

LEEDS CITY COUNCIL

INTERNAL AUDIT REPORT

March 2012

CONTENTS

Section

1. INTRODUCTION

The Reporting Process

Background

How Internal Control is Reviewed

2. SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES

Section 1

INTRODUCTION

1. The Reporting Process

- 1.1. On behalf of the Corporate Governance and Audit Committee and the Director of Resources, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 1.2. This bi-monthly report seeks to provide the Corporate Governance and Audit Committee with a summary of internal audit activity for the period and report the incidence of any significant control failings or weaknesses.

2. Background

The impact of the changing environment in which the council is operating - responding to challenges from the Government's spending review and facing significant cost pressures - is necessitating a thorough and ongoing re-evaluation of the level of coverage required to give stakeholders, including the Corporate Governance & Audit Committee, an appropriate level of assurance on the control environment of the council. Therefore, as in previous years, the internal audit operational plan is subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk.

3. How Internal Control is Reviewed

- 3.1. There are three elements to each internal audit review. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to give an assurance on the control environment.
- 3.2. However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.
- 3.3. Finally, where there are significant control environment weaknesses or where the controls are not being complied with and only limited assurance

can be given, internal audit undertakes further substantive testing to ascertain the impact of these control weaknesses.

3.4. To improve consistency in audit reporting, the following definitions of audit assurance are used for all systems and governance audits completed:

Control Environment Assurance		
Level		Definitions
1	SUBSTANTIAL ASSURANCE	There are minimal control weaknesses that present very low risk to the control environment.
2	GOOD ASSURANCE	There are minor control weaknesses that present low risk to the control environment.
3	ACCEPTABLE ASSURANCE	There are some control weaknesses that present a medium risk to the control environment.
4	LIMITED ASSURANCE	There are significant control weaknesses that present a high risk to the control environment
5	NO ASSURANCE	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance		
Level		Definitions
1	SUBSTANTIAL ASSURANCE	The control environment has substantially operated as intended although some minor errors have been detected.
2	GOOD ASSURANCE	The control environment has largely operated as intended although some errors have been detected.
3	ACCEPTABLE ASSURANCE	The control environment has mainly operated as intended although errors have been detected.
4	LIMITED ASSURANCE	The control environment has not operated as intended. Significant errors have been detected.
5	NO ASSURANCE	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational impact will be reported as either Major, Moderate or Minor. All reports with major organisational impacts will be reported to CLT along with the appropriate directorate's agreed action plan.

Organisational Impact		
Level		Definitions
1	MAJOR	The weaknesses identified during the review have left the council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
2	MODERATE	The weaknesses identified during the review have left the council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
3	MINOR	The weaknesses identified during the review have left the council open to low risk. This could have a minor impact on the organisation as a whole.

3.5. The individual reports, and the opinions given within those reports, are detailed in the following table. Not all audit reviews will have an opinion in each of the boxes as this is dependant on the type of review undertaken. The following table includes reports issued between November 2011 and March 2012. Audit reports for 2011/12 which were issued up to October 2011 have been reported previously to the Corporate Governance and Audit Committee.

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Bus Operators Grant Claim	N/A	N/A	N/A	Grant Review	09/01/2012
Building Hope Charity	N/A	N/A	N/A	Charity	13/12/2011
Quarterly Review of Payments over £500	N/A	Good	N/A	Adult Social Care	17/01/2012
Section 48 House Searches, Appointees and Deputies	Limited	N/A	Minor	Adult Social Care	29/02/2012
Lettings Enforcement	N/A	Acceptable	Minor	AVHL	12/01/2012
Fire safety	Limited	Limited	Major	AVHL	16/02/2012
BITMO Lettings	N/A	Limited	Minor	BITMO	13/12/2011
Fire safety	Good	Good	Minor	BITMO	16/02/2012
Maintenance Contracts	Good	N/A	N/A	BITMO	21/02/2012
Payroll	Substantial	Substantial	N/A	BITMO	12/03/2012
Budgetary Control	Substantial	Substantial	N/A	BITMO	15/03/2012
Bank Rec	Substantial	Substantial	N/A	BITMO	28/03/2012
Procurement	Good	N/A	Minor	BITMO	30/03/2012
Health & Safety	Acceptable	Acceptable	n/a	ENEH	15/11/2011
Lettings	N/A	Acceptable	Minor	ENEH	30/01/2012
Fire safety	Limited	Acceptable	N/A	ENEH	16/02/2012
VFM Efficiencies	Good	Good	Minor	ENEH	16/02/2012
Scheme of Delegation	Acceptable	Limited	Moderate	ENEH	28/03/2012
Fire safety	Acceptable	Acceptable	Minor	West North West	16/02/2012
Lettings Enforcement	N/A	Limited	Moderate	West North West	16/02/2012
Entertainment Licensing	Good	Good	Minor	Resources	24/01/2012
Wetherby St James	Good	Acceptable	Minor	Children's	21/11/2011
Quarterly Review of Payments over £500	N/A	Acceptable	N/A	Children's	17/01/2012
Delegated Decision	N/A	Limited	Moderate	Children's	01/02/2012
Schools Trading High Level Review	Limited	N/A	Moderate	Children's	09/01/2012
Whitecote Primary School SVF Audit	Good	Good	Minor	Schools	14/11/2011
Oakwood Primary School SVF Audit	Good	Good	Minor	Schools	08/12/2011
Waterloo Primary School Follow-up	Good	Acceptable	Minor	Schools	14/12/2011
Wetherby High School Follow Up Audit	Acceptable	Acceptable	Minor	Schools	07/02/2012
Holy Name Primary School SVF Audit	Good	Good	Minor	Schools	28/03/2012
Boston Spa School SVF Audit	Good	Good	Minor	Schools	28/03/2012

Internal Audit Report March 2012

Purchasing Cards	Acceptable	N/A	N/A	City Development	06/12/2011
City Museum	Good	Good	Minor	City Development	12/01/2012
Quarterly Review of Payments over £500	N/A	Good	N/A	City Development	17/01/2012
Delegate Decisions	N/A	Limited	Moderate	City Development	24/01/2012
Register of Interests	Acceptable	Acceptable	Moderate	City Development	16/02/2012
Housing Options	N/A	Limited	Moderate	Environment & Neighbourhoods	11/01/2012
Delegated Decisions	N/A	Good	Minor	Environment & Neighbourhoods	16/01/2012
Quarterly Review of Payments of £500	N/A	Good	N/A	Environment & Neighbourhoods	17/01/2012
Bus Lane Enforcement Fines	Good	Substantial	Minor	Environment & Neighbourhoods	15/02/2012
Housing Rents	Good	Good	Minor	Environment & Neighbourhoods	08/03/2012
THI Grant Funding Payments	N/A	N/A	N/A	Environment & Neighbourhoods	28/03/2012
Performance Indicators: BUS2A	Good	Good	Minor	Environment & Neighbourhoods	29/03/2012
Audit of Performance Indicators: LIVE1a	Limited	Acceptable	Minor	Environment & Neighbourhoods	29/03/2012
Audit of Performance Indicators: VAL4	Acceptable	Good	Minor	Environment & Neighbourhoods	29/03/2012
Audit of Performance Indicators: RES8	Good	Good	Minor	Environment & Neighbourhoods	29/03/2012
Customer Services - Supply and Demand	BPR	BPR	BPR	Customer Access & Performance	06/01/2012
Customer Services - Human Resources	BPR	BPR	BPR	Customer Access & Performance	10/11/2011
Dine Open Book Review	Acceptable	Acceptable	Minor	Resources	31/10/2011
Registrar's Service Readiness Report	BPR	BPR	BPR	Resources	29/11/2011
HR File Review	N/A	Good	Minor	Resources	24/11/2011
Contract - vehicle bodywork repairs	N/A	N/A	N/A	Resources	06/12/2011
Synergy System Review	acceptable	acceptable	Minor	Resources	20/12/2011
H&S Controls	Good	acceptable	Minor	Resources	03/01/2012
Procurement Unit	Limited	N/A	Moderate	Resources	10/01/2012
Delivering Procurement Savings	As Above			Resources	10/01/2012
Tender Evaluation Assessments	Good	Acceptable	Moderate	Resources	17/01/2012
Quarterly Review of Payments over £500	N/A	Good	N/A	Resources	17/01/2012
Delegated Decisions	N/A	Limited	Moderate	Resources	13/02/2012
Taxi & Private Hire Licensing Follow up	Limited	Good	Moderate	Resources	16/02/2012
Treasury Management	Substantial	Substantial	Minor	Resources	28/03/2012
Income Management System	Substantial	N/A	Minor	Resources	28/03/2012
Lord Mayor's Charity Audit	N/A	N/A	Minor	Resources	29/03/2012
Managing Attendance Police Compliance	Good	Good	Minor	Resources	30/03/2012
Treasury Management	Substantial	Substantial	Minor	Resources	30/03/2012

Internal Audit Report March 2012

- 3.6. As can be seen, there are a number of reviews that have resulted in limited assurance. However each review concluded with a number of recommendations that, if implemented, would allow appropriate levels of assurance to be given.
- 3.7. There is one major impact, but this is specific to Aire Valley Homes Limited as part of the Environments & Neighbourhoods Assurance Framework coverage.
- 3.8. Although significant to the control environment in place for the individual system areas that have been audited, these weaknesses are not material enough to have a significant impact on the overall opinion on the adequacy of the Council's control environment at the year end.

Section 2

SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES

4.1 The following section highlights any key issues and outcomes arising from Internal Audit work, and gives a brief summary of the reports that carried a limited, or worse, opinion.

Section 48 House Searches, Appointees and Deputies (control environment limited)

- Insufficient recording of property/financial records removed from a house search.
- Banks are not asked for sufficient information on client accounts and are not advised to report back any concerns on the usage of client bank accounts.
- Insufficient segregation of duties and limited staff procedures in place.
- Poor security of client items and no inventory held of these items. .
- Limited management and independent checks undertaken.
- Errors/potential irregularities/omissions identified during audit sample testing.
- No accounts prepared or annual independent inspection for the Nat West bank account.

Children's Services– Delegated Decisions (compliance limited)

- No formal decision had been documented or registered with the Central Governance Team for 1/5 sample tested. (Spend had significant financial implications). This was a long standing arrangement with a public service provider and the Directorate has agreed to prepare a report and take the delegated decision for future years spend.

Children's Services Schools Trading High Level Review (control environment limited)

- No overarching policy or guidance to define the Council's strategic approach to trading with Schools and to provide a framework for delivery of individual services traded with Schools.
- No central monitoring is undertaken (aside from standard budget monitoring) to assess the recovery of costs on individual traded services and to assess value for money.

City Development– Delegated Decisions
(compliance limited)

- No formal decision had been documented or registered with the Central Governance Team for 2/5 sample tested. (Spend had significant financial implications). One example was a long standing arrangement with a public service provider and the other relates to the provision of professional services to the Council. The Directorate has agreed to prepare the reports and take the delegated decisions for future years spend.

Housing Options
(compliance limited)

- A number of application forms could not be located and issues were raised with the level and verification of identification checks performed. The Directorate has confirmed that no applicant has been inappropriately re-housed due to the ID not being initially requested and also that compliance with procedures will improve since the introduction of a new Housing Applications Procedures Manual in February 2012.

Audit of Performance Indicators Live1a – increase new homes built per year
(control environment limited)

Monitoring could be improved by formally establishing tolerance levels, clear accountability, an operational definition, and lack of a checking process to ensure the data quality of information. The recommendations have been broadly accepted by the Directorate and the control environment strengthened.

Procurement Unit
(control environment limited)

- The Council's Contract Procedure Rules provide a sound basis for the control environment however the absence of a formal monitoring framework and targeted training programme to ensure these are embedded are the primary reasons that the limited opinion was reached. Following the issue of the reports, the Directorate has taken very positive steps to improve procurement across the Council and internal audit is scheduled to review progress against the action plan in summer 2012 where the improvements should have been embedded and compliance confirmed.

Resources – Delegated Decisions
(compliance limited)

- No formal decision had been documented or registered with the Central Governance Team for 2/5 sample tested. (Spend had significant financial

implications). These both related to ICT contracts, and the Directorate has advised that one has since been relet and the other, relating to the supply of temporary staff, will be subject to a new procurement.

Taxi and Private Hire Licensing Follow Up Audit
(control environment limited)

- CRB disclosures are not being renewed every 3 years in line with the CRB Code of Practice requirements. (IA had previously recommended this in 2010/11 but all recommendations contained within that audit report were not implemented at the time of the follow-up review). Reassurances were received that these would be implemented in the first quarter of 2012/13.

BITMO Date of Registration Quota Lettings
(compliance limited)

- Weaknesses were identified in the evidence retained that support decisions when applicants have been bypassed. BITMO agreed to immediately reinforce the requirement to maintain records and update the physical and/or electronic records.

Fire Safety East North East Homes
(control environment limited)

- The limited opinion was given as there are a number of areas where weaknesses exist. These included the production, collation, reporting and security (password control) of fire safety information. Recommendations were also made concerning the monitoring and validation of fire safety progress. ENEHL have agreed the recommendations in the report and the resulting improvements will be monitored as part of the Strategic Landlord Assurance Framework but also advised that much of the responsibility will be transferred to the Almo Business Centre Leeds (ABCL).

Fire Safety Aire Valley Homes
(impact major, environment and compliance limited)

- Similar issues as above were found in this audit but the impact was judged as major as there were more examples of non compliance. The reports have only recently been produced and internal audit is liaising with the strategic landlord to ensure that the recommendations are fully considered and responsibilities assigned as the ABCL comes into 'being'.

**West North West Homes Leeds – Date of Registration Quota Lettings
(compliance limited)**

- Date of registration could not be supported to the application form in a high number of instances. However, this needs more context. Many of the sample related to historic data where it has already been acknowledged weaknesses in compliance existed in 2010. Although there remain current examples of non compliance, since improvements were introduced in 2010 the instances of this have reduced and this key control continues to be monitored by the Strategic Landlord Assurance Framework.

**East North East Homes Leeds - Scheme of Delegation
(compliance limited)**

- Inconsistencies in the levels of authorisation detailed within the Scheme of Delegation and those used in practice in some areas. In addition, the Scheme of Delegation has not yet been communicated to relevant staff. ENEH has agreed recommendations in the report.

Nursery Education Grants

At the last Corporate Governance & Audit Committee meeting, additional information was requested about Nursery Education Grants. Since that time a follow up audit has been completed and confirmed that the overpayments that the Council had made to nursery education settings, identified by internal audit, have either been recovered or are in the process of being recovered. However, the issue of overcharging of parents by the settings has yet to be taken forward by the Directorate.

Data Analytics Project

The proactive review of Council Tax Single Person Discounts (SPD) continues with approximately 900 being cancelled to date (of which approximately 200 have applied for other discounts, the majority of which are of the same value). The net effect is an estimated increased billing of approximately £150k based on a full year's cancellation. If the remainder of the SPD claims still to be reviewed yield the same results the full year's value will increase to £650k. The review of tenancy fraud has commenced, with initial high risk cases passed out to ALMOs for review. Work on the Creditors, Voluntary Organisations and NNDR elements of the project are programmed in 2012/2013 financial year.

4.2 Counter Fraud and Corruption

4.2.1 Referrals

35 new referrals have been received by the Internal Audit Fraud and Corruption team from 12th November 2011 to 31st March 2012. 27 of these were received under the Council's Whistle-blowing and Raising Concerns Policies, 5 were received from directorates and 3 from external sources.

45 cases have been investigated and closed in the same period.

There are 26 ongoing investigations.

- 17 cases are currently being investigated by the Fraud team;
- 8 have been referred to a Directorate or HR for investigation and the Fraud team is awaiting their responses;
- 1 has been referred to the Economic Crime Unit and Trading Standards for advice.

4.2.2 Issues

Potential to recover losses from fraudulently cashed cheques

A press article indicated that cheque cashing bureaux may be responsible for losses for fraudulently cashed cheques that they have accepted. An incident of this type was reported to Internal Audit recently – Revenues are now seeking legal advice on recovery for this and future cases. Previously the Council stood the loss where the fraudster could not be identified and prosecuted.

4.2.3 Proactive Work

Further work has been undertaken to:

- embed a zero tolerance culture to fraud and corruption;
- ensure appropriate action is taken promptly and professionally whenever it is identified,
- educate staff and key stakeholders on what fraud is, how to identify and report it, what we are doing to prevent it as an organisation and the role of Internal Audit in this; and
- demonstrate that Leeds is at the forefront of the latest developments on countering fraud and corruption.

This has included fraud and corruption awareness training for the Sheltered Housing Team at Aire Valley Homes, a whistleblowing presentation to HR

services and a session on 'Protecting the Public Purse 2012' and the Bribery Act 2010 to the CIPFA Yorkshire regional group.

Promotion of creditor payment fraud prevention measures

The BSC Central Payments Service issued a special bulletin to staff on 'Reducing the risk of fraud' in January 2012 in response to the growing threat of such frauds as highlighted in 'Protecting the Public Purse 2012'.

4.2.4 Reports Issued

A list of investigation reports issued to directorates and services from 21st November 2011 to 31st March 2012 is shown in the table below:

Report Title	Date Issued
Grievance Procedure	13/01/12
Irregular Invoices	01/02/12
Section 48	06/02/12
Independent Living Fund	05/03/12
Homecare Charges	05/03/12
Fraudulent Request to Amend Bank Details	05/03/12
Fraudulently cashed cheque	19/03/12