

# **LEEDS CITY COUNCIL**

## ***Internal Audit Half Yearly Report 1<sup>st</sup> April to 30<sup>th</sup> September 2012***

***2012/13***

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***Section 1***

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***INTRODUCTION***

## 1.1 The Reporting Process

1.1.1 This report provides stakeholders, including the Corporate Governance & Audit Committee, with a summary of internal audit activity for the period 1<sup>st</sup> April to 30<sup>th</sup> September 2012.

## 1.2 Background

1.2.1 The changing public sector environment continues to necessitate an ongoing re-evaluation of the type & level of coverage required to give stakeholders the appropriate level of assurance on the control environment of the Council. Therefore, in addition to outlining the work completed in the first 6 months, this report also highlights the work scheduled for the next period and input into this plan is sought from all stakeholders to ensure that audit resources are prioritised and directed towards those areas of highest risk.

## 1.3 Progress against the 2012/13 Operational Plan – High Level

1.3.1 The following table shows the progress against the operational plan for the first 6 months of the financial year, broken down by assurance block.

Assurance Block	Total Days per Audit Plan 2012/13	Days spent at 2nd Quarter 2012/13	% completion at Quarter 2
Financial and Other Key Systems	800	380	48%
Compliance Reviews	800	509	64%
Procurement, Monitoring and Improvement	595	137	23%
Risk Based Audits	650	220	34%
Spending Money Wisely	525	176	34%
Counter Fraud and Corruption	869	410	47%
Update, Communication and Monitoring	55	2	4%
Head of Audit Assurances	50	31	62%
Contingency	480	111	23%
Professional Liaison	43	0	0%
<b>Total Audit Days</b>	<b>4867</b>	<b>1976</b>	<b>41%</b>

In addition, the audit plan also included days for the following:

Audit Area	Days per Audit Plan 2011/12	Days spent at 2 <sup>nd</sup> Quarter 2012/13	Q2 % Completion
Business Analysis	1626	930	57%
Data Analytics Project	400	132	33%
External Contracts	840	209	25%
<b>Total Days</b>	<b>2866</b>	<b>1271</b>	<b>44%</b>

## 1.4 How Internal Control is reviewed

- 1.4.1 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.
- 1.4.2 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.
- 1.4.3 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.
- 1.4.4 To ensure consistency in audit reporting, the following definitions of audit assurance are used for all systems and governance audits completed:

<b>Control Environment Assurance</b>		
<b>Level</b>		<b>Definitions</b>
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.

<b>Compliance Assurance</b>		
<b>Level</b>		<b>Definitions</b>
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.

## 1.5 Progress against the 2012/13 Operational Plan – Individual Reviews

1.5.1 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 1<sup>st</sup> April and 30<sup>th</sup> September 2012.

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
<b>Financial and Other Key Systems</b>					
Central Sundry Income	Substantial Assurance	N/A	Minor	Resources	02/04/2012
Non-Domestic Rates	Substantial Assurance	Substantial Assurance	Minor	Resources	02/04/2012
Housing Benefits – Accounting and Subsidy	Substantial Assurance	Good Assurance	Minor	Resources	02/04/2012
Sundry Income – Environment and Neighbourhoods	Acceptable Assurance	Good Assurance	Minor	Environment and Neighbourhoods	17/04/2012
Council Tax	Substantial Assurance	Good Assurance	Minor	Resources	24/04/2012
Housing Benefits Assessment and Payments	Substantial Assurance	Substantial Assurance	Minor	Resources	25/04/2012
Integrity of Accounts	Substantial Assurance	Substantial Assurance	Minor	Resources	30/04/2012
Creditors – City Development	Good Assurance	Good Assurance	Minor	City Development	08/05/2012
Payroll Services	Good Assurance	Good Assurance	Minor	Resources	24/05/2012
Payroll – Human Resources Administration	Good Assurance	Good Assurance	Minor	Resources	24/05/2012
Non-Domestic Rates Year End Reconciliation	Satisfactory			Resources	30/05/2012
Year End Reconciliation of Powersolve to FMS	Satisfactory			Resources	30/05/2012

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Council Tax Year Reconciliation	Satisfactory			Resources	30/05/2012
Income Management System Year End Reconciliation	Satisfactory			Resources	26/06/2012
Payroll Year End Reconciliation	Satisfactory			Resources	26/06/2012
West Yorkshire Pension Fund Reconciliation	Satisfactory			Resources	26/06/2012
Business Support Centre – Central Payments Service	Good Assurance	Good Assurance	Minor	Resources	04/07/2012
Sundry Income – City Development	Good Assurance	Acceptable Assurance	Minor	City Development	05/07/2012
Creditors Year End Reconciliation	Satisfactory			Resources	24/07/2012
Community Care Finance – Payments to independent providers of residential and nursing care and customers in receipt of direct payments and personal budgets	Good Assurance	Acceptable Assurance	Moderate	Adult Social Care	31/07/2012
Corporate Financial Management Central Controls	Substantial Assurance	N/A	Minor	Resources	06/08/2012
Bank Reconciliation and Cashbook	Substantial Assurance	Substantial Assurance	Minor	Resources	06/08/2012
Creditors – Adult Social Care	Good Assurance	Good Assurance	Minor	Adult Social Care	10/08/2012
Treasury Management Electronic Record Query	N/A	N/A	N/A	Resources	30/08/2012
Capital Programme Central Controls	Acceptable Assurance	Good Assurance	Moderate	Resources	17/09/2012
Housing and Council Tax Benefits Year End Reconciliation	Satisfactory			Resources	21/09/2012

Compliance Area	Report Title	Level of compliance	Directorate	Date Issued
Ethical Standards	Members Allowances	High	Resources	28/09/2012
Human Resource Policies and Procedures	Purchasing Cards 2011-12 (Quarter 4)	High	Adult Social Care	30/07/20102
	Purchasing Cards 2011-12 (Quarter 4)	High	Children's Services	30/07/2012
	Purchasing Cards 2011-12 (Quarter 4)	High	City Development	30/07/2012
	Purchasing Cards 2011-12 (Quarter 4)	High	Environment & Neighbourhoods	30/07/2012
	Purchasing Cards 2011-12 (Quarter 4)	High/Medium	Resources	30/07/2012
Payroll – non basic pay	Overtime Payments 2011-12	Low	Adult Social Care	17/09/2012
	Overtime Payments 2011-12	Medium	Business Support Centre	17/09/2012
	Overtime Payments 2011-12	Low	Children's Services	17/09/2012
	Overtime Payments 2011-12	Low	City Development	17/09/2012
	Overtime Payments 2011-12	Low	Environment & Neighbourhoods	17/09/2012
	Overtime Payments 2011-12	Low	Overarching report	17/09/2012
	Overtime Payments 2011-12	Medium	Resources	17/09/2012
Unannounced Visits	Dolphin Manor Homes for	Medium	Adult Social	03/08/2012

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Compliance Area	Report Title	Level of compliance	Directorate	Date Issued
	Older People		Care	
	Richmond House Home for Older People	Medium	Adult Social Care	13/08/2012
	Armley Library	High	City Development	21/08/2012
	Garforth Library	Medium	City Development	21/08/2012
	Osmondthorpe Resource Centre	High	Adult Social Care	28/08/2012
	Manorfield House Home for Older People	High	Adult Social Care	28/08/2012
	Scott Hall Sports Centre	High	City Development	28/08/2012
	Morley South Children's Centre	High	Children's Services	20/09/2012
	Fairview Home for Older People	Medium	Adult Social Care	20/09/2012

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Customer Monies Learning Disabilities Supported Living Service – Delph View	Acceptable Assurance	Acceptable Assurance	Moderate	Adult Social Care	29/06/2012
Customer Monies Learning Disabilities Supported Living Service – Westerton	Acceptable Assurance	Limited Assurance	Moderate	Adult Social Care	29/06/2012
Customer Monies Learning Disabilities Supported Living Service – Albert Court	Acceptable Assurance	Limited Assurance	Moderate	Adult Social Care	29/06/2012
Customer Monies Learning Disabilities Supported Living Service – SouthParkway	Acceptable Assurance	Acceptable Assurance	Moderate	Adult Social Care	29/06/2012
Benton Park School – follow up review	Good Assurance	Acceptable Assurance	N/A	Children's Services	18/07/2012
Income from Cemeteries and Crematoria	Good Assurance	Good Assurance	Minor	City Development	01/08/2012
City of Leeds High School Follow Up Review	Good Assurance	N/A	Minor	Children's Services	04/09/2012

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
<b>Procurement, Monitoring and Improvement</b>					
Purchasing Cards – Adult Social Care	N/A	Acceptable Assurance	N/A	Adult Social Care	17/04/2012
Purchasing – Resources	N/A	Acceptable Assurance	N/A	Resources	17/04/2012
Purchasing Cards – Children's Services	N/A	Acceptable Assurance	N/A	Children's Services	17/04/2012
Purchasing Cards – City Development	N/A	Acceptable Assurance	N/A	City Development	17/04/2012
Purchasing Cards – Environment & Neighbourhoods	N/A	Acceptable Assurance	N/A	Environment and Neighbourhoods	17/04/2012
Purchasing Cards – Adult Social Care	N/A	Acceptable Assurance	N/A	Adult Social Care	21/05/2012
Purchasing Cards – Resources	N/A	Good Assurance	N/A	Resources	21/05/2012
Purchasing Cards – Children's Services	N/A	Acceptable Assurance	N/A	Children's Services	21/05/2012
Purchasing Cards – City Development	N/A	Good Assurance	N/A	City Development	21/05/2012

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Purchasing Cards – Environment and Neighbourhoods	N/A	Acceptable Assurance	N/A	Environment and Neighbourhoods	21/05/2012
Procurement Unit – Off Contract Spend	Good Assurance	N/A	Minor	Resources	10/08/2012
Quarterly Review of Published Payments – Children's Services	N/A	Good Assurance	N/A	City Development	21/08/2012
Quarterly Review of Published Payments – Adult Social Care	N/A	Good Assurance	N/A	Adult Social Care	21/08/2012
Quarterly Review of Published Payments – Environment and Neighbourhoods	N/A	Good Assurance	N/A	Environment and Neighbourhoods	21/08/2012
Quarterly Review of Published Payments – Resources	N/A	Good Assurance	N/A	Resources	21/08/2012
<b>Risk Based Reviews</b>					
Nursery Education Grants Follow Up Review	Acceptable Assurance	N/A	Minor	Children's Services	14/05/2012
Information Governance Follow Up Review	Acceptable Assurance	N/A	Moderate	Resources	29/08/2012
<b>Strategic Landlord Assurance Framework Reviews</b>					
Corporate Governance – West North West Homes	Good	N/A	Minor	Environment and Neighbourhoods	11/04/2012
Belle Isle Tenant Management Organisation - Business Continuity	Acceptable Assurance	N/A	Minor	Environment and Neighbourhoods	08/05/2012
Procurement – East North East Homes	Good Assurance	Limited Assurance	Minor	Environment and Neighbourhoods	08/05/2012
Corporate Governance Follow Up Review – Belle Isle Tenant Management Organisation	Good Assurance	N/A	Minor	Environment and Neighbourhoods	09/05/2012
Corporate Governance – East North East Homes	Acceptable Assurance	N/A	Minor	Environment and Neighbourhoods	21/06/2012
Corporate Governance – Aire Valley Homes	Good Assurance	N/A	Minor	Environment and Neighbourhoods	25/06/2012
Procurement – Aire Valley Homes	Good Assurance	Good Assurance	Minor	Environment and Neighbourhoods	25/06/2012
Neighbourhood Management – Aire Valley Homes	Good Assurance	N/A	Minor	Environment and Neighbourhoods	25/06/2012
Procurement – West North West Homes	Acceptable Assurance	Acceptable Assurance	Minor	Environment and Neighbourhoods	02/08/2012
Tenancy Enforcement (Tenancy Fraud) – West North West Homes	Good Assurance	Acceptable Assurance	Moderate	Environment and Neighbourhoods	02/08/2012
<b>Head of Audit Assurances</b>					
City Region Grant Claim: Urban Eco Settlements	Review of Grant Claim – Satisfactory.			Customer Access and Performance	06/06/2012
City Region Grant Claim: New Points Growth Funding	Review of Grant Claim – Satisfactory.			Customer Access and Performance	06/06/2012
Leeds City Region Accounts – Internal Audit Statement	Signed Internal Audit Statement for 2011/12 Accounts.			Customer Access and Performance	06/06/2012
Bus Operators Grant Claim	Certification of Grant Claim 1 <sup>st</sup> October 2011 – 31 <sup>st</sup> March 2012			Resources	13/06/2012
Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance) Specific Grant Determination 2010 No 31/1859	N/A			Resources	13/07/2012

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Interreg Grant Claim - SeNS		N/A		Adult Social Care	22/08/2012
Welcome to Yorkshire Tourism Grant Claim		N/A		City Development	28/09/2012
<b>Business Analysis and VFM</b>					
Electronic Document Records Management System Rollout Options		N/A		Resources	04/04/2012
Changing the Workplace: Customer Access Project- Electoral Services Review		N/A		Customer Access and Performance	24/04/2012

Further details of key issues identified within each assurance block are included below in the *Summary of Audit Activity and Key Issues at Section 2*.

## Section 2

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# **SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES**

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A summary of reports issued within each assurance block is included in the table in Section 1. The following section highlights any key issues and outcomes within each assurance block.

## **2.1 Financial and Other Key Systems**

- 2.1.1 The level of assurance provided for the key financial systems reviews issued during the period was good or substantial and in all cases an action plan has been agreed with the appropriate officers that, if implemented, will give substantial control environment assurance in all areas. Good systems continue to be operating effectively across the key financial systems, resulting in the Internal Audit assurance opinions either improving or remaining the same when compared to the previous year.

The Section has completed the key reviews necessary to enable KPMG to rely upon internal audit work for opinion purposes. KPMG concluded that:

*“Internal Audit have covered all areas of work that we wished to rely upon to a good standard and we are again able to place full reliance on their work.”*

### **2.1.2 Community Care Finance (CCF)**

The audit identified concerns regarding delays in payments to providers and accuracy of payments to customers in receipt of a personal budget. This is key as the Quality Assurance Framework Project in Adult Social Care is considering the introduction of fines payable to providers where there are delays in making payments for new placements. There are currently no performance targets to measure the timeliness of processing financial assessments or new placements. The implementation of recommendations for performance management information in this area would assist in understanding the reasons for this. The findings have been shared with the Programme Team within Adult Social Care so that they can be included in the new ‘To Be’ process.

*Outcomes – There has been a recent increase in the number of complaints from providers over delayed payments. Internal Audit has been commissioned to do some additional work to establish the reasons for these delays.*

### **2.1.3 Capital Programme Central Controls**

The audit found that a strong control environment is in place to seek appropriate approval prior to the injection of schemes into the Capital Programme and where originally estimated scheme values are varied at tender stage. However, the process for the approval and monitoring of variations that are made following the award of contracts could be improved, particularly in the current climate where even stronger financial controls are necessary.

There are currently no central mechanisms in place to;

- highlight and escalate instances where Chief Officer Approvals (COAs) are not in place prior to the contractual commitment of schemes
- identify where expenditure exceeds the approved amounts in relation to the contracted sum
- monitor essential and non-essential variations which have been approved in addition to these contracted sums.

It is currently under consideration whether the Capital Team will take on this responsibility and discussions have been held with the Capital Team and the Director of Resources to determine the most proportionate response to address the issues identified during the audit.

## **2.2 Compliance Reviews**

### **2.2.1 Compliance Strategy**

Internal Audit has developed a compliance strategy for the year including the number of days that will be allocated to each area of compliance work. This is predominantly weighted towards financial impact.

The key areas identified are:

- § Payroll;
- § Procurement;
- § Third party monies;
- § HR policies;
- § Fees and charges;
- § Asset verification;
- Grants to voluntary organisations.

### **2.2.2 Third Party Monies**

Following a number of whistleblowing allegations and fraud investigations, a comprehensive audit review of the arrangements in place for safeguarding customer monies within the Learning Disabilities Supported Living Service was completed. The objectives of the review were to ensure

that there were adequate policies and procedures in place for safeguarding customer monies and that these were followed in practice.

A working group was established in 2011 within the Learning Disabilities Service to ensure that the procedures relating to customer monies within the Supported Living Service were fit for purpose and could sufficiently safeguard both customers and staff. Internal Audit has attended this working group to feedback the ongoing findings of the audit review, so that the relevant recommendations could be incorporated into the revised set of procedures.

No instances of misappropriation were identified during the review, however, a number of high priority recommendations were made to reduce the risks whilst ensuring that customers have the independence they require, and providing workable solutions for staff.

*Outcome - Safeguarding: Improving safeguarding arrangements, reducing the risk of financial irregularity.*

### 2.2.3 Overtime 2011-12

The Council spent £12.5 million on overtime in 2011/12. Internal audit has conducted a suite of audits across the Authority, testing a sample of 80 overtime payments for 2011/12. The audits have identified many compliance failings which have resulted in overpayments being made and claims being paid without supporting prime documentation. The key issues identified are non-compliance with the Council's Planned Overtime Rules and non-compliance with other procedures and best practice when approving, checking and challenging overtime payments;

In addition to recommending a number of actions to improve compliance with policy and procedures, Internal audit has included additional compliance testing in this area for the next quarter.

*Outcome –The estimated value of overpaid overtime is likely to be approximately £180k per year.*

*Internal audit has also added this to the list of planned VFM reviews*

### 2.2.4 Ethical standards

The audit of Members Allowances identified no issues. Internal Audit has scheduled a review of gifts and hospitalities and declarations of interests for Quarters 3 and 4.

### 2.2.5 Fees and charges

An audit was undertaken of the processes in place for collecting income due from burials and cremations. This identified some instances where head-stones had been erected without a permit. An estimated £15,000 has been lost in income during 2011-12.

### 2.2.6 Unannounced visits

Unannounced visits have been undertaken to 9 establishments across the Council. As part of the reviews cash-ups are undertaken and reviews of petty cash records and any unofficial funds. Whilst no significant issues have been identified to date they will continue to form part of the compliance work programme as part of the Council's zero tolerance to fraud and corruption.

### 2.2.7 Follow up reviews

The follow up reviews at Benton Park School and City of Leeds High School has verified good progress against the previous recommendations. This has resulted in the opinion level for the control environment being upgraded to good. Some compliance issues were identified at Benton Park School regarding the administration of the school fund and recording of income due/outstanding for school trips. Action has been agreed with the Head Teacher to improve these weaknesses.

## 2.3 *Procurement, Monitoring and Improvement*

### 2.3.1 Procurement Strategy

The strategy for procurement audit has been developed during quarter 1 to define how procurement audit work will be undertaken during the year. Coverage will be split into the following areas:

- *Central Controls*: This will include a follow up of the progress made by Procurement Unit against the limited assurance reports issued during 2011/12. Internal Audit have been in ongoing dialogue with Procurement Unit regarding the work undertaken by the Transforming Procurement Project Team to strengthen the Council's procurement controls and this review will be tailored to reflect the new arrangements in place.
- *Contract Monitoring*: Internal audit has consistently reported on, and made recommendations regarding, contract monitoring arrangements in the organisation. A schedule of reviews undertaken in quarters 2 to 4 will provide assurance on the adequacy of the Council's contract monitoring arrangements and will make recommendations for improvements where necessary. The overall findings of these reviews will be summarised and, if appropriate, reported on in a lessons learned review in quarter four.
- *Capital Contract Reviews*: This will involve auditing individual capital schemes to review compliance with procedures.

### 2.3.2 Procurement 2011

Internal Audit has continued to be involved in supporting the council team with the ongoing issues experienced on the Procurement 2011 contracts. The contractor is yet to provide their final account for the first year of the contract to allow this to be considered by the ALMOs and Strategic Landlord in terms of accuracy and VFM.

When this has been received and a way forward agreed between the ALMOs and Strategic Landlord, Internal Audit has offered support to carry out an open book review on the final account to try and establish the cost position on the contract although it is recognised this approach will be less appropriate as time progresses.

### 2.3.3 Bankside

Internal Audit was asked to agree/comment on the recommendation to accept the contractors 'final' commercial offer. A high level review by audit concluded that this would be difficult to support, notwithstanding the complexity of this scheme and agreed to coordinate further substantiation. This was completed by the Quantity Surveyor (QS) resource to reduce the margin of error on the final position and reach a timely and satisfactory position given the circumstances.

This exercise improved substantiation of the project costs giving more evidence to support the final account position and also allowed internal audit to 'negotiate' a reduction of £35K in the commercial settlement.

Children's Services has reported to Executive Board, explaining the overspend on this scheme and also requesting the Authority to Spend approval. Whilst Internal Audit were able to bring the account dispute to a resolution there are a number of lessons that can be taken forward to prevent such significant overspends on similar major projects. These areas of best practice were previously highlighted by Audit and Risk in relation to this project and key controls, particularly design freeze, variations and accurate financial management included in the other capital scheme audits to be undertaken during the year.

*Outcome – a reduction in the final account of around £35K and increased awareness of the need for improved contract management.*

### 2.3.4 Purchasing Card Expenditure

Internal Audit has continued with quarterly reviews of Purchasing Card expenditure. The sample tested has shown a general increase in the level of compliance and as such this audit work will be reduced in the next quarter.

## 2.4 *Risk Based Audits*

### 2.4.1 Nursery Education Grants Follow Up

Internal Audit originally carried out a review in October 2011. This identified several significant issues regarding the compliance with the Code of Practice, including 'external' nursery providers overcharging clients, and the way in which the grant was calculated. As a result, a follow up audit was carried out to monitor the progress made against key recommendations.

The incorrect payments in respect of the Summer 2011 deprivation allocations have been recovered by adjustment to the Autumn 2011 and Spring 2012 payment.

Issues of non-compliance with the Code of Practice within nurseries are now logged and monitored by the Early Years Team, however, at the time of the follow up review no arrangements had been put in place to confirm that all parents have been appropriately refunded. The Early Years Team is currently liaising with their internal contracts and commissioning team with the aim of agreeing a series of sanctions to be imposed where non-compliance is identified. Upon approval of this procedure, the Early Years Team intend to make progress with ensuring that appropriate refunds are issued to clients.

*Outcome - Financial: £40k overpayment identified in the October 2011 audit has been recovered.*

*The issue of overcharging clients has not yet been satisfactorily resolved and refunds of overpayments, identified in the October 2011 report, have not yet been agreed.*

#### 2.4.2 Taxi Licence Follow Up

The objective of the audit was to carry out a follow up review of the recommendations made in the audit report of 2010/11. The key issue highlighted was that drivers that applied for their initial licences before CRB disclosures were introduced and have been granted subsequent licence renewals had not been subject to CRB disclosure checks at any point. Also, CRB disclosures were not sought every three years, contrary to the best practice guidance issued by the Department for Transport.

In agreement with the Licensing Committee, an online consultation questionnaire was published on the Talking Point intranet site on 26<sup>th</sup> July 2012 seeking views on whether licensed drivers should undertake regular enhanced criminal record checks. The consultation period is due to end on the 5<sup>th</sup> October 2012.

*Outcome - Safeguarding: The directorate has objectively considered the risks identified in the 2010/11 audit review and has decided against implementing the recommendations made in the final report at this stage. Further consideration will be given to this risk when the outcomes of this internal consultation are available.*

#### 2.4.3 Information Governance

In August a follow up review found that although some progress had been made against the recommendations detailed in the 2009/10 internal audit, a high proportion of these have not yet been completed. The key area was ensuring that a programme of Information Governance training is delivered to all officers involved in information governance. This will ensure awareness of information management principles and the authority's Information Governance Framework and compliance with statutory requirement in this area. The Information Governance Team is updating their action plan that will address this outstanding issue.

## **2.5 Spending Money Wisely**

### **2.5.1 Spending Money Wisely Communications Strategy**

Internal Audit has worked with the Intranet and Corporate Communications Teams to prepare content for the new intranet which includes;

- a 'blog' to provide staff with updates and examples of Spending Money Wisely
- promotion of the Spending Money Wisely hotline and e-mail address.
- clear policy guidance for staff

### **2.5.2 Spending Money Wisely Challenge**

Internal Audit introduced a regular challenge of expenditure within the council. The aim of this is to both raise awareness of Spending Money Wisely across the authority and to act as a deterrent against any spending that does not provide value for money.

On a monthly basis a sample of payments made across the authority will be selected, and officers will be asked for clarification of why the money was spent, and how assurance can be provided that the money was spent wisely. A briefing note was issued to Directors and Heads of Finance outlining the process and the first exercise is underway.

### **2.5.3 Current Spending Money Wisely Reviews**

#### **Charges for the hire of Children's Services buildings**

A Spending Money Wisely review has recently been carried out on the hire of Children's Services buildings. The scope of the review was to assess the usage of a sample of 2 facilities and the charges levied for this usage. The work is in the final stages and the findings from the review are:

- Each Children's Services building currently has its own charging policy. These are not always clear because they are based on ranges of prices and discounts, and these are often applied



inconsistently. There was no evidence that the charging policy considered the running costs of the buildings reviewed;

- The current charges are lower than similar facilities in the area, for example City Learning Centres;
- Usage is approximately 15% of current opening hours, however at one building the original business case anticipated that usage would be 25%. In addition to this, the current opening hours for this building are less than those detailed in the business plan;
- Bookings are currently managed on site at individual buildings rather than by a central bookings team.

The review has identified a number of recommendations that could provide both financial and non-financial benefits.

#### *Financial benefits*

The review identified a number of options available to one specific building although the principles could be applied for other buildings across the city. Through a combination of reviewing and enforcing charges, and increasing opening hours and usage to that detailed in the original business case, the following financial benefits could be obtained:

- If existing charging policies were enforced more robustly, net income could increase by up to £69k per year compared to the current position.
- However by increasing opening hours and attaining 25% occupancy in line with the business plan, as well as increasing charges to those used by the City Learning Centres, this could increase the net additional income figure up to £204k per year.

The review identified that in the longer term further savings could be obtained by establishing a central council bookings hub.

#### *Non-financial benefits*

The recommendations above would also lead to non financial benefits, including:

- A more consistent, equitable service.
- Charges that support council priorities and provide community benefits.
- Competitive prices that are better controlled and maximise usage.
- Efficiencies and increased usage resulting from better co-ordinated bookings.
- A single point of contact for bookings and a consistent, good quality service for customers.

## **2.6 Counter Fraud and Corruption**

### 2.6.1 Referrals

35 new referrals have been received by the Internal Audit Fraud and Corruption team from 1<sup>st</sup> April to 30<sup>th</sup> September 2012. 30 of these were received under the Council's Whistleblowing and Raising Concerns Policies and 5 were received from a Service.

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

There are 22 ongoing investigations:

- 16 cases are currently being investigated by the Fraud team;
- 4 have been referred to a service or HR for investigation and the Fraud team is awaiting their responses;
- 2 have been referred to the Police for action.

### 2.6.2 Issues/ cases closed

#### *Supported Living service*

An investigation initially reported in September 2011 has been completed and is currently going through the courts. A Support Worker is believed responsible for the theft of monies missing from client accounts. The employee was dismissed at a disciplinary hearing on 16<sup>th</sup> June 2011.

A report detailing the systems weaknesses and findings to address these was issued from compliance work undertaken to review the controls in place to safeguard client monies (see 2.2.2 above.)

£21,300 of the £23,800 loss has been recovered from our insurers in order to compensate the clients concerned. Reimbursement through the Pension Fund or as part of the criminal prosecution case is ongoing. A sum of £990.41 has been recovered from the employee in the form of accrued holiday pay.

#### *School Meals Income*

A Head Teacher contacted Internal Audit to ask for assistance with regards to issues with school meals income. An investigation has revealed that records of income were not being maintained properly and has identified a discrepancy of over £4,300 for the current academic year. The individual has been suspended, the details have been referred to the police and recovery of the money will be pursued.

#### *Section 48 Team Investigation*

Further to the report in September 2011, the individual has recently appeared in court and pleaded guilty to four charges - misconduct in public office, two counts of theft and fraud using a false instrument with intent. The individual received a 16 month custodial sentence.

#### *Data Security*

An anonymous whistleblowing call was received alleging that a temporary member of staff with access to various databases was emailing sensitive information to their personal email account. Investigations have failed to discover anything to corroborate this. Discussions with the Chief Officer (ICT) confirmed ICT staff need access to systems and data in order to carry out their roles and that there is a risk that one of these individuals could download data and send it via e-mail without detection. Staff accessing sensitive information are CRB checked, are appraised of the policies of the Council such as E-Mail usage and guidelines and managed accordingly.

The Chief Officer (ICT) and Chief Officer (Intelligence and Improvement) are to consider the risks and if necessary, introduce appropriate and proportionate controls. Internal Audit will review this risk assessment and actions arising as part of its planned work.

#### *Parking Permits*

Further to the September 2011 report, charges have now been introduced for those members of staff who had been missed from the initial exercise. This will produce additional income of £4,700 p.a.

#### *Care Services Provider*

A whistleblowing report was received that council monies were being spent frivolously by a contractor who provides care services and accommodation on our behalf. Investigations found that whilst the allegations were not substantiated there were systems weaknesses in the way in which one of their contracts was monitored to ensure we are actually receiving the services being paid for.

Further work is therefore to be undertaken by Internal Audit to determine if these weaknesses are more widespread across all contracts of this type.

#### *School- Conflict of Interest*

Concerns were raised with Internal Audit regarding a potential conflict of interest within a school where the Inclusion Manager and her husband, an Outreach Teaching Assistant (subsequently Assistant Behaviour Manager) established and ran a company for the provision of off-site education, which the school then began to use. The Governing Body were aware of the issue and steps had been taken by the school to address the conflict of interest but not stop the arrangement.

The Director of Children's Services and the Chair of Governors are satisfied with the action taken.

#### *Adult Social Care Establishment*

Further to the September 2011 report, the former employee has appeared in court, pleaded guilty to a number of charges and been sentenced to 2<sup>1</sup>/<sub>2</sub> years, half of which is in prison and the other half on licence.

### 2.6.3 Proactive Work

#### *'Fighting Fraud Locally'*

The National Fraud Authority published their three year strategy for tackling fraud in local authorities and gaining our assistance in addressing it in other sectors. The document is called 'Fighting Fraud Locally' and was accompanied by a best practice checklist.

We have undertaken a review of our current arrangements to counter fraud and corruption against the checklist and the actions the report recommends for consideration. This confirmed that we already comply with the vast majority of the best practice.

#### *Revision of Whistleblowing and Raising Concerns Policies*

The current Whistleblowing and Raising Concerns Policies and their supporting arrangements have been reviewed in line with British Standards Institute/ Public Concern at Work Code of Practice and other best practice and minor changes made.

### 2.6.4 Reports Issued

A list of investigation reports issued to directorates and services from 1<sup>st</sup> April to 30<sup>th</sup> September 2012 is shown in the table below:

<b>Report Title</b>	<b>Date Issued</b>
Annual Leave	21-May-12
Children's Disability Team (2)	11-Jun-12
School - Conflict of Interest	15-Jun-12
Voluntary Organisation	25-Jun-12
Blue Badge (4)	25-Jun-12
Non-Referral of Whistleblowing Allegations	25-Jun-12
Nepotism	28-Jun-12
School- Dinner Monies	11-July-12
Complaints- Re-housing & Kitchen Refurbishment	16-July-12
Children's Disability Team	20-July-12 (& 03-Sept-12)
Database Misuse	24-July-12
National Fraud Initiative Blue Badge Review	28-Jun-12

## 2.7 *Head of Audit Assurances*

A review of the Bus Operators Grant claim for 1<sup>st</sup> September 2011 to 31<sup>st</sup> March 2012 identified a number of discrepancies in the initial claim value which resulted in an increase in the amount of the grant claim of £948.

## **2.8 Data Analytics Project**

The Council Tax Single Person Discount (SPD) review for the first quarter of the year resulted in almost 2,000 SPD's being cancelled, although 330 have applied for or have been granted another discount to the same value. The annual equivalent net increase in Council Tax billings from the work in this first quarter of 2012/13 was estimated at £227,000. The SPD review work was transferred to the Council Tax Team at Hough Top Court from mid-September. To ensure the transition went smoothly no large batches of review letters were sent on the run up to the transfer. There will be continued liaison during the pilot. For the second quarter of the year, the number of net SPD cancellations has been approximately 300 with an estimated net increase in Council Tax billings of £67,000.

Work is currently on-going with the housing tenancy sub-letting review. Some issues have been identified but to date no sub-letting frauds have been confirmed. We are currently arranging for the data on the high risk tenancies to be re-processed and will then arrange a training session to share best practice.

## **2.9 Business Analysis**

### **2.9.1 Business Process Re-Engineering Projects**

The first quarter of 2012 has seen the successful implementation of a change in the way in which the Internal Audit BPR team is deployed. Following a decision taken by RLT, BPR team members are now engaged to work on a long term basis directly for major projects throughout the Council. This approach recognises that projects across the Council require a business case to secure funding for supporting resources, including BPR, and also that it was not practical to maintain a central team to meet a fluctuating demand. Inevitably this will mean some projects will have to source their own BPR resource directly however this approach will remove the risk of over recruiting a BPR resource and reduce the tensions between competing projects when deploying finite resources.

However, it is key that good standards and good guidance is available to all project teams across the organisation. Work is also underway to create a BPR 'centre of excellence' intranet page which will be an invaluable source of information and best practice methodology for business analysts working directly for Directorates throughout the council. The aim of this intranet page is to provide users with a toolkit for undertaking different types of business analysis along with standardised reporting documentation. In addition, there will be guidance on training and development opportunities – including a programme of internal seminars

and external qualifications, a guide to key competencies required of a business analyst.

## **2.10 External Clients**

### **2.10.1 Housing Partnerships**

Internal Audit is commissioned by Housing Partnerships to undertake a suite of audits to provide certain assurances in relation to elements of the Housing Partnership monitoring function and the key risk areas in the BITMO and each of the ALMOs. The audit work programme for 2011/12 is now complete and the Annual Audit Summaries for each organisation have been issued. Performance across the areas audited and reported in quarter one of 2012/13 was found to be satisfactory.

Meetings to develop and agree the 2012/13 Assurance Framework have been held with all stakeholders (LCC, ALMOs, BITMO and Internal Audit). The outcomes of these meetings have been used to determine the key areas of coverage for the Assurance Framework. From this, a proposed suite of audits has been developed, along with areas of work to be included in the individual ALMO/BITMO audit plans to enable Internal Audit to give assurance on the risks to both the Director of Environment & Neighbourhoods and the ALMO / BITMO Boards. The audit programme for 2012/13 is intended to be more focussed on self assessment with support from Internal Audit.

### **2.10.2 Contracts**

The contracts for 2012/13 for each of the external clients have been developed and approved by the appropriate Boards and Committees.

*Outcome - Financial: The contracts for 2012/13 will provide total income of £220K.*

2.10.3 Following a request from a school, Internal Audit has undertaken a review of their catering contract to ensure that the contract terms and conditions are being complied with. The review made a number of recommendations about how processes could be improved to ensure that the school can gain assurance that it is receiving value for money from the catering contract and that the contract terms and conditions are being complied with.

*Outcome - an overpayment in salary costs for the current year and the final year of the contract was identified which the school should seek to recover from the Contractor of approximately £8,600.*

## **2.11 Reducing Bureaucracy**

Internal Audit has continued to provide ad-hoc advice to officers in Directorates on a wide range of issues including interpretation of Contract

Procedure Rules and Financial Procedure Rules, and on risks and controls within individual systems or processes. Internal Audit provides clear, risk based recommendations to Directors, Chief Officers and Senior Managers with a view to reducing bureaucracy whilst still maintaining a robust control environment. Examples of the types of areas Internal Audit has provided advice on are as follows:

Internal Audit have provided advice to BSC on risks and proportionate controls on a number of areas with the aim of reducing bureaucracy including moving to acceptance of change of employee details by telephone, and moving to sample checking of the input of special leave forms rather than 100% checking.

As part of the wider Welfare Reform agenda changes have been made to increase the age threshold for Shared Accommodation housing benefit. This necessitated an exemption to be introduced for certain ex-offenders. Instruction from DWP required local authority's Chief Internal Auditor to receive confidential information regarding these offenders to allow the exemption to be processed. Internal Audit have reviewed this proposal in consultation with the Benefits Services and identified that this function can be delegated directly to a nominated officer within the Benefits Service. This arrangement should ensure that any delays in processing such information are minimised.

## **2.12 Savings and Efficiencies**

The following table provides a summary of the savings and efficiencies identified by Internal Audit for the 6 months from 1<sup>st</sup> April to 30<sup>th</sup> September (further details have been provided in the Section above):

**Table of Savings/Efficiencies**

	<b>Audit Area</b>	<b>Value £</b>	<b>Explanation</b>
1	Data Analytics Project	£294,000	Annual equivalent net increase in Council Tax billings from review of Council Tax Single Person Discount (SPD) with approximately 2300 SPDs being cancelled (although a proportion of these will have applications for other discount to the same value.)
2	Overtime	£180,000	Potential estimated saving per annum to be gained from ensuring the Planned Overtime Rules are followed across the authority for employees with a spinal column point of 29 or more.
3	Nursery Education Grants Follow Up Review	£40,040	Overpayment of deprivation allocation was identified by the review of Nursery Education Grants. This amount has now been recovered.
4	Bus Operators Grant Claim Sept 2011 to March 2012	£948	Discrepancies were identified in the initial claim value resulting in an increase in the amount of the grant claim.
5	Fraudulent change	£4,900	Monies being recovered through courts.

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	<b>Audit Area</b>	<b>Value £</b>	<b>Explanation</b>
	of bank details		
6	Fraudulently cashed cheque	£545	Monies being recovered through bank/cashing agent.
7	Supporting Living – theft of monies	£23,800	Monies being recovered through insurance.
8	School Meals – theft of monies	£4,300	Method of recovery still to be determined.
9	Staff Parking	£4,700	Monies now being charged through payroll.
10	Review of final account	£34,937	Reviewed a proposed commercial settlement for a capital scheme and agreed a revised figure.
11	Catering Contract Review	£8,600	Identified overpayment of salary as part of school catering contract £8,600 – to seek recovery from contractor.
12	Children’s Services – Charges for hire of Children’s Buildings	Up to £204,000	Range of opportunities to maximise income identified from the review. Potential additional income in the range £69,000 to £204,000 per annum dependant on the recommendations implemented.
13	Cemeteries and Crematoria	£15,000	Estimate of additional income per annum in relation to permits for headstones.
	<b>Total</b>	<b>£815,770</b>	



## Section 3

## AUDIT PLAN FOR THE NEXT QUARTER

The 2012/13 audit plan used, as a base, the tried and tested risk based approach to prioritising internal audit work.

Progress against the plan is being monitored throughout the year and key issues reported to the Director of Resources, and the Chief Officer (Audit & Risk). The Head of Audit will continue to report key issues arising from this work to the Corporate Governance and Audit Committee.

Given the constantly changing environment, the audit plan is subject to continuous review as changes in relative priorities of jobs already included and risks emerging throughout the year will need to be addressed. On a quarterly basis, changes to the audit plan from the re-prioritisation of resources and audit reviews will be reported to the Corporate Governance and Audit Committee by including the proposed audit plan for the forthcoming quarter.

### Quarterly Plan – Quarter 3 2012/13

Audit	Days Q3 Plan	Assurance Block	Directorate
<b>Financial and Other Key Systems</b>			
Payroll	85	Financial and Other Key Systems	Cross Cutting
ICT Reviews	40	Financial and Other Key Systems	Resources
Creditors (inc purchasing cards)	55	Financial and Other Key Systems	Cross Cutting
Income Management System	25	Financial and Other Key Systems	Resources
NDR	20	Financial and Other Key Systems	Resources
Treasury Management	25	Financial and Other Key Systems	Resources
Council Tax	20	Financial and Other Key Systems	Resources
Housing Rents	25	Financial and Other Key Systems	Environment and Neighbourhoods
Sundry Debtors	30	Financial and Other Key Systems	Cross Cutting
	<b>325</b>		
<b>Compliance</b>			
Travel and Subsistence	15	Compliance	Cross Cutting
Direct Payments	10	Compliance	Adult Social Care
Faster Payments	10	Compliance	Cross Cutting
Safeguarding	20	Compliance	Adult Social Care
Overtime	20	Compliance	Cross Cutting
Key Performance Indicators	5	Compliance	Cross Cutting
Chief Officer Approvals	15	Compliance	Cross Cutting
Register of Interests	5	Compliance	Cross Cutting
Agency Staff	5	Compliance	Cross Cutting
Acting Up	5	Compliance	Cross Cutting
Key Decisions	5	Compliance	Cross Cutting

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<b>Audit</b>	<b>Days Q3 Plan</b>	<b>Assurance Block</b>	<b>Directorate</b>
Published Payments	10	Compliance	Cross Cutting
	<b>125</b>		
<b>Procurement, Monitoring and Improvement</b>			
Passenger Transport Contract Review	25	Procurement, Monitoring and Improvement	Resources
Highways Contract Review	25	Procurement, Monitoring and Improvement	City Development
Grounds Maintenance Contract Review	25	Procurement, Monitoring and Improvement	Environment and Neighbourhoods
Waste Management Contract Review	25	Procurement, Monitoring and Improvement	Environment and Neighbourhoods
Lift Supplies Contract Review	25	Procurement, Monitoring and Improvement	Cross Cutting
IT Supplies Contract Review	25	Procurement, Monitoring and Improvement	Children's Services
Leeds Arena Capital Scheme Review	25	Procurement, Monitoring and Improvement	City Development
Oulton Primary School Capital Scheme Review	25	Procurement, Monitoring and Improvement	Children's Services
Other Contract Reviews	25	Procurement, Monitoring and Improvement	Cross Cutting
Prevention and Management of Procurement Challenges	10	Procurement, Monitoring and Improvement	Resources
Procurement Unit Follow Up Review	15	Procurement, Monitoring and Improvement	Resources
	<b>250</b>		
<b>Risk Based Audits</b>			
Telecare	10	Risk Based Audits	Adult Social Care
Bailiffs	10	Risk Based Audits	Cross Cutting
Registrars	10	Risk Based Audits	Resources
Fees to Foster Carers	10	Risk Based Audits	Children' Services
Section 106	20	Risk Based Audits	City Development
Section 278	20	Risk Based Audits	City Development
External Grant Income	20	Risk Based Audits	Cross Cutting
Anti Social Behaviour Unit	15	Risk Based Audits	Environment and Neighbourhoods
	<b>115</b>		
<b>Spending Money Wisely</b>			
Spending Money Wisely Challenge Process	30	Spending Money Wisely	Cross Cutting
Agency Staff	30	Spending Money Wisely	Cross Cutting
ICT Benefits Realisation	30	Spending Money Wisely	Resources
Highways Services	20	Spending Money Wisely	City Development
Other Spending Money Wisely Reviews	30	Spending Money Wisely	Cross Cutting
	<b>140</b>		
<b>Counter Fraud and Corruption</b>			
Proactive Exercise – Protecting the Public Purse	5	Counter Fraud and Corruption	Cross Cutting
Proactive Exercise – Fraud and Corruption Policy	10	Counter Fraud and Corruption	Cross Cutting
Proactive Exercise – Direct Payments	20	Counter Fraud and Corruption	Cross Cutting
Proactive Exercise – Recruitment Checks	20	Counter Fraud and Corruption	Cross Cutting
Reactive Fraud Work	115	Counter Fraud and Corruption	Cross Cutting
	<b>170</b>		
<b>Update, Communication and Monitoring</b>			
Policies and Procedures	10	Update, Communication and Monitoring	Cross Cutting
Performance Management Central Controls	10	Update, Communication and Monitoring	Customer Access and Performance
	<b>20</b>		
<b>Head of Audit Assurances</b>			
Bus Operators Grant Claim	5	Head of Audit Assurances	Resources
	<b>5</b>		

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<b>Audit</b>	<b>Days Q3 Plan</b>	<b>Assurance Block</b>	<b>Directorate</b>
<b>Contingency</b>			
General Contingency	40	Contingency	Cross Cutting
Follow Up Reviews	10	Contingency	Cross Cutting
	<b>50</b>		
<b>Business Analysis</b>	<b>248</b>	Business Analysis	Cross Cutting
<b>Data Analytics Project</b>	<b>60</b>	Data Analytics	Cross Cutting
<b>External</b>			
ALMO/BITMO	50	External	Contract Work
Strategic Landlord Assurance Framework (including ABCL)	100	External	Contract Work
School Voluntary Funds	7	External	Contract Work
	<b>157</b>		
<b>Total Days</b>	<b>1665</b>		