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Section 1

INTRODUCTION

The Half Year Reporting Process

On behalf of the Director of Corporate Services, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of financial and other management controls. This report is the culmination of the work during the first six months of the year and summarises the significant issues during the period

The Corporate Governance and Audit Committee ('the Committee') has responsibility for reviewing the adequacy of the Council's Corporate Governance arrangements, including internal control and formally approving the Statement on Internal Control (SIC) which is incorporated within the Corporate Governance Statement published alongside the authority's financial statements. Reports issued by Internal Audit are a key source of assurance which provide the Committee with evidence that the internal control environment is operating as intended. The Annual and Half Year reports issued by Internal Audit to the Committee summarise the key findings of Internal Audit for the period. By reviewing, challenging and monitoring such reports the Committee itself is demonstrating sound governance arrangements and enables it to take appropriate action if needed. It should be noted that Internal Audit will also issue interim reports to the Committee if any significant matters arise which by virtue of their size or nature would warrant immediate attention.

As part of the routine Internal Audit reporting process, recommendations are made to Directors if it is felt the Internal Control Framework could be improved. In most cases the recommendations are accepted and the system of control updated. For the period April 2006 to September 2006 there are no audit issues upon which the Committee needs to take direct action. However, it should be noted that work has only just commenced on the key financial systems of the Authority and any material issues arising from these will be included in the Annual Report.

From the work undertaken and samples selected during the year to date, Internal Audit has reached the opinion that key systems are operating soundly and that there are no fundamental breakdown of controls resulting in material discrepancy. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of the Council's financial affairs. However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance.

Section 2

SIGNIFICANT ISSUES ARISING April 2006-September 2006

The following section provides a summary of the more significant issues that have been identified and reported during the period. This is by exception only.

HOUSING BENEFITS FRAUD

In April 2006, Internal Audit was advised of concerns in relation to manual Housing Benefit payments made by the HB Control team. The resulting investigation identified that a senior officer within the Housing Benefit Control team had completed fraudulent Housing Benefit cheques to the value of £121K between September 2004 and March 2006. Whilst controls were in place which should have prevented the fraud, in practice checks were not being performed by key staff, in some cases due to the manager being able to manipulate and intimidate key staff involved in the process. A report highlighting the system control failures and further recommended improvements has been issued to the service.

The senior officer resigned his employment with the Council in April and has since made a number of repayments in respect of the defrauded sum. These repayments, together with the value of the ex-employee's pension fund, has resulted in the Council securing the recovery of the full value of the identified fraud.

SUPPORTING PEOPLE

It was reported in the 2005-06 Annual Audit Report that the Supporting People service was experiencing budgetary pressures. The programme has a target breakeven position of March 2008 to be achieved by savings on new contracts but there were no certainties that these savings could be achieved. Probability analysis undertaken by the Supporting People team suggested that the service is unlikely to achieve the required savings, leaving the Council with a deficit that, as administering authority, it would be responsible for. Towards the end of the financial year a programme of competitive procurement was developed which targets resources to the higher value contracts where there is the potential for the greatest efficiency savings.

To ensure that Value for Money is demonstrated, the Department has given assurances that each of the contracts will be subject to a robust criteria based options appraisal. Internal Audit is currently reviewing the effectiveness and impact

of these option appraisals, and also reviewing financial working papers to provide evidence that the ongoing cost of the service can be met by grant support.

It should be noted that guidance from the ODPM (now DCLG) requires that the Chief Internal Auditor (Head of Audit at Leeds) of the Administering Authority must certify that the entries on the statement of grant usage for 2006-07 are fairly stated in accordance with the grant terms and conditions. This will necessitate a full review of the control environment and detailed substantive testing of the claim by Internal Audit.

LEEDS SWIMMING & DIVING CENTRE

A recent interim audit of this high profile scheme has been completed. The latest Project Board reports indicates a significant overspend. At this stage there has been no formal report to Executive Board outlining the assessment of projected overspends and consequently no approval to spend has been given. Financial Procedure Rules state that when the cumulative value of variations to a scheme exceeds £100K Executive Board must give approval. The scheme's completion date has also slipped from December 2006 to July 2007. The scheme is being partly funded by Sport England and one of the conditions is that the scheme will be completed by the end of December 2006. The Sponsoring Director has indicated that verbal assurances have been received from Sport England that this delay will not result in a reduction of grant however there is no written confirmation to evidence this approval.

DELIVERING SUCCESSFUL CHANGE

Included in the 2005-06 Annual Internal Audit Report was an update on progress on the outcomes of the audit of the Carriageworks Theatre project. The corporate project methodology has been acknowledged as the guidance that will consider the issues raised in the audit report and, once communicated, will be used for projects of this type in the future. At this stage this guidance has not been issued which increases the risk of projects across the Council not being managed effectively, although it is currently being piloted within several departments. However, assurances have been given that the guidance will be available imminently.

ALMOs

Internal Audit has secured a further contract to provide an internal audit service for Leeds North West Homes in addition to the existing contracts with Leeds North East Homes and Leeds West Homes. As previously reported, no internal audit service is being provided to the remaining ALMOs. The audit experiences to date would indicate that an internal audit function adds significant cost savings to these key partners of the Council and provides additional assurance to the Strategic Landlord.

The review of the Strategic Landlord function which includes assessing whether sufficient assurance on the performance of the ALMOs is being obtained to manage the Council's risk is currently in progress.

EMERGING ISSUE - DEPARTMENTAL PROCUREMENT PROCEDURES

Recent audits across departments have indicated that Contract Procedure Rules are not always being adhered to. Internal Audit is currently reviewing the extent and impact of this and the findings will be included in the Annual Report.

Section 3

KEY MESSAGES: April 2006 – September 2006

The following section highlights the findings from some key reviews, also focussing on value added and successes for Internal Audit during the period April 2006 to September 2006.

THE GERSHON AGENDA

Internal Audit is committed to the Gershon Agenda and to assisting in the identification of efficiency savings for the Council.

The skills, knowledge and objectivity of the Section along with the Sections reputation for continuing to provide value added work puts Internal Audit in an excellent position to carry out audits that assess the economic, efficiency and effectiveness of services delivered and identify savings of both a cashable and non-cashable nature.

All audits within the annual plan are scoped with awareness of value for money and all auditors have been fully trained on the key features of the Gershon agenda and practical implications when auditing. In addition, a number of specific value for money audits have been built into the audit plan focusing on identifying efficiency savings.

Sundry Debtor Value For Money Review

This review identified significant savings and these have been taken into account in the 2007-08 budget. A report was presented to the Revenues Manager in September 2006 and outlined the key recommendations that needed to be implemented in order to achieve the significant savings identified. In summary these included:

- Policy guidance and KPIs implemented to require all invoices issued within 7 – 28 days of provision of service;
- Reduction in recovery process routes to 42-44 days from existing 65-86 days
- Reduction in number of reminder letters issued
- Revision of Ongoing Recovery policy for benefit overpayment to council tenants

Mobile Phone Value For Money Review

This review identified a number of potential savings and a need to improve controls on the repayment to the Council for private mobile calls. A report was presented to Director of Corporate Services in November 2006. The key recommendations were as follows:

- Implementation of policy guidance and controls regarding collection of private call income;
- Amnesty on previous 12 months private call income with follow up reviews by Internal Audit.

Social Services Policy Review

Work has commenced with respect to this review and will be conducted in three stages:

- Review of business case/financial models behind the revised policies.
- Communication and training.
- Implementation and benefit realisation.

It is expected that this review will identify significant tangible efficiencies.

CORPORATE GOVERNANCE AND THE STATEMENT ON INTERNAL CONTROL

The Statement on Internal Control and Corporate Governance review assessed how the Council demonstrates that sound Corporate Governance, internal control and risk management arrangements are in place. The Council has documented all the sources of assurances and evidence used to support the opinion on governance, internal control and risk management arrangements of the Council in the Leeds Evidence Framework. The Leeds Evidence Framework document demonstrates that the Council has comprehensive governance arrangements in place. Sources of evidence supporting the Framework have been audited and the conclusion is that the Framework provides comprehensive evidence of satisfactory governance, internal control and risk management arrangements being in place within the Council.

The review of the evidence supporting the 2005/06 Corporate Governance Statement concluded that the Statement accurately reflects the internal control environment.

SAVINGS – DUPLICATE PAYMENTS

Internal Audit has reviewed the majority of 2005/06 expenditure for duplicate invoice payments. To date £46,500 has been recovered for the period with a further £10,500 outstanding and being actively pursued. The total amount of duplicate payments recovered to date for all periods is £495k.

SCHOOLS AUDITS – FMSiS

The Financial Management Standard (the Standard) was released to schools as a self-management package in June 2004, and the DfES subsequently determined that it was to be used as an external assessment tool for all high schools. The Standard is intended to help schools in evaluating the quality of their financial management and to aid in training staff to become better financial managers. Following the external assessment a Financial Management Standard Assurance Statement, for signature by the Section 151 Officer, is prepared which summarises the schools achieving the Standard and those with action plans to meet the Standard. Internal Audit and Education Leeds are undertaking the external assessment of Leeds schools as a joint venture, competing with other providers in the market place. The Standard must be met by high schools by March 2007. The DfES are currently considering whether to make the Standard compulsory for all primary schools as well as high schools.

CRAVEN COLLEGE

During the period, Internal Audit has added to the portfolio of external contracts including recently being awarded the contract for the internal audit of Craven College for a period of three years.

FRAUD STRATEGIES

In support of the Council's anti-fraud policy and CPA 2005 requirements, a number of fraud strategies were included in the operational plan for 2006/07. The coverage of the fraud strategies was determined by assessing the materiality of expenditure, risk of fraud and previous experience of fraud in these areas.

Internal Audit has recently produced a Counter Fraud Strategy which sets out the Council's commitment to prevent and detect fraud & corruption. The whistleblowing policy will be re-launched in December together with details of the new whistleblowing e-mail address and freepost address.

Internal Audit will be leading on the completion of the Audit Commission's National Fraud Initiative (NFI) exercise in early 2007.

QUALITY STANDARD

Following the re-accreditation to the ISO 9001:2000 quality standard in Jan 2006, a surveillance visit was undertaken in July 2006 by an independent assessor. The review concluded that the division continued to maintain its management system in line with the requirements of the standard.

CUSTOMER SATISFACTION

Internal Audit continues to add value through its work for the Authority and for other external bodies. This is demonstrated by the Section's performance on Customer Satisfaction Questionnaires (results shown at Section 5) that request feedback from clients on the 'added value' of the audit. The results for April 2006 – September 2006 show 83% of questionnaires returned scored 'good' or 'excellent' for the question 'was the audit constructive and added value overall.'

There has continued to be a significant number of assignments and projects undertaken by Internal Audit during the period which were not specifically included in the 2006/2007 operational plan and were undertaken using the contingency allocation included within the plan. These have come from a number of sources including members' referrals, requests from Departments and also those identified as part of the continual risk review process by Internal Audit. The number of requests for additional work demonstrates the good reputation of Internal Audit across the authority.

CONTINUING PROFESSIONAL DEVELOPMENT

In a rapidly changing environment it is important that all Internal Auditors are kept abreast of the latest audit and accounting methodologies, changes in legislation and best practice as well as changes to the public sector arena so they have the necessary skills and knowledge to perform their role to a high standard. This is done via Continuing Professional Development (CPD) which the Section continues to support and promote. During the period a number of in-house training courses have been provided for all auditors including sampling, CPA scoring, corporate governance and fraud. In addition, CPD events such as CIPFA seminars other professional update events continue to be well attended by Internal Audit staff, often in their own time, as part of their commitment to CPD. Internal auditors are therefore well informed on current developments in the internal audit field and, more widely, those affecting the accountancy profession.

AUDIT PERFORMANCE 2006/07

ENSURING QUALITY

As part of Internal Audit's commitment to ensuring the highest professional standards and to ensure that we are continually improving the quality of work produced, 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 4 (good) or 5 (excellent). The results of the questionnaires are reported to the Audit Management 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.

It is perhaps worth mentioning that if the target was set at 3 (satisfactory) then all results would score 90% or above and 95% of respondents were satisfied that the audit 'added value'.

Table 1 - Results from Customer Satisfaction Questionnaires - % of Good and Excellent Assessments

Question	Actual 2003/04	Actual 2004/05	Actual 2005/06	Actual 2006/07
Notice	92	85	95	93
Scope	81	87	81	71
Understanding	71	72	67	83
Efficiency	91	98	93	71
Consultation	83	89	90	89
Professional/Objective	98	97	98	89
Accuracy of Draft	78	92	83	78
Opportunity to comment	87	98	93	89
Clarity & Conciseness	88	95	90	89
Recommendations	76	82	74	65
Final Report – Prompt	69	85	86	77
Added Value	74	90	81	83

The general trend continues to be extremely positive. However, these are used as proactively to identify any areas where improvements and training is required

In order to meet the Annual Audit plan, Internal Audit needs to have the right balance of skills – professional, experience based and knowledge based. Internal Audit is a professional discipline and as such it is necessary that all staff should have an appropriate professional qualification or be under training contracts to gain such a professional qualification.

This professional training approach is being actively enhanced by both in house training and individual officers undertaking Continuing Professional Development in their own time. This investment in staff will result in even better audit performance in future years.

RESOURCES

As a result of the changing skills required for auditors, successfully extending the external work portfolio and a number of vacancies Internal Audit has recently undertaken a comprehensive recruitment process. Although some recruitments have been made the process was not successful in filling all vacancies which leaves a significant gap in resources. Internal Audit is attempting to manage the impact of this gap in the short term through strict prioritisation of work and the use of temporary staff.