



Internal Audit Report 1st July to 31st August 2013

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Section 1

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 1st July to 31st August 2013.

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.

1.3 Progress against the 2013/14 Operational Plan – High Level

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

Assurance Block	Total Days per Audit Plan 2013/14	Days spent at August 2013*	% completion at August 2013
<u>Financial Resource Risks</u>			
Spending Money Wisely	695	252	36%
Anti-Fraud and Corruption	600	365	61%
Financial and Other Key Systems	810	173	21%
Head of Audit Assurances	65	78	120%
Compliance	504	131	26%
Procurement, Performance and Improvement	375	197	53%
Risk Based Audits	345	92	27%
ICT	350	36	10%
Total Financial Resource Risks	3,744	1,324	35%
<u>Strategic Risks</u>			
Compliance	97	24	25%
Policies and Procedures	38	2	5%
Risk Based Audits	40	0	0%
ICT	55	0	0%

Assurance Block	Total Days per Audit Plan 2013/14	Days spent at August 2013*	% completion at August 2013
Total Strategic Risks	230	26	11%
<u>Continuing Development</u>			
Professional Liaison	28	3	11%
Training and CPD	305	41	13%
Total Continuing Development	333	44	13%
<u>Contingency</u>			
General Contingency	280	91	33%
Total Contingency	280	91	33%
Total Audit Days	4,587	1,485	32%

*figures taken as at 12th August 2013

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

Audit Area	Total Days per Audit Plan 2013/14	Days spent at August 2013	% completion August 2013
External Contracts	634	370	58%
Secondments	506	344	68%
Total Days	1,140	714	63%

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:

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.

1.5 Progress against the 2013/14 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 1st July and 2nd September 2013.

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment Assurance	Compliance Assurance	Organisational Impact		
Financial and Other Key Systems					
Business Application Audits (Summary Report)	Substantial	Substantial	Minor	Strategy and Resources	25/07/2013
Bank Reconciliation and Cash Book	Substantial	N/A	Minor	Strategy and Resources	02/08/2013
Corporate Financial Management – Central Controls	Substantial	Substantial	Minor	Strategy and Resources	09/08/2013
NNDR – Year End Reconciliation	Substantial		Minor	Strategy and Resources	09/08/2013
Council Tax – Year End Reconciliation	Substantial		Minor	Strategy and Resources	09/08/2013
Payroll Year End Reconciliations	Substantial		Minor	Strategy and Resources	23/08/2013
Creditors Year End Reconciliation	Substantial		Minor	Strategy and Resources	02/09/2013
Community Care Finance	Good	Good	Minor	Adult Social Care	02/09/2013
Spending Money Wisely					
Spending Money Wisely Challenge	N/A	Medium	N/A	Cross Cutting	08/07/2013
Spending Money Wisely Ideas Service – Credit Card Surcharges	See 2.1.2 below			Strategy and Resources	08/08/2013
Procurement, Performance and Improvement					
Passenger Transport Framework Contract Monitoring Review	Limited	Good	Moderate	Strategy and Resources	01/07/2013
Urban Traffic Management Contract Review	Good	Good	Minor	City Development	03/07/2013
Middleton Park Restoration Capital Audit	Good	Acceptable	Minor	Environment and Neighbourhoods	03/07/2013
Risk Based Reviews					
Telecare	Acceptable	N/A	Minor	Adult Social Care	25/07/2013
Corporate Property Management (Repairs and Maintenance) – Systems and Processes Follow Up Review	Good	N/A	Minor	City Development	26/07/2013

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment Assurance	Compliance Assurance	Organisational Impact		
Fairer Charging Assessments	Good	Good	Minor	Adult Social Care	01/08/2013
Leaving Care Payments	Limited	Limited	Moderate	Children's Services	09/08/2013
Housing Partnerships Assurance Framework Reviews					
ALMO Business Centre Leeds – Payroll	Good	Good	Minor	Environment and Neighbourhoods	12/07/2013
Tenancy Enforcement (Tenancy Fraud Follow up visit) – West North West Homes	N/A	Good	N/A	Environment and Neighbourhoods	12/07/2013
ALMO Business Centre Leeds – Financial Management Central Controls	Acceptable	Acceptable	Minor	Environment and Neighbourhoods	05/08/2013
ALMO Business Centre Leeds – Treasury Management and Bank Reconciliations	Acceptable	Acceptable	Minor	Environment and Neighbourhoods	05/08/2013
Belle Isle Tenant Management Organisation – Information Governance (Freedom of Information & Data Protection Act requests)	Limited	Limited	Moderate	Environment and Neighbourhoods	05/08/2013
Creditors (combined report – ALMO Business Centre Leeds, Aire Valley Homes Leeds, East North East Homes Leeds, West North West Homes Leeds)	Acceptable	Acceptable	Minor	Environment and Neighbourhoods	21/08/2013

Compliance Area	Report Title	Level of Compliance Assurance	Directorate	Date Issued
Compliance Reviews				
Unannounced Visits	Home Lea Home for Older Persons	Medium	Adult Social Care	03/07/2013
	Temple Newsam Golf Course	High	Environment and Neighbourhoods	28/08/2013
Policies and Procedures	Managing Attendance	Medium	Adult Social Care	13/08/2013
	Overtime Payments	High	Adult Social Care	14/08/2013
	Overtime Payments	High	Environment and Neighbourhoods	14/08/2013
	Overtime Payments	High	City Development	15/08/2013
	Overtime Payments – findings relating to Business Support Centre	High	Strategy and Resources	22/08/2013
	Overtime Payments	Medium	Strategy and Resources	22/08/2013

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Report Title	Results/Opinion	Directorate	Date Issued
Head of Audit Assurances			
Thorpe Primary School Voluntary Fund 2012/13	Certification of account balances.	Children's Services	16/07/2013
Shakespeare Primary School Voluntary Fund 2012/13	Certification of account balances.	Children's Services	16/07/2013
Troubled Families Programme Grant Claim 2013/14	Audit testing provided good assurance that the results and outcomes detailed on the grant claim will satisfy the DCLG requirements of reasonableness.	Children's Services	25/07/2013
Cookridge Primary School Voluntary Fund 2012/13	Certification of account balances.	Children's Services	26/07/2013
Green Deal Go Early Pilot Grant Claim for City Regions	These statements confirm in all significant respects, the conditions set out by the Secretary of State for Energy and Climate Change (SSECC) in his offer letter of the 1 st November 2012 have been complied with.	Citizens and Communities	09/08/2013

Report	Date Issued
Counter Fraud and Corruption	
Football Youth Development Centre	01/07/2013
School's Extended Activities Income	26/07/2013
Whistleblowing allegations – flexitime abuse	08/08/2013
Whistleblowing allegations – decoration of council property	08/08/2013
Data Matching Exercise for adults in receipt of personal budgets and/or direct payments	13/08/2013
Payments to independent sector providers of home care pro-active exercise	21/08/2013

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

SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES

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 Spending Money Wisely

Ideas Service

- 2.1.1 Progress continues on Spending Money Wisely initiatives by the Section including reviewing ideas on how to save money and/or improve services submitted by staff.
- 2.1.2 A review of one suggestion made to the Spending Money Wisely Ideas service *'that the authority should charge a fee for handling credit card payments to recover the processing fees incurred in handling the payments by the bank'* has been undertaken.
- 2.1.3 Both the council and ALMOs websites state that credit card payments are accepted. For Business Rates, Council Tax and Housing Rents, the authority tries to limit the channels by which credit cards are accepted so they are seen as the least preferred option. The total amount charged for credit card transactions for 2012/13 was £70,874 (1.36% of the value of transactions paid by this method.)
- 2.1.4 Comparison with other core cities confirmed that only one of the other seven core cities charges for credit card transactions (this core city charges 1.8% on all credit card payments except for those relating to Penalty Charge Notices.) However, in the Leeds City Region, it is a different picture: 2 authorities accept debit cards only, 4 authorities charge for credit card payments (range of charges from 1.4% to 2.6%) and 3 authorities make no charge for paying by credit card.
- 2.1.5 Based on the results of the review, recommendations were made that LCC should, where possible, implement a surcharge of at least 2% for credit card transactions. Each service should be tasked with the implementation of this proposal taking into account the legal, financial and social ramifications of accepting credit card payments in the first instance. A written policy will be required which clearly set out the guidelines for accepting credit card payments. However, Services should be given the opportunity to opt out based on their own perception of business risk within the service.

Improving efficiency

- 2.1.6 The Chief Officer - Financial Services requested Internal Audit's opinion as to whether bureaucracy could be reduced within the creditors system by paying some invoices without an order being raised.
- 2.1.7 Having carried out an analysis of payments and considered any associated risks in changing the current processes, Internal Audit made a number of recommendations including that, in the short term, a threshold of £50 would be an appropriate level at which to allow invoices to be paid without an order. Currently invoices received by Business Support Centre without a corresponding order are subject to an invoice query process with a higher administrative burden in terms of staff time. There would therefore be an expected saving in terms of staff time from the implementation of the recommendations including that involved in the BSC query process itself as well as that of retrospectively raising and authorising orders, as well as a potential reduction in late payment charges.
- 2.1.8 Furthermore, if the implementation of the above process does not lead to a significant increase in invoices without a corresponding order, consideration should be given as to whether the threshold of £50 should be increased, for example to £100, in order to provide greater efficiencies.
- 2.1.9 The report also recommended that any savings in staff time (as a result of reducing the number of invoices in the query process) could be spent on providing training and raising awareness with Directorate staff on the order raising process in order to reduce the number of invoices that BSC need to query for order related reasons. In order to improve efficiency further, pro-active monitoring should be undertaken to identify areas spending less than £50 so that purchasing cards are offered to these service areas.

2.2 *Procurement, Performance and Improvement*

Passenger Transport Framework Contract Monitoring Review

- 2.2.1 Internal Audit is reviewing a number of live contracts. The scope includes coverage of processes to ensure there are suitable governance arrangements and appropriate administration of contracts; and ensuring there is accurate and relevant cost monitoring. The Passenger Transport Framework Contract (for the provision of private hire vehicles for the transportation of older people, adults with learning disabilities, children with special educational needs and children in the care of the authority) has been reviewed.

- 2.2.2 Overall good assurance was provided for compliance with the control environment although some errors have been detected including non-application of contract terms, different evaluation methods for tender exercises and there are opportunities for greater value for money through evaluation of tenders on price once the minimum quality threshold has been met.
- 2.2.3 However, limited assurance was provided on the control environment due to the current safeguarding arrangements that do not comply with LCC's safeguarding policy or Taxi and Private Hire Best Practice Guidelines. However, the service is aware of this risk and is actively reporting and monitoring it. This issue has been identified previously in relation to another Service and Internal Audit will continue to actively monitor the implementation of the recommendations made. Other areas of the Passenger Transport contract monitoring function are operating well, and good assurance can be provided on these.

2.3 *Risk Based Reviews*

Leaving Care Payments

- 2.3.1 The review of leaving care payments concluded that there are significant control weaknesses that present a high risk to the control environment and have left the system open to abuse. Whilst no instances of misappropriation were identified during the review, the system as it is currently operating is not controlling this risk to an acceptable level.
- 2.3.2 Limited Assurance has been provided for the control environment as although there is a process that aims to ensure that young people eligible for Leaving Care financial support are identified and assisted, the following weaknesses were identified:
- There are gaps in the policy and guidance for staff, for example the form of evidence required to support expenditure and a summary of the payment process to provide guidance to staff on the entire payments available and eligibility criteria/conditions of payment (some payment types have different payment rates and these are not clearly explained);
 - The lack of a single method to record and control the cash in the process has left the system open to abuse. Dependant on the type of payment, it can be recorded on the foster care database or by spreadsheets at the Area Office. This systems does not currently provide assurance that all payments made are accurately recorded and increases the risk that payments could be duplicated, for example a one-off computer grant could be paid through either method; and

- There is no requirement to produce regular budget or management information. The audit found that managers do not consider budget implications when authorising leaving care payments increasing the risk of overspending against budgets.

2.3.3 Limited Assurance was also provided for compliance as the control environment has not operated as intended and significant errors were detected:

- Neither the financial policy nor the values of individual allowances, payments and grants have been approved through the delegated decision procedure;
- Evidence was not always available to confirm that purchases and cash withdrawals had been spent as intended. A number of cash payments were made which, at the time of audit, were not supported by receipts to confirm that the cash had been spent appropriately.
- VAT is not reclaimed on all relevant purchases made. For a number of transactions, VAT was applicable but had not been reclaimed as staff were unaware of the procedures for claiming back vat for cash purchases. It is estimated that this could amount to £23k over the last 4 years.

2.4 *Counter Fraud and Corruption*

2.4.1 Referrals

Internal Audit received 11 new referrals between 1st July and 8th August 2013.

6 of these were received under the Council's Whistleblowing and Raising Concerns Policies and 5 were received from individual service areas.

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

There are 30 on-going investigations:

- 10 cases are currently being investigated;
- 20 have been referred to a service or HR for investigation and the Audit team is awaiting their responses.

2.4.2 Reports Issued

Investigation reports issued to Directorates and Services during the period are included in the table at 1.5 above.

Pro-active fraud work – Data Matching

- 2.4.3 A data matching exercise was carried out for adults in receipt of personal budgets and/or direct payments by a number of local authorities within North, South and West Yorkshire including Leeds City Council in conjunction with the Audit Commission. The aim of this exercise was to identify any potential instances of payments being made to deceased persons; duplicate claims made by people in receipt of personal budgets (within the same local authority and across neighbouring local authorities); fraudulent or stolen identities used in obtaining direct payments; and, undeclared capital and income when fairer charging assessments have been completed resulting in people are not contributing correctly towards the cost of care.
- 2.4.4 The review confirmed that subject to the outcome of a financial audit for a customer who has moved out of the Leeds area, there has been no identified fraud. In addition, an instance in relation to the continued payments to a deceased person is an isolated incident with existing controls not having identified this.
- 2.4.5 The main issues identified relate to data quality in 30 instances within the social care database and need to be set in the context that there are nearly 900 customers in receipt of a personal budget.
- 2.4.6 This work supports previous audit findings that there are good controls in place for direct payments and personal budgets.

Pro-active fraud work – Home care payments

- 2.4.7 Pro-active fraud work was also carried out on payments to independent sector providers of home care. The primary purpose of the audit was to substantiate whether payments made to providers could be supported by prime records. A sample of 5 home care providers was selected and a total of 30 service users (6 per provider) were then selected for testing. Whilst some errors were identified in the testing that resulted in incorrect payments being made, there was no evidence that this was due to deliberate fraud. Appropriate controls are in place, which if followed, should detect any significant fraud within this area.

2.5 *External Clients*

- 2.5.1 The externals contract assurance block includes time for the Housing Partnerships Assurance Framework and the ALMOs and BITMO Audit Plans. In June 2013, Executive Board approved the decision to integrate all council housing management within direct council control. Leeds City Council will be responsible for the entire housing stock, taking over responsibility for all ALMO functions including overall management, engagement with tenants and

responsibility for any repair work. The July Executive Board received a report on the proposed governance arrangements and a timetable for implementation.

- 2.5.2 Work is continuing on the ALMO audit plans and this is due to be completed by early November. Work on the Assurance Framework is being developed and agreed with Housing Partnerships to ensure that the audits undertaken will add value to the future delivery model.

BITMO Information Governance (Freedom of Information and Data Protection Act requests)

- 2.5.3 An audit of the information governance arrangements within Belle Isle Tenant Management Organisation (BITMO) has been undertaken as part of the Housing Partnerships Assurance Framework.

- 2.5.4 Limited Assurance was provided on the control environment as there are inadequate arrangements to promptly respond to and manage any requests for information, and no procedures for managing information security breaches. Limited Assurance was also provided for compliance with controls as relevant training has not been completed by all staff and no evidence has been retained to support requests for information or what has been provided. The weaknesses have left the council open to medium risk that, if it materialised, would have a moderate impact upon the Council.

2.6 *Corporate support*

- 2.6.1 In order to support corporate priorities, the Section currently has a number of staff on secondment to various projects and programmes across the authority.
- One of the Section's trainees is currently on a 15-month secondment (ending in August 2014) to the Waste Management Project within Environment and Neighbourhoods;
 - A member of staff has been providing support on a full time basis to Leeds and Partners since January 2013;
 - A member of staff has been providing full time support on a temporary basis to the Leeds Grand Theatre.
 - A member of the business analysis team is currently seconded to another Directorate.

2.7 *Staffing changes*

- 2.7.1 A number of staff have left the Section during the period, 2 to take up positions within the Council Tax service and Control Group and one member of staff took early retirement.

- 2.7.2 Internal Audit is actively managing resources to direct these towards the areas of highest risk to ensure that there is not a negative impact on the ability of the Section to provide the coverage necessary to support the Head of Internal Audit opinion on the authority's control environment.

Section 3

AUDIT PERFORMANCE QUARTER 2 - 2013/2014

3.1 ENSURING QUALITY

Internal Audit is committed to delivering a quality product to the highest professional standards that adds value to our customers. We actively monitor our performance in a number of areas and encourage feedback from customers.

All our work is undertaken in accordance with our quality management system; we have now been ISO accredited for over fourteen years.

A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditees opinion on a range of issues and asks for an assessment ranging from 5 (for excellent) to 1 (for poor). The results are based on the percentage of those assessments that are 3 (satisfactory) or above. The results of the questionnaires are reported to the Audit Leadership Team and used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff. The results are also benchmarked with other core cities who have adopted the same questionnaire.

Results from Customer Satisfaction Questionnaires

Question	2013/14 Actual to date at August 2013* - % Score 3 or above
Notice	100%
Scope	95%
Understanding	95%
Efficiency	100%
Consultation	100%
Professional/Objective	100%
Accuracy of Draft	86%

Question	2013/14 Actual to date at August 2013* - % Score 3 or above
Opportunity to comment	100%
Final Report - Clarity & Conciseness	95%
Final Report – Prompt	100%
Recommendations	91%
Added Value	95%

**As at 15th August 2013*