Appendix 1

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Interim Audit Report 2011/12

Leeds City Council

April 2012

Contents

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Section one

Introduction

This document summarises the key findings arising from our work to date in relation to both the audit of the Authority's 2011/12 financial statements and the 2011/12 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Leeds City Council (the Authority) in relation to the 2011/12 financial statements; and
- our work to support our 2011/12 value for money (VFM) conclusion up to April 2012.

Financial statements

Our *External Audit Plan 2011/12*, presented to you in February 2012, set out the four stages of our financial statements audit process.

During March and April 2012 we completed our planning and control evaluation work. This covered our:

- review of the Authority's general control environment, including the Authority's Information Technology (IT) systems;
- testing of certain controls over the Authority's key financial systems with the help of Internal Audit;
- assessment of the Internal Audit function; and
- review of the Authority's accounts production process, including work to address the prior year audit recommendations and the specific risk areas we have identified for this year.

VFM conclusion

Our *External Audit Plan 2011/12* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed some early work to support our 2011/12 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- identifying what additional risk-based work we will need to complete.

Structure of this report

This report is structured as follows:

- Section two summarises the headline messages.
- Section three sets out our key findings from our interim audit work in relation to the 2011/12 financial statements.
- Section four outlines our key findings from our work on the VFM conclusion.

Matters arising from our work are included in Appendices one and three with recommendations made where appropriate. We have also reviewed your progress in implementing previous recommendations and these findings are detailed in Appendices two and four.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Organisational and IT control environment	Your organisational and IT control environments are effective overall. We have identified some minor control weaknesses in relation to physical access to server rooms and the retention of appropriate evidence for new starters who were granted access to FMS (the general ledger). Of the two recommendations made by us in 2010/11 in relation to the IT control environment, one has been fully implemented and one remains outstanding in relation to the review of access rights to the Council Tax and NNDR system and the housing management system. These are detailed further in Appendices three and four.
Controls over key financial systems	The Authority has generally sound controls over its key financial systems, however some control weaknesses were identified by Internal Audit with regards to: ■ changes made to payroll in respect of leavers and amendments to standing data; and ■ ordering and payments. In Appendix one we have explained the impact of Internal Audit's findings for our financial statements audit work. We have yet to finalise all of our controls work regarding fixed assets and financial reporting (due to a number of controls operating only at year-end) and budget monitoring, which Internal Audit had not yet tested.
Review of Internal Audit	We were able to place full reliance on Internal Audit's work on the key financial systems and are satisfied that they are compliant with the *Code of Practice for Internal Audit in Local Government*.

Headlines (continued)

Accounts production and specific risk areas	The Authority has met key closedown milestones. We noted the following in respect of specific risk areas: **Financial standing (savings plans)** – The Authority has achieved its £90 million savings in 2011/12 and overall is £1.5 million under spent compared to the original budget at year-end, after taking account of £3.6 million strategic net savings. The provision for Early Leavers was also not fully utilised in the year due to costs being met from unplanned, in-year budget savings. **Component accounting** – The Authority continues to account for HRA assets on a non-component basis. The Authority has commissioned a larger sample of property valuations to support this policy in 2011/12 and this exercise is still ongoing. The results will be reviewed at year-end to ensure that they support the policy in place. **Code changes** – We reviewed the Authority's process for identifying and valuing to heritage assets to gain assurance that this was reasonable. Heritage assets are likely to be material and therefore the Authority will be required to make a prior period restatement.
VFM work	Our work over the value for money conclusion is still largely ongoing. We have monitored the financial position of the Authority over the last few months in respect of financial resilience. The current year's financial position is summarised above. Over the coming months we will complete further work around the Medium Term Financial Plan and the 2012/13 budget. Following discussions with management we have agreed to facilitate a workshop for the Authority regarding the transfer of Public Health services from the Primary Care Trust to the Authority. This will focus on a discussion of the key risks and how the Authority plans to mitigate those risks.

Organisational control environment

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

In previous years we used our work on the Use of Resources assessment to inform our findings in these areas. Due to the reduced scope of the VFM assessment we have to complete more specific work to support our financial statements opinion.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

Key findings

We found that your organisational control environment is effective overall. We did not identify any issues or areas for improvement.

Aspect	Assessment
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Related parties	3
Risk assessment process	3
Internal communications	3
External communications	3
Monitoring process	3
Monitoring information	3

Key:
- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.

IT control environment

Your IT control environment is effective overall.

We noted three areas for further improvement:

- **Academy and Orchard user access monitoring;**
- **FMS access for new starters; and**
- **Physical access to server rooms.**

Work completed

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the IT systems and processes, we obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

The controls we review include those over access to systems and data, system changes, system development and computer operations

Key findings

We found your IT control environment is effective overall but we noted three areas for further improvement.

We have raised two low priority recommendations in relation to FMS access for new starters and physical access to server rooms. In addition one medium priority recommendation in relation to Academy and Orchard user access monitoring remains outstanding from the prior year. We have assessed this as outstanding because the evidence of review of the user access was not retained by officers.

Addressing these recommendations should help to strengthen processes in relation to management of access to the Authority's key IT systems relevant for the external audit.

Recommendations are included in Appendix three.

Aspect	Assessment
Access to systems and data	2
System changes and maintenance	3
Development of new systems and applications	3
Computer operations, incl. processing and backup and end-user computing	3

Key:
1 Significant gaps in the control environment.
2 Deficiencies in respect of individual controls.
3 Generally sound control environment.

Controls over key financial systems

The controls over all of the key financial systems are generally sound.

However, there are some weaknesses in respect of Payroll.

We will need to complete additional substantive work in these areas at year-end.

Work completed

We work with your Internal Auditors to update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems.

We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a key system will not always be in line with the Internal Auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

The controls over all of the key financial system are generally sound but from Internal Audit's work we noted some minor weaknesses in respect of individual financial systems. The main area related to:

- Payroll processes for leavers and amendments to standing payroll data.

Internal Audit reported on the identified weaknesses and included recommendations in their reports as appropriate. Those weaknesses identified in respect of payroll are not expected to have a material impact on the financial statements. We will review the implementation of Internal Audit's recommendations in this area to identify whether or not we need to amend our audit approach. For further details on the impact on the audit of these issues, please see page 16.

We have summarised the key issues and their impact on our work in Appendix one. Generally, any weaknesses in controls result in additional substantive testing being performed during our final audit of the financial statements.

We have yet to finalise our controls work over fixed assets and financial reporting as many of these controls only operate at year-end. In addition, Internal Audit is performing a review of budget monitoring in between now and our final visit. We will seek to place reliance on this review.

System	Assessment
Housing rents income	3
Council tax income	3
Business rates income	3
Sundry income	3
Payroll expenditure	2
Non-pay expenditure	3
Benefits expenditure	3
Cash	3
Treasury management	3

Key:
1 Significant gaps in the control environment.
2 Deficiencies in respect of individual controls.
3 Generally sound control environment.

Review of Internal Audit

Internal Audit complies with the *Code of Practice for Internal Audit in Local Government.*

Work completed

We work with your Internal Auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on Internal Audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the Internal Audit function and to evaluate and test aspects of their work.

We reviewed Internal Audit's work on the key financial systems and re-performed a sample of tests completed by them.

We have held meetings with Internal Audit during the year to ensure that we are made aware of any issues as they arise so that where relevant they can be incorporated into our audit planning.

Key findings

We have reviewed Internal Audit's work and are satisfied that they are fully compliant with the *Code of Practice for Internal Audit in Local Government.*

This is based on a previous self-assessment completed by Internal Audit, our assessment of their files and documents, our knowledge from liaison with the Head of Internal Audit and attendance at Audit Committee.

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.

Aspect	Assessment
Scope of Internal Audit	3
Independence	3
Ethics for Internal Auditors	3
Audit Committee	3
Relationships with management, other auditors and other review bodies	3
Staffing, training and development	3
Audit strategy and planning	3
Undertaking audit work	3
Audit strategy and planning	3
Due professional care	3
Reporting	3

Key:
1 Non-compliance with the standard.
2 Areas for improvement.
3 Full compliance with the standard.

Accounts production process

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has taken steps to implement the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Work completed

We issued our Accounts Audit Protocol to the Principal Accountant in Control Group on 1 May 2012.

This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work.

We continued to meet with the Control Group on a regular basis to support them during the financial year end closedown and accounts preparation.

As part of our interim work we specifically reviewed the Authority's progress in addressing the recommendations in our *ISA 260 Report 2010/11*.

Key findings

We consider that the overall process for the preparation of your financial statements is adequate.

The Authority has taken steps to implement the two medium priority recommendations raised in our *ISA 260 Report 2010/11* relating to the financial statements.

The table below sets out the Authority's progress against our prior year recommendations.

Issue	Progress
Component Accounting After review of the Authority's work on component accounting during 2010/11, we asked the Authority to consider the following points: • Where the level of capital expenditure in a year is significant and relates to an individual component, such as a roof, then the Authority should consider whether the existing policy is still appropriate. The alternative approach is to separately account for the spend as individual components; and • The impending changes to the HRA. The consultation paper issued by CIPFA in February 2011 outlined the proposed abolition of the Housing Subsidy and the MRA. This will increase the importance of an accurate depreciation charge in the HRA to ensure that suitable provisions are in place to fund major repairs to housing stock. For example, if the total replacement cost for an asset over the 30 year business plan is £33,000 then for business planning purposes, an annual depreciation charge of £1,100 would be expected.	We identified this as a specific risk as part of our planning for the 2011/12 financial statements audit. We have documented our findings in relation to our work on component accounting in Section four of this report.

Specific risk areas

The Authority has been taking steps to address the key risk areas we identified and has made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our *External Audit Plan 2011/12,* presented to you in February, we identified the key risks affecting the Authority's 2011/12 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with Control Group as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

You have taken these issues seriously and made good progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit..

The table below provides a summary of the work the Authority has completed to date to address these risks.

Key findings

Key audit risk	Issue	Progress
Financial standing – savings plans	At the end of period nine, the Authority were forecasting an overspend of £0.5 million on budget, a significant improvement from the £7.2 million overspend predicted at the end of the second quarter. This is primarily due to over £8 million of unbudgeted funding from the NHS to support the work in Adult and Children's social care services which has helped to offset continuing pressures in these areas. The Authority continues to experience declining income in areas such as car parking, planning fees and section 278 agreements, however this has been offset to some extent by savings of £3.3 million on budgeted finance costs. The 2011/12 budget includes a savings programme totalling £90 million. The Authority reports that more than £80 million of the budgeted savings are on target to be achieved at period nine. All directorates are continuing to develop and implement action plans and the position is being closely monitored.	The Authority has under spent compared to its original budget by £1.5 million in 2011/12. Despite experiencing continued pressures, both Adult Social Care's and Children's Services' out-turn position was under budget at year-end. This is largely due to the Authority securing an additional £6 million funding from the NHS to support the Authority in these areas. Both City Development and Environment and Neighbourhoods did not achieve budget at year-end. This is partly due to declining income in these areas. Overall, the directorates were £2.1 million over spent at year-end, however this was offset by £3.6 million strategic net savings, resulting in a £1.5 million under spend. The main reasons for the £3.6 million strategic savings are as follows: The Authority has benefited from lower debt interest costs, which were £3.5 million lower than budget.

Specific risk areas

Key audit risk	Issue	Progress
	The Authority currently estimates that another £47 million in savings will need to be achieved during 2012/13 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. The Authority has plans to further reduce its staff costs by implementing another round of its Early Leavers' Initiative (ELI) in 2011/12. Staff were expected to leave before 31st December 2011 which would enable the Authority to save three months of costs in the current financial year. Over 1,000 staff members put themselves forward for this programme although it is unlikely that all such requests will be accommodated due to the need to balance service delivery with cost savings. It is anticipated that a further round will be implemented in 2012/13.	Moreover, £1.6 million of interest costs have been capitalised in respect of assets under construction. The Authority also received an additional £5.3 million as part of the New Homes Bonus scheme. These savings were partly offset by a shortfall in Section 278 income of almost £2.7 million, the need to fund £1.3 million of PFI liabilities from the revenue budget due to a shortfall in budgeted capital receipts and the creation of a £1.2 million earmarked reserve in respect of MMI liabilities. The reserve set aside for the Early Leavers Initiative was not fully utilised in year as some costs could be met from unplanned savings on budgets. The remaining reserve will be carried forward for use in future rounds of the initiative. We will undertake further work around the Authority's immediate and longer-term financial plans over the coming months.
Component accounting	The Authority will need to continue to monitor the reasonableness and appropriateness of its componentisation policy in line with any guidance released by the Audit Commission or CIPFA. This is particularly important given the move to HRA self-financing from 2012/13 as depreciation becomes a charge to the HRA that will not be reversed. Where the depreciation charge without componentisation differs materially from that which would be charged if component accounting had been implemented, this will have a direct impact on the surplus/deficit reported.	The Authority continues to apply the same approach to component accounting of HRA assets as in 2010/11, whereby only the land and building elements are recognised separately. The Authority has commissioned a larger and more representative sample of property valuations to support this policy in 2011/12 and this exercise is still ongoing. We have reviewed the initial sample selected to gain assurance that the results will provide a materially accurate representation of the HRA asset base. We now need to review the full outcome of the survey before we can conclude on this matter.

Specific risk areas

Key audit risk	Issue	Progress
	In 2010/11 the Authority elected not to apply component accounting to its HRA assets as it would not have had a material impact on the financial statements. We need to gain assurance that this policy continues to be appropriate in 2011/12 and in light of any new guidance.	The results of the valuation exercise will be reviewed at year-end to ensure that they corroborate the policy in place. We will also expect the Authority to demonstrate that there is no material impact on the depreciation charge as a result of choosing not to componentise other than as land and buildings.
Code changes	The 2011/12 Code includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art. The Authority needs to review and appropriately address these changes in its 2011/12 financial statements.	We reviewed the Authority's process for identifying and valuing to heritage assets to gain assurance that this was reasonable. From our review of work conducted to date, heritage assets will be a material balance in the financial statements and therefore the Authority will be required to make a prior period restatement. Detailed testing on the assets and the restatements will be undertaken at year-end as part of our work on fixed assets.

VFM audit approach

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

Our *External Audit Plan 2011/12* describes in more detail how the VFM audit approach operates.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.

Specific VFM risks

We have identified two specific VFM risks.

At present we are currently gathering evidence to gain assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Our work is focussed on the following areas:

- **Financial standing – savings plans**
- **Public Health**

Work completed

In line with the risk-based approach set out on the previous page, we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.

Key findings

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion,

We will report our final conclusions in our *ISA 260 Report 2011/12*.

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment/focus of work
Financial standing – savings plans	The Authority needed to deliver significant savings during 2011/12 to achieve its balanced budget. Government funding in 2011/12 has been reduced by £50 million and the Authority forecasts that there will be a real terms reduction in grants available of £179 million by 2014/15. The Authority estimates that another £47 million in savings will need to be achieved during 2012/13 to address the further reductions to funding. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. The Authority has plans to deliver another round of its Early Leavers' Initiative in 2012/13 which will enable it to deliver some of the required savings. However, with continuing cuts to staff numbers, the Authority needs to ensure that it carefully balances service delivery with cost savings. The Authority will need to establish and manage its savings plans so as to secure longer term financial and operational sustainability.	As noted in the previous section, the Authority achieved its planned £90 million savings in 2011/12 and was under spent on its revenue budget by £1.5 million. The Authority needs to continue to closely monitor its Medium Term Financial Plan and manage its financial pressures as the 2011/12 under spend is largely due to unbudgeted income of £6 million from the Department of Health and unbudgeted savings on debt costs which collectively had a +£11.1 million impact overall. The next steps of our work will involve critically assessing the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential further funding reductions. It should be sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review what impact, if any, the ELI has had on service quality.

Specific VFM risks

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	Leeds City Council are acquiring the responsibility for public health services from Leeds Primary Care Trust. This transfer brings about several risks that will need to be managed carefully by the Authority, including: • financial risks from the delivery of a new, less familiar service; • how the service fits strategically and operationally within the Authority; • ensuring that clinical governance requirements are met. This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.	We have held initial discussions with the Authority's management and KPMG's health specialists around what the key risks of the transfer are and how the Authority plans to deal with this. The Authority is currently in the process of establishing the appropriate structures to support the delivery of public health services and has a joint appointment with the Primary Care Trust for the Director of the service who is overseeing the transition. We have agreed to facilitate a workshop to aid the discussions around the key risks of the transfer and associated actions. The workshop is likely to involve the Executive management of the Authority and other key stakeholders determined by the joint Director of Public Health.

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Impact of controls findings on the financial statements audit

During the course of the year Internal Audit have raised recommendations. Some of Internal Audit's findings will have a direct impact on our year end substantive testing.

Details of the impact of Internal Audit's findings are contained in this Appendix.

No.	Issue identified and recommendation made by Internal Audit	Impact on our audit
1	**Payroll issues** Internal Audit identified several issues with regards to controls over leavers and changes to the standing data on the payroll system, as follows: For three out of 25 leavers, a payroll simulation report had not been run meaning that there was a risk that the leaver's final payment had been calculated incorrectly. In both cases, Internal Audit verified that no over- or underpayment had been made. For one out of 25 leavers, the employee was found to have four days of annual leave outstanding at the date of termination and there was no evidence that a payment for the leave owed had been paid. This issue is currently under investigation by Internal Audit. For two out of 50 changes to payroll standing data tested, the change request had not been appropriately authorised. The changes in question related to the payment of wages to casual workers on the basis of Casual Employee Claim forms. These two items will now be investigated in more detail to assess whether the payments were appropriate. For one out of 50 amendments, a change to bank details was requested via a form attached to an email from a non-Leeds City Council email account and was actioned by payroll. Internal Audit expect that an erroneous change to bank details would be picked up by the employee affected. No issues have been raised by the employee to date.	We will perform more detailed testing on balances relating to payroll at year-end to gain assurance over the completeness, existence and accuracy of staff costs. Since erroneous changes to bank details are expected to be identified by the individuals affected, we do not consider these particular issues to have a significant impact on our audit approach. We will follow up Internal Audit's ongoing investigations into the issues raised and consider whether the conclusions have a further impact on our audit approach before we commence our year-end testing of payroll.

Impact of controls findings on the financial statements audit (continued)

No.	Issue identified and recommendation made by Internal Audit	Impact on our audit
2	**Ordering and payments** Internal Audit tested 25 items of expenditure and found the following control weaknesses which have an impact on our reliance on controls over expenditure and creditors: • For five out of 25 items tested, orders were raised after receiving the invoice. There could be a risk that unauthorised and/or unessential goods are being purchased on behalf of the Authority. • For three out of 25 items tested, the same person who authorised the order, receipted the goods. This is not in line with current procedures at the Authority. • For one out of 25 items tested, the goods were not receipted on the system, despite the order value being over the threshold for doing so. Where goods are not marked as receipted, there is a risk that the Authority pays for goods/services not actually received.	These control weaknesses would, if corrected, strengthen the Authority's controls over ordering and payments. The main risks relating to these issues relate to value for money matters as the Authority may order goods or services which are not required or essential to service delivery. In addition, it may be paying for goods or services which were not delivered and/or were not of a sufficient quality. However, the issues raised do not have a direct impact on the external audit because in all cases segregation of duties was maintained in the ordering and payments process which mitigates the risk that unauthorised and/or fraudulent transactions were made. As such, these weaknesses do not have a direct impact on our audit approach to purchases and creditors.

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Appendix 2

Follow-up of prior year recommendations

The Authority has not implemented all of the recommendations in our *Interim Audit Report 2010/11.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our Interim Audit Report 2010/11 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April
1	2	**Overtime payment authorisation** Internal Audit identified that there were 10 instances out of a sample of 30 where amendments to payroll data had not been appropriately authorised. All 10 of these instances related to overtime payments. Internal Audit have undertaken further testing on this to ascertain: a) If this was a wider issue for the Authority; and b) If these payments were correct despite the controls operating ineffectively. The result of this testing found that the 10 instances mentioned above had been paid correctly. Further testing of an additional 25 instances found 1/25 where an overpayment was identified, this is now being reclaimed. The total amount of overtime paid in 2010-11 was less than our audit materiality	Whilst the processes for authorising overtime payments are generally sound, the following improvements are to be implemented in order to strengthen the arrangements: Business Support Centre to update and maintain authorisation lists prior to the introduction of the Self service facility. Authorising officers to be reminded that relevant documentation to support overtime payments should be retained in line with the Authority's Financial Procedure Rules. Specific services to implement improvements to overtime authorisation and checking processes. In addition Internal Audit are to undertake periodic sample checks within areas of high spend and overtime will continue to be an area scrutinised under budget monitoring arrangements. Responsible officers: Chief Officer financial management Due date: Oct 2011	**Outstanding** Internal Audit identified that two out of the four payments to casual claimants tested had not been authorised appropriately during 2011/12. Internal Audit are due to perform a more detailed audit of overtime payments later in the year.

Follow-up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2012
2	2	**Benefits Overpayments Reconciliation – Council Tenants** This reconciliation takes place to ensure that the debtor figure in the Authority's accounts in respect of overpayments to benefits claimants is correct. Beneath this there is a further calculation which apportions the overpayments between different headings/benefit types. We re-performed the Benefits Overpayments reconciliation for quarter one and found: The figure for total benefit overpayments for Council Tenants on the reconciliation was £3,867,813.67. We found however, that this did not agree to the underlying Academy report. The total benefit overpayments for Council Tenants was £851,650.26. The figures for these overpayments had not been entered correctly into the reconciliation. These reconciliations work on a cumulative basis. This means that at quarter two and each of the following quarters, the reconciliation is performed again. As such any previous errors would be eradicated. We recommend that, in line with current procedures, the Authority thoroughly review this reconciliation at the year end to ensure the figures used are accurate and fully agree to the source systems. If the Authority feel it is inappropriate to verify benefit overpayments by type on a quarterly basis, consideration should be given to re-designing the control to undertake this detailed review at year end only.	This reconciliation has no impact on the Authority's subsidy claim. The reconciliation forms part of the process for apportioning the benefit overpayment debtor over a number of classifications. Currently only the final published apportionment of the debtor, completed at the year end, is subject to a full and detailed calculation and review. Officers have now introduced a quarterly review of this apportionment to ensure accuracy throughout the year. Responsible officer: Senior Financial Manager (Central & Corporate) Due date: July 2011.	**Implemented** This reconciliation was tested again in 2011/12 and the issue was found to have been fully resolved.

Appendix 3

Key issues and recommendations (IT)

No	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1		**FMS Starter's Process** Appropriate evidence was not retained for new starters who were granted access to FMS. We noted that out of our sample of 15 users, appropriate evidence was not retained for four of them. Weak controls around the starter's process increases the risk of unauthorised access to the system which could impact on the integrity of financial data. We recognise that management is looking to implement a standardised process of providing new user access on FMS and recommend this should be put into practice as soon as possible	The role of system controllers is now being centralised in order to ensure better compliance with authorisation controls. It should however be noted that the four cases identified relate to officers given low level access rights and therefore represented little risk to the integrity of the financial ledger. Responsible officer: Principal Accountant, Corporate Financial Management. Due date: September 2012.
2		**Physical access to server rooms** Physical access to server rooms should be restricted to a reasonable number of personnel. We noted that 134 staff has access to the server rooms . We further noted that apart from members of the ICT and security team, there were staff from other teams (e.g. City Services, Registrars, Libraries, Education Leeds, Legal, Licensing & Registration) with access to the server room. Inappropriate access to the server rooms can compromise the availability of the server which could impact the Authority's operations. We recommend that the list of personnel who has access to the server room should be reviewed and the access should be restricted to those personnel who require access.	ICT are conducting a review of physical access to server rooms as part of the planned works to introduce new governance rules for the Data Centres. This will include restricting access to designated individuals. It will also include a log (potentially electronic via the card key system) of who has accessed the rooms and for what purpose. Responsible officer: Support Service Manager, ICT services. Due date: September 2012.

Follow-up of prior year recommendations (IT)

No	Risk	Issue and recommendation	Status as at April 2012
1	●	**FMS and Orchard Leavers' Access Revocation** When staff leave the Authority, their access to any of the IT systems should be removed in a timely manner to avoid such accounts being subsequently used by unauthorised individuals to view, alter or delete business critical data. However, we identified 30 active FMS user accounts and 14 active Orchard user accounts previously assigned to staff that have now left the Authority. These accounts had not been deactivated in line with the defined procedures. Where such accounts are left active, the risk is increased that they could be used incorrectly and this could lead to errors in financial reporting or incorrect management information being produced by the systems. We recommend that management should ensure that the established leavers process is consistently followed to ensure that all leavers' access to the systems is revoked in a timely manner. Adequate arrangements should be put in place for the notification of all leavers to the officers responsible for managing access to the systems so that the process can be effectively managed.	**Complete** Our 2010-11 fieldwork has confirmed that this issue has now been remediated.

Follow-up of prior year recommendations (IT)

No	Risk	Issue and recommendation	Status as at April 2012
2	●	**Academy and Orchard User Access Monitoring** Permissions granted to users, to access and change data within the IT applications, should be periodically reviewed to ensure that they are still valid and required for their job roles. There are currently no formal periodic reviews performed to validate that user access rights within the Orchard and Academy applications are appropriate . Also, no activities are performed to investigate unused accounts to determine whether they are still required. Where periodic access reviews are not performed, there is a risk that instances of inappropriate or unnecessary access rights for users on the systems are not identified and resolved. This could lead to users being able to access or make changes to data which they should not based on their current job roles. We recommend that periodic reviews of user access rights should be instituted for the Orchard and Academy applications, especially for users that can perform highly privileged system functions. These should involve the relevant authorising managers verifying that the list of active users within their teams and their corresponding access permissions granted are appropriate. In addition, the system administrators should periodically review the access details for users to identify accounts that have not been used for long periods. Such accounts should be investigated and deactivated if no longer required.	**Partially complete** We found that a periodic review of user access rights was not being performed for the Academy system. Although a periodic review of user access rights was performed for the Orchard application, no evidence was retained so we were not able to verify it. We also found weaknesses in respect of the investigation of unused accounts to determine whether the accounts are still required. A review of unused accounts was performed in February 2012 for Academy, however there remains a risk that inactive users were on the system between April 2011 and January 2012. Generally we would expect such reviews to take place on a quarterly basis. Although there is a review system in place for Orchard, 37 inactive users were identified during our testing and subsequently deactivated. These users ought to have been picked up as part of the Authority's review process. **Management response** Response from management to be provided.

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