

# **LEEDS CITY COUNCIL**

## ***INTERNAL AUDIT REPORT***

***December 2011***

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*Section 1*

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## ***INTRODUCTION***

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### ***1. The Reporting Process***

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

### ***2. Background***

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

### ***3. Progress against the 2011/12 Operational Plan***

- 3.1 The following table shows the progress against the operational plan for the second quarter of the financial year for each assurance block. Resources continue to be reprioritised based on continuous risk assessment. At the moment, it is still expected the mix and volume of work will be sufficient to provide the Committee and other stakeholders with an evidence based assurance on the control environment of the Council.

<b>Assurance Block</b>	<b>Total Days per Audit Plan 2011/12</b>	<b>Total Days Achieved at 1<sup>st</sup> Quarter 2011/12</b>	<b>Q1 % completion</b>	<b>Total Days Achieved at 2<sup>nd</sup> Quarter 2011/12</b>	<b>Q2 % completion</b>
Financial Systems	805	182	23%	259	32%
Contingency	770	32	4%	90	12%
Counter Fraud And Corruption	922	273	30%	658	71%
Head Of Audit Assurances	54	30	56%	38	70%
ICT And Data Mining	530	32	6%	104	20%
Internal Control And Compliance	1400	395	28%	865	62%
Policies And Procedures	52	0	0%	38	73%
Procurement, Monitoring And Improvement	915	79	9%	254	28%
Schools	140	46	33%	80	57%
Unannounced Visits	100	58	58%	90	90%
Business Analysis And VfM	2178	561	26%	1061	49%
<b>Total Assurance Days</b>	<b>7866</b>	<b>1688</b>	<b>21%</b>	<b>3538</b>	<b>45%</b>

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

<b>Audit Area</b>	<b>Days per Audit Plan 2011/12</b>	<b>Days Achieved 1<sup>st</sup> Quarter 2011/12</b>	<b>Q1 % completion</b>	<b>Days Achieved 2<sup>nd</sup> Quarter 2011/12</b>	<b>Q2 % Completion</b>
Total Corporate Working Groups	90	0	0%	0	0%
Total External Contracts	324	174	54%	311	96%
<b>Total Days</b>	<b>414</b>	<b>174</b>	<b>42%</b>	<b>311</b>	<b>75%</b>

#### *4. How Internal Control is Reviewed*

- 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.
- 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.
- 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.

4.4. To improve 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.

<b>Organisational Impact</b>		
<b>Level</b>		<b>Definitions</b>
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.

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4.5. The individual reports, and the opinions given within those reports, are detailed in the following table. Not all audit reviews will have an opinion in each of the boxes as this is dependant on the type of review undertaken. The following table includes reports issued between 3rd September and 19<sup>th</sup> December 2011. Audit reports for 2011/12 which were issued up to and including 2<sup>nd</sup> September 2011 have been reported previously to the Corporate Governance and Audit Committee.

Audit	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Impact		
<b>Financial Systems</b>					
Bank Reconciliation and Cash Book	Substantial	Substantial	Minor	Resources	06/10/2011
Community Care Finance - Payments to independent providers of residential and nursing care and customers in receipt of direct payments and personal budgets	Good	N/A	Minor	Adult Social Care	12/10/2011
<b>Business Analysis and VfM</b>					
As-is report – LD Community Support Service	N/A			Adult Social Care	04/11/2011
Changing the Workplace: Customer Access Programme – service readiness report for Leeds Register Office	N/A			Resources	29/11/2011
<b>Internal Control and Compliance</b>					
Nursery Education Grants	Acceptable	Limited	Minor	Children's Services	11/10/2011
Information Security	Review of response to data security breaches			Chief Executive	12/09/2011
HR File Review	N/A	Good	Minor	Resources	24/11/2011
Synergy	Acceptable	Acceptable	Minor	Resources	15/12/2011
<b>Procurement, Monitoring and Improvement</b>					
Catering Provider Open Book Review	Acceptable	Acceptable	Minor	Resources	31/10/2011
Purchasing Card Review	Limited	Limited	Major	Resources	02/08/2011
Purchasing Cards Quarter 1 Review	Acceptable	N/A	N/A	City Development	06/12/2011

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Audit	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Impact		
<b>Schools</b>					
Farsley Farfield Primary School	Acceptable	Acceptable	Minor	Children's Services	13/10/2011
Bramham Primary School	Good	Good	Minor	Children's Services	20/10/2011
Ralph Thoresby School 6th Form Funding	Good	Acceptable	Minor	Children's Services	21/10/2011
Benton Park School 6th Form Funding	Good	Good	Minor	Children's Services	21/10/2011
St James C of E Primary School Wetherby	Good	Acceptable	Minor	Children's Services	21/11/2011
Waterloo Primary School Follow Up	Good	Acceptable	Minor	Children's Services	14/12/2011
Oakwood Primary School Voluntary Fund Audit	Good	Good	Minor	Children's Services	08/12/2011
<b>Unannounced Visits</b>					
City Art Gallery Shop	Good	Good	Minor	City Development	07/09/2011
Seacroft Children's Centre	Good	Good	Minor	Children's Services	13/09/2011
Suffolk Court Home for Older People	Good	Acceptable	N/A	Adult Social Care	22/09/2011
Burley Willows Home for Older People	Good	Good	N/A	Adult Social Care	27/09/2011
Two Willows Children's Centre	Good	Good	Minor	Children's Services	17/10/2011
<b>Strategic Landlord Assurance Framework Reviews (Internal Control and Compliance)</b>					
Lettings Enforcement - Central Lettings Policy Review	Good	N/A	Minor	Environment and Neighbourhoods	13/09/2011
Annual Report	Summary of individual reports for Strategic Landlord Assurance Framework			Environment and Neighbourhoods	21/09/2011
Follow up of Asset Management Gas Servicing 2010/11 - East North East Homes Leeds	Good	Good	Minor	Environment and Neighbourhoods	12/10/2011
Strategic Landlord Assurance Framework: Date of Registration Quota Lettings Enforcement — Belle Isle Tenant Management Organisation	N/A	Limited	Minor	Environment and Neighbourhoods	13/12/2011

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Audit	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Impact		
<b>Head of Audit Assurances</b>					
Building Hope Charity – independent examination of the Accounts 2010/11	<p>The review was an independent examination of the 2010/11 accounts as required by the Charities Act 1993. It does not provide an opinion on the accounts.</p> <p>The independent examination found no issues to indicate that the following had not been met:</p> <ul style="list-style-type: none"> <li>•keeping accounting records in accordance with section 41 of the 1993 Act; and</li> <li>•preparing accounts which accord with the accounting records and comply with the accounting requirements of the 1993 Act.</li> </ul>			Resources	13/12/2011

4.6. As can be seen, there are a small number of reviews that have resulted in limited assurance. However each review concluded with a number of recommendations that, if implemented, would allow appropriate levels of assurance to be given.

4.7. The report on procurement cards did include a detailed action plan and assurances have been given that these have now been implemented. This will upgrade the assurances to good.

4.8. Although significant to the control environment in place for the individual system areas that have been audited, these weaknesses are not material enough to have a significant impact on the overall opinion on the adequacy of the Council's control environment at the year end.

4.9. 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 at 4.5. The following section highlights any key issues and outcomes where Internal Audit have added value to the organisation within each assurance block.

### **5.1 Financial Systems**

The level of assurance provided for the key financial systems reviews issued during the period was good or higher and in all cases an action plan has been agreed with the appropriate officers that, if implemented, will give substantial control environment assurance.

### **5.2 Business Analysis and VFM**

#### **5.2.1 Business Process Re-engineering Projects**

##### **Children and Young People's Social Care**

The business analysts have continued to work with the project team within Children's Services on the replacement Social Care System project. Children and Young People's Social Care have now issued the Invitation to Tender document to 7 potential suppliers, complete with the business requirements that the business analysts captured for Assessment, Care Management, Finance, Fostering and Adoption. The process of gathering and defining business requirements is necessary to ensure that any new system will address the business needs effectively.

The business analysts have also been heavily involved in designing the method through which the suppliers will be evaluated. This will ensure that we measure the supplier responses appropriately and proportionately, and procure the best system for Children and Young people's Social Care based on the right balance of a variety of needs: the costs, the required benefits, the ease of implementation, and the ongoing support which is always required with new ICT systems.

A series of workshops has been planned, in order to re-engineer the business processes in Fostering, Adoption, Finance, the Assessment and Care Management Teams, and each of the specialist functions in Children and

Young People's Social Care. It is absolutely imperative that social workers are involved in the design of the system to make sure it is configured to support, rather than hinder, the way that they work, and to be able to identify better ways of doing things which the new system will enable. This will ensure that efficiencies, improvements, and appropriate controls are hardwired into the design of the new system.

### **Adult Social Care**

Work is ongoing in Adult Social Care to agree standardised, city-wide processes, following the completion of a series of workshops, involving social workers, to develop them. This is being done in order to scope out what is possible prior to the planned integration with health functions early next year, essentially differentiating short term goals and long term visions.

In addition, the business analysts are capturing as-is processes in Safeguarding and in Finance and other support functions, and working with each of the teams to identify ways in which they could be improved so that an informed decision can be made about the best way to proceed.

### **Electronic Document and Records Management System**

Work is ongoing on the Electronic Document and Records Management System (EDRMS) project, which is looking to deliver an electronic document scanning and management facility to reduce the amount of paper the council relies on, and mitigates the information security risks, and printing storage and mailing costs, that are inherent in using so much paper.

18 to-be processes have been designed in workshops involving key staff from Revenues and Benefits, and provide a blueprint from which developers can build a solution.

Work has now progressed onto the Phase 2 business case, and analysis is being undertaken to quantify (as far as possible) the financial benefits of the EDRMS system, to ensure that the investment will generate a greater return.

### **Changing the Workplace**

Work on the Changing the Workplace (CTW) Customer Access project - which is looking to create a single location for managing face-to-face customer enquiries within Leeds City Centre - is ongoing. This will be based at the existing City Centre One Stop at 2 Great George Street for an interim period of 5 years.

Reviews of the city centre based customer facing facilities for Adult Social Care, Children's Services, Education Services and Environment & Neighbourhoods (all based at Merrion House), and Registrars (Town Hall)

have been completed. Recommendations have been made to migrate the face to face services for Education Services and Registrars to the City Centre One Stop.

Work has now progressed on analysing the human and physical resources available at the City Centre One Stop, and the demand from customers for services. This review will quantify the resources that Customer Services will require to manage increased customer numbers ahead of the migration of new services.

Further reviews on Planning, Electoral Services and Legal Licensing will be performed in the new year to see whether these services could also be migrated to the City Centre One Stop.

### 5.2.2 Spending Money Wisely/Value for Money

Internal Audit has produced a Spending Money Wisely policy for the Council with a set of objectives. The aim of the Policy is to set out the Council's commitment and approach to VfM to ensure that this is an integral part of decision-making and day to day business. This will be publicised across the authority. In addition, the VfM reporting service which has been set up by Internal Audit will be further publicised to encourage employees to suggest potential VfM opportunities. A number of specific VfM projects are planned to be completed during the year and we are providing monthly updates on value for money practices and areas where efficiency savings have been made across the authority.

## 5.3 **Internal Control and Compliance**

### **Purchasing Card Review**

The only review that concluded a major impact for the organisation was the Purchasing Card Review.

#### Scope

The objectives of the review were to provide assurance that there are suitable arrangements in place to ensure that:

- Policies and procedures relating to the use of purchasing cards are fit for purpose;
- Purchases made with purchasing cards are in line with the policy and are appropriate expenditure for Leeds City Council.

## Key Findings

Limited assurance was provided for the control environment, as significant control weaknesses were found that present a high risk to the control environment. Controls were not in place to ensure that the cards of leavers were blocked and that all users had received training and signed a purchasing card user agreement. Improvements in the purchasing card guidance and the introduction of central monitoring of purchasing card expenditure would also improve the level of assurance in this area.

Limited assurance was provided for compliance with the control environment, as testing identified a number of controls were not operating as intended leading to subsistence levels being exceeded, inappropriate purchases and delays in approval of transactions.

## Outcomes

Internal Audit and the Business Support Centre put together an action plan to address the issues raised and Internal Audit will undertake quarterly compliance testing to give assurance on the use of purchasing cards. The Business Support Centre has advised that the recommendations have now been fully implemented which will amend the opinion to 'good'.

## Nursery Education Grants

The review provided limited assurance in respect of compliance. This was due to significant issues identified in the following areas:

- The audit visits to the four private providers highlighted instances of non-compliance with the Code of Practice. A particular area of concern was the high number of providers that were found to be charging a 'top-up' fee to parents and;
- Incorrect calculations of payments to providers resulting in overpayments being made.

## Information Security Review

In 2009, Internal Audit developed an information governance self assessment health checklist based upon the framework developed and updated by the Local e-Government Standards Body. The audit resulted in Moderate Assurance being provided for the control environment as the majority of the best practice requirements detailed in the Local e-Government Standard had been incorporated within the LCC Information Governance Framework (IGF) but was not fully embedded within the Council. In particular, monitoring of compliance and review procedures required further development. The audit resulted in 16 key recommendations being made to improve existing controls.

A number of these recommendations related to training and awareness of staff on information governance requirements, data security breach management and information security.

Following a number of data security breaches which occurred in July 2011, Internal Audit was requested to review the investigations that were instigated and provide high level assurance that there are robust procedures in place for the prevention, detection and management of data security breaches.

The audit highlighted 3 areas where attention should be focussed as a priority:

- 1) Policies and Procedures: The audit identified 2 policies that were not fit for purpose as the necessary systems were not in place to support the described processes. These were the Information Security Incident Management Policy and the Protective Marking and Asset Control Policy.
- 2) Roles and Responsibilities: The investigations undertaken at the time of the review appeared to be in line with legislative and best practice requirements. However, an investigation protocol and procedure was not in place which resulted in a lack of clarity over roles and responsibilities and delays in completing some of the necessary actions.
- 3) Training and Awareness.

The Business Transformation Team incorporated actions highlighted in the audit report in their action plan which was presented to CLT on 4<sup>th</sup> October. This action plan also incorporates recommendations that remained outstanding from the 2009 audit report.

A follow up audit has been scheduled for quarter 4 of 2011/12 to assess progress towards implementation.

**Strategic Landlord Assurance Framework - Lettings Enforcement (Date of Registration Quota): Belle Isle Tenant Management Organisation**

The Lettings Policy allows 25% of all properties allocated via the Choice Based Lettings scheme to be awarded to applicants with the earliest data of registration and a local connection to the area. The focus of this review was to examine how the quota of properties based on date of registration are advertised and allocated in line with the Lettings Policy.

Limited Assurance was provided on compliance with the control environment due to the following findings: a lack of supporting evidence for decisions to bypass applicants; and 1 of 2 application forms selected could not be located.

These weaknesses increase the risk that properties are allocated to customers who are not eligible for them.

## **5.4 Counter Fraud and Corruption**

### **5.4.1 Referrals**

A total of 12 new referrals have been received by the Internal Audit Fraud and Corruption team from 24<sup>th</sup> August to 11<sup>th</sup> November 2011.

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

There are 34 ongoing investigations:

- 22 cases are currently being investigated by the Fraud team;
- 8 have been referred to a Directorate or HR for investigation and the Fraud team is awaiting their responses;
- 4 are awaiting the outcome of police and/or disciplinary action before they can be closed.

### **5.4.2 Investigations**

#### *Fraudulent changes to banking details*

A referral was received from the benefits payments team that payments due to a lettings agent have been diverted to a member of the public who was a previous tenant at the property concerned. Another case involving the same individual but a different landlord was also identified.

These cases were referred to the Police and the fraudster has pleaded guilty to both instances in court. We are awaiting information as to how the judge instructed the monies stolen and compensation are to be re-paid to us. Systems issues that enabled this fraud to occur have been considered and recommendations made for action to prevent such cases in the future are to be detailed in a formal report.

#### *Fraud and Corruption Awareness Training for Managers*

Training sessions aimed at raising fraud awareness with managers at Aire Valley Homes Leeds and making them aware of the requirements of the Bribery Act 2010 have been held during October.

Comments on the sessions included:

- “Well spent couple of hours”
- “Need to bring agencies together to share information and .... ensure councillors receive this training as they need to be up to date”

- “Very good course, it is time it was handled”

### *Protecting the Public Purse*

The Audit Commission recently published a report ‘*Protecting the Public Purse*’. Internal Audit is preparing an assessment against this as part of the continual process of improvement. The results of this assessment are included in a separate report to the Corporate Governance & Audit Committee.

## **5.5 Policies and Procedures**

### 5.5.1 Anti-Bribery Policy

The Anti-Bribery Policy discussed at the September Corporate Governance and Audit Committee meeting has been published on the intranet and publicised in the 10<sup>th</sup> November ‘In Brief’ sent to all system users by the Communications Team.

### 5.5.2 Financial Procedure Rules

There is currently a root and branch review of the Council’s Financial Procedure Rules in progress. It is planned to bring the revised documents to CG&AC for challenge and comment prior to these being approved and released early in the new year.

## **5.6 Audit Philanthropy**

Internal Audit once again hosted its annual Children in Need auction and raised a total of £1,861.