Date:** June 2010
10	L	**Server room access monitoring.** Although a six monthly review of access lists for the server room is operated, there is no evidence retained that this list has been reviewed and signed as evidence of review. We recommend that the Network Management Centre (NMC) team who are responsible for managing server room access should ensure that evidence of the six monthly review of the access lists is produced and retained.	**Risk accepted and action taken** NMC staff have now introduced a six monthly review schedule and a checklist for this process. This checklist will be signed off when the six monthly review of access has taken place **Action complete**

Appendix C – Follow-up of prior year recommendations

The Authority made progress on both recommendations made in our *Interim Audit Report 2008/09*

Establishment Lists is a control we have recommended is implemented at the Authority for a number of years.

The decision has now been taken that self service will further improve the quality of data.

This appendix summarises the progress made to implement the recommendations identified in our *Interim Audit Report 2008/09 (and 2007-08)* and re-iterates any recommendations still outstanding.

Number of recommendations that were:		
Included in original report	Implemented in year or superseded	Partially Complete
5	2	3

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at April 2010
1	Ⓜ	**Establishment Lists and Payroll Amendments (2008/09)** During our testing we found that establishment checklists are not being completed across the Authority. A pilot was undertaken within the resources department of undertaking establishment checklists and managers found a relatively large number of adjustments were necessary to the payroll system. We have reviewed a sample of the adjustments that were necessary to the payroll system to ascertain the reasons for these. Based on the sample of our review the adjustments required did not affect the financial data within the payroll system. This pilot was only conducted within the resources directorate however, so there may be departments which are higher risk where they have high staff turnover. We would therefore recommend that the Authority continue to utilise the high level control of establishment checklists to gain assurance over the data held within the payroll system. Whilst we understand that management are of the opinion that undertaking establishment checklists in the format undertaken within the pilot are an onerous administrative burden we understand that management are looking at alternative controls to address this	Chief Officer Business Support Centre And Head of Finance Corporate Financial Management MSS business case to be completed by Aug 2009. 83 further managers desk tops to be rolled out by July 2009. Review of budgetary controls on establishment lists to be completed by September 2009.	**Partially Complete** It has been agreed that, as there have been no issues found with the payroll data for a number of years and that budget monitoring controls would identify any issues arising, no further work is to be undertaken in this area. The Authority will continue to progress with the implementation of self-service within the SAP system which will further improve the quality of data but for external audit purposes we will not seek assurance on this control.

Appendix C – Follow-up of prior year recommendations

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at April 2010
2	M	**IT –General Ledger Controls (2008/09)** There is no formal process in place for monitoring access to the General Ledger (FAB) and Academy. i.e. reviewing personnel that have access to these systems and whether their access rights are inline with their job role. There is a risk that the system administrators (eight staff who are based within central finance) who work with the General Ledger (FAB) also have the ability to amend their access permissions and thus bypass the controls enforced to segregate roles and responsibilities within the department. Without a formal process in place for monitoring access rights there is a risk that users may end up with inappropriate access right due to changes in their job role. We recommend for both issues that a monitoring process is implemented that covers all users including super users and system administrators to ensure that access levels are appropriate and the users are still required to have access to the system. This should be performed on a regular basis (at least quarterly). The monitoring should be formal and signed-off	Principal Accountant Corporate Financial Management. Due date: 1st quarter 2009/10.	**Partially Complete** This issue and recommendation has been updated in Appendix B under recommendations 4 and 9.

Appendix C – Follow-up of prior year recommendations

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at April 2010
3	M	**Access to applications (2007/08)** Users can access a number of applications and financial systems through the desktop. When a person leaves, HR inform ICT who then remove the desktop access. However user accounts to individual applications such as SAP, Academy and Powersolve are not always removed once a user ceases employment at the Authority. We were informed that occasionally an email from a line manager informs SAP administrators that a user has left. A monthly report run on SAP identifies accounts which have not been used for 3 months. ICT team disable accounts which have not been used based on this output. It was noted that accounts are remaining active to facilitate new users who replace the original account owners. There is a risk that another person may use the accounts of persons leaving the organisation, if not deleted and disabled promptly, to gain access to the individual application exposing the Authority to risk of fraudulent unaccountable access. ICT should ensure that all application accounts (as well as desktop access) are deleted and disabled when either a permanent or temporary employee leaves the Authority. The system administrator should delete the ID promptly and not just disabled when the employee leaves. The improvement in the above control will provide greater assurance that the Authority is not susceptible to reputational damage or regulatory fines.	December 2009 Adrian Fegan Head of ICT Service Delivery.	**Complete** Our 2009-10 fieldwork has confirmed that this issue has now been remediated.

Appendix C – Follow-up of prior year recommendations

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at April 2010
4	M	**Network level Access configuration (2007/08)** We have noted that although SAP is used as the authoritative source of information for network level access administration and full time members of staff are removed from the network based on this information, temporary accounts are not administered this way. Temporary accounts (T-Accounts) are requested by line managers and are administered separately and bypass the controls enforced by using SAP. We understand requests have already been forwarded to the ICT team for account extensions from personnel acting as a previous user. The risk is that due to the number of T-Accounts and the lack of accountability and control over their creation and deletion there is a high risk of unauthorised access to the network. The situation arises where T-accounts are shared among temporary users to lessen the administration involved in setting up new accounts. We recommend that HR and ICT develop a procedure to keep track of the temporary staff and their use of T-accounts. In addition line managers should be reminded of their responsibilities to request and close t-accounts on a timely basis and separately for individual users	December 2009 Adrian Fegan Head of ICT Service Delivery.	**Complete.** Our 2009-10 fieldwork has confirmed that this issue has now been remediated.

Appendix C – Follow-up of prior year recommendations

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No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at April 2010
5	Ⓛ	**IT Security Policy (2007/08)** Although Leeds City Authority has a detailed Information Security Policy staff are not required to read and understand the Information Security Manual when they join the organisation. There is no continuous Security Awareness program in place presently, though this is planned for implementation later this year in order to comply with some specific projects across the authority. The IT Security Policy should be formally distributed to all staff and locations. Internal audit department should ensure that all staff follow the procedures defined in the policy. The benefit will be that end-users should be aware of their roles and responsibilities with respect to access to programs and data, which includes an understanding of the risk of sharing passwords or downloading unauthorized programs or files (e.g. from the internet). Improvements in Information Security knowledge sharing will provide greater assurance that persons understand the risks associated with critical information.	June 2009 Adrian Fegan Head of ICT Service Delivery.	**Partially complete.** Please refer to recommendation five in Appendix B.