



Internal Audit

**Annual Report and
Opinion 2012/13**

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Section 1

INTRODUCTION

1.1 The Annual Reporting Process

Management is responsible for the system of internal control and must set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Corporate Governance & Audit Committee (CG&AC) and the Director of Resources and Deputy Chief Executive, Internal Audit acts as an assurance function providing an independent and objective opinion on the organisation's entire control environment by evaluating its effectiveness in achieving 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.

This report is the culmination of the work during the course of the year and seeks to provide an opinion on the adequacy of the control environment and report the incidence of any significant control failings or weaknesses. The report also gives an overview of audit performance during the year.

1.2 Requirement for Internal Audit

The organisation has a duty to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. This role is complemented by initiatives aimed at promoting effective corporate governance.

In 2006, CIPFA published a revised Code of Practice for Internal Audit in Local Government in the UK. The guidance accompanying the Accounts and Audit Regulations 2003 referred to this code as representing "proper internal audit practices". The Code defines the way in which the internal audit service should be established and undertaken, encompassing organisational and structural aspects.

The Accounts and Audit (England) Regulations 2011 that came into force on the 31st March 2011 and revoked the Accounts and Audit Regulations (England) 2003 maintain the requirement for relevant bodies to have a sound system of internal control and conduct a review at least once a year of the effectiveness of the system of internal control.

The 2011 regulations require bodies to conduct, at least once a year, a review of the effectiveness of their internal audit to consider this as part of the consideration of the system of internal control by a committee of the body, or by the body as a whole.

1st April 2013 saw the introduction of the new United Kingdom Public Sector Internal Audit Standards (PSIAS) that will apply across the whole of the public sector. The PSIAS

are based on the Chartered Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow PSIAS to be adapted for the public sector.

The PSIAS replace the Code of Practice for Internal Audit in Local Government in the UK – last revised in 2006 - from 1st April 2013. The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

From the 2013/14 annual report onwards, the Head of Audit must provide an annual internal audit opinion and report timed to support the annual governance statement. The annual report must incorporate:

- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;
- A summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies);
- A statement on conformance with the UK Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme.

In addition, the PSIAS require that the Head of Audit must confirm to the Corporate Governance and Audit Committee at least annually, the organisational independence of internal audit activity.

Section 2

REVIEW OF INTERNAL CONTROL AND OPINION

2.1 Opinion 2012/2013

The Code of Practice for Internal Audit in Local Government in the UK 2006 states that the Head of Audit must provide a written report to those charged with governance timed to support the Statement on Internal Control (now the Annual Governance Statement). This report must include an opinion on the overall adequacy and effectiveness of the organisation's control environment, presenting a summary of how that opinion is derived including reliance placed on work by other assurance bodies.

The internal control environment, including the key financial systems, is well established and continues to operate well in practice.

At the time of writing this report there are no outstanding significant issues arising from the work undertaken by Internal Audit.

However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

2.2 How Internal Control is reviewed

Internal Audit continues to embrace the risk assessment approach to audit. During the course of the year, the risk map of the Authority has been continually challenged and used to form the basis of Internal Audit's operational plan for the coming year. The review process draws on key indicators of risks to the organisation and attempts to ensure that suitable audit time and resources are devoted to review the more significant areas. The Corporate Risk Register is used as a key source of information during this process. The audit plan contains a contingency provision that is utilised during the year in response to unforeseen work demands. This risk based approach to audit planning results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the control environment.

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.

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.

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.

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 is reported as either Major, Moderate or Minor. Any reports with major organisational impacts are reported to Corporate Leadership Team along with the appropriate directorate's agreed action plan and then to CG&AC as part of the regular update reports.

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.

Specifically for the compliance reviews undertaken, the following definitions have been used to assess the level of compliance in each individual area reviewed:

Opinion for Compliance Audits – Levels of Compliance		
Level		Definitions
1	HIGH	There was significant compliance with agreed policy and/or procedure with only minor errors identified.
2	MEDIUM	There was general compliance with the agreed policy and/or procedure. Although errors have been identified these are not considered to be material.
3	LOW	There was limited compliance with agreed policy and/or procedure. The errors identified are placing system objectives at risk.

2.3 Basis of Assurance

The annual opinion on the adequacy and effectiveness of the control environment for 2012/13 is based on the findings and assurance provided by the schedule of reviews undertaken throughout the year. The 2012/13 plan and audit coverage has followed the same principles as agreed in previous years, i.e. based on assurance blocks that each give an opinion on the key control environment elements, targeted towards in year risks, rather than a more traditional cyclical approach that looks at each system over a number of years.

For each area of assurance, there have been instances where the control environment was not strong enough or complied with sufficiently to prevent risks to the organisation. In these cases, Internal Audit has made recommendations to further improve the systems of control and compliance. 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. Further reviews in each area where limited assurance has been given are scheduled to be completed to ensure that the recommendations have been adopted and the suggested controls are working well in practice.

2.3.1 Key Financial Systems

An annual review of each of the authority's key financial systems is undertaken to provide evidence supporting the internal audit opinion on the adequacy of the organisation's control environment.

As previously, the key financial systems subject to audit were agreed in advance with the authority's external auditors KPMG as they review this work and use this as a key source of assurance on the organisation. KPMG have reviewed internal audit's work on key financial systems in 2012/13 and have confirmed that it fully meets their requirements in terms of timeliness, quality and supporting evidence. KPMG has confirmed that:

"Internal Audit has 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."

Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that, these controls continue to work well in practice although there are some areas where improvements are necessary. The level of assurance provided for the all key financial systems reviews was acceptable 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.

2.3.2 Compliance Reviews

Coverage in this area is underpinned by an assessment of the Council's framework of internal controls (often underpinned by policies and procedures) and included those core areas where a high level of compliance is necessary for the Council to carry out its functions properly. These compliance checks are carried out on the key areas whilst ensuring that the impact of non-compliances are understood in the context of the organisation as a whole to further develop a control environment that is proportionate and effective in the current climate. This work has included an element of challenge of the existing controls to ensure they are modern, effective and proportionate – a number of times the outcomes have reduced bureaucracy. This area also included a number of unannounced visits covering different types of establishment and provided assurance over the adequacy of cash and income controls. The compliance assurance block has provided assurances that are critical to the S151 Officer and, as it provides assurance across all Directorates, underpins the Head of Audit opinion on the control environment.

2.3.3 Schools

At the meeting of the CG&AC on 19th March 2013, members resolved to request the Head of Internal Audit to make contact with other near neighbour and core cities authorities in respect of audit coverage provided to schools leaving the control of the LEA. Members sought assurances around the financial management arrangements in place in Leeds schools, particularly the extent to which independent and objective

Internal Audit opinion is provided to Governing Bodies on how those arrangements are complied with.

The Education Funding Agency (EFA) issued a revised Academies Financial Handbook in September 2012. This edition is much shorter than the 2006 edition it replaces and contains a number of significant changes including the introduction of audit committee arrangements for academies, accompanied by a significant relaxation of the former responsible officer arrangements.

This stated that the Academy Trust accounting officers are personally responsible to Parliament and to the accounting officer of the EFA for the resources under their control.

Every Academy Trust must have in place a process for independent checking of financial controls, systems, transactions and risks. All Academy Trusts must establish either an audit committee or a committee that fulfils the functions of an audit committee.

Academy Trusts may manage this programme of risk review in the way that they deem most appropriate to their circumstances. Options include:

- The work of an internal audit service (either in-house, bought-in or provided by a sponsor);
- The performance of a supplementary programme of work by the Academy Trust's external auditors;
- The work of a responsible officer (i.e. an individual who is a non-employed governor with an appropriate level of qualifications and/or experience), and who neither charges nor is paid by the Academy Trust for their work;
- Completing the work by peer review (i.e. the work being performed by the Principal Finance Officer (PFO), or a suitably qualified or experienced member of the finance team, from another Academy Trust, as an 'independent reviewer.')

Current Situation at Leeds City Council

As at April 2013 there were 25 Academies in Leeds (15 High and 10 Primary).

Internal Audit has sent a letter to all Academy Schools in Leeds providing an outline of the available services but has not yet been requested to undertake any work at Academies.

Financial Support Services to Schools are currently undertaking the Responsible Officer role at 6 Academies and are currently bidding for a further one.

Summary of Findings from other local authorities

5 neighbouring and core city authorities were contacted regarding their audit coverage of Academy schools.

The Internal Audit teams at two authorities have not contacted any of their Academies to offer their Internal Audit Services although one team plans to do this in the future.

Internal Audit teams at three of the authorities have advertised their services in a similar manner to Leeds City Council. Of these:

- One authority's Internal Audit team is currently undertaking the Responsible Officer role in 2 academies (out of 120 academies within its area);
- One authority's Internal Audit team is undertaking the Responsible Officer role at one school on a short term basis (due to the illness of the appointed Responsible Officer);
- One authority's Internal Audit team won the contract to provide internal audit services at one school and is currently in the process of preparing a bid to offer the services to another school. The team do not undertake any Responsible Officer work at the authority's 20 academies.

2.3.4 Cross Cutting Assurances – Procurement, Monitoring and Improvement

Internal audit has reviewed a number of key corporate functions, which give cross cutting assurances in their own right. These are areas such as procurement and performance management. These reviews included assessing the arrangements to ensure that their policies and procedures are up to date, fit for purpose, effectively communicated, routinely complied with across the organisation and monitored. These reviews provide evidence based assurance on the key policies and procedures that underpin the control environment. Where weaknesses were identified, action plans were agreed with the appropriate officers to improve the level of assurance provided. There were no significant issues highlighted in these areas.

A review of the Grounds Maintenance Services contract was undertaken within this assurance block. This contract was awarded on 1st January 2012 for a period of 5 years. Initially, the contract was managed by Streetscene within Environment and Neighbourhoods. With effect from August 20th 2012, the management of the contract was transferred to Parks and Countryside. Internal Audit considers that the control environment has become considerably more robust following this change in 'ownership'.

A number of issues were identified where the management of the contract was not considered satisfactory during the early months of the contract including unsatisfactory controls surrounding the processing of variations and works orders, limitations to the checking of invoices supplied by the contractor, limited budget monitoring and the absence of a formal contract management plan. This resulted in a limited assurance opinion for both the control environment and compliance with this for the operation of the contract from 1st January to 31st August 2012. Internal Audit are satisfied that these issues have now been addressed and evidence has been obtained to confirm this. Parks and Countryside have initiated a number of controls during the period since they took responsibility for the contract. If these new controls operate as intended, there is a sound environment within which to manage this contract. The assurance for both the control environment and compliance has therefore been assessed as substantial.

In addition, feedback in respect of the quality of work undertaken by the contractor is generally good. The percentage of assets monitored which have failed their quality assessments is extremely low and levels of customer satisfaction have been high.

2.3.5 Spending Money Wisely

Significant progress has been made in raising awareness of Spending Money Wisely across the council and promoting a Spending Money Wisely culture. The work has been undertaken in 3 main strands:

Communication and Improvement

A Spending Money Wisely 'initiatives you need to know about' page has been developed and is live on InSite. The aim of the page is to be a centre of excellence for Spending Money Wisely and includes the facility for both staff and Internal Audit to post examples of best practice via the Spending Money Wisely blog. Links to the Internal Audit ideas service (ideas@leeds.gov.uk) for savings and service improvements have also been included on the page to enable staff to share their suggestions. The revised Spending Money Wisely Policy has also been published.

During February 2013, Internal Audit agreed with the Communications Team to incorporate the staff suggestion scheme - introduced by the Chief Executive - into Internal Audit's ideas service. This has provided staff with one consistent point of contact for ideas and advice, and will make sure that Internal Audit can get the most out of the ideas that people send. For example, the ideas received are being used to identify potential new review areas for the Spending Money Wisely assurance block within the Annual Audit Plan. A process has been introduced by Internal Audit to ensure that each idea received is considered - some of these may be incorporated into Internal Audit coverage, but some may be better considered within Directorates or within a corporate initiative or programme.

The Communications team have passed the suggestions received so far onto Internal Audit, and staff were updated about the changes through the 'Essentials' e-mail on 7th February 2013. Internal Audit has corresponded personally with all the colleagues who have submitted ideas so far to acknowledge receipt and thank them for their ideas. The Spending Money Wisely InSite page has been regularly updated to highlight the types of positive suggestions being received and the action taken. These have included: payslips by e-mail, waste collections arrangements, use of personal mobile phones for work and recharging arrangements including recharges for booking council rooms. Regular highlight reports are being produced for the Chief Executive, Director of Resources and Deputy Chief Executive, and Resources Leadership Team to outline numbers and examples of suggestions received, action taken and outcomes. To date, over 500 ideas have been sent in by staff across the Council.

Compliance and Monitoring

Internal Audit has introduced a process to review a sample of transactions across the authority on a regular basis and challenge the expenditure to identify whether services are spending money wisely. The aim of the process is to monitor compliance with the Spending Money Wisely policy in practice and monitor spending money wisely across the council, to raise awareness of spending money wisely and embed this in the Council's culture; and to act as a deterrent to staff against any spending which does not provide value for money.

The process involves selecting a sample of payments from the monthly published payments list. Officers who authorise the orders are asked to complete a questionnaire to explain how they have ensured their expenditure provides value for money. Based on the information provided, evidence may be requested for a sample of the responses in order to confirm the answers provided and ensure that value for money has been considered and obtained. Results of each review are reported to Corporate Leadership Team and Directorate Heads of Finance. Where specific issues are identified, these are reported separately to individual Directors and/or Corporate Leadership Team for dissemination to staff within their area. Areas of good practice as well as areas where practices could be improved are publicised on the Spending Money Wisely InSite page via the Spending Money Wisely Blog. To date, these have included hiring of council rooms, obtaining value for money from travel expenditure and the use of internal providers.

Spending Money Wisely Reviews

The table of reports issued includes details of specific Spending Money Wisely reviews that have been completed during the year. In order to identify areas where Spending Money Wisely/VfM work should be carried out, a prioritisation methodology has been developed to direct resources accordingly. The methodology applies a number of assessment criteria including efficiency and financial implications as well as risk, and the potential to improve public services.

Review of Travel

A review of travel was undertaken to provide assurance for 2012/13 and 2011/12 that based on a sample of transactions there was no first class travel purchased or claimed for by officers contrary to the policy set out in Local Conditions of Service which states that: *'all officers are expected to travel second class or at any other cheap rate fare applicable on the day, except when travelling with a Member who elects to travel first class.'*

An opinion of high compliance with the policy was provided based on the sample of transactions reviewed. However, a number of recommendations were made to clarify the council's policy on travel and improve efficiency in this area:

- Revision of the policy wording to ‘*All officers are expected to travel second class.*’
- Making officers aware that there is no longer a requirement to use a particular travel management provider with whom the council previously had a contract (which incurs booking fees as well as a 2% charge if a purchasing card is used) and that more cost effective methods of travel may be available through alternative suppliers.
- Recommending the use of travel hubs to order train tickets or the purchase of tickets by officers using their own credit card and reclaiming in line with the corporate travel and subsistence policy. This will reduce the duplication of effort between officers and the hubs and reduce the costs associated with ticket delivery as tickets can be collected on the day of travel.

In order to publicise these recommendations, Internal Audit has included these on the Spending Money Wisely intranet site.

2.3.6 Counter Fraud and Corruption

The counter fraud and corruption work undertaken includes both proactive anti-fraud and corruption work (fraud strategies) and reactive work (investigations.)

In addition, internal audit review the Authority’s fraud and corruption arrangements to ensure they are in line with best practice. There is a Counter Fraud and Investigations team strategy and Counter Fraud and Corruption Action Plan for proactive and reactive fraud work that includes details of resource implications and prioritises work accordingly to ensure the risk of fraud is managed effectively with available resources. Proactive fraud exercises, data analytics work and participation in the National Fraud Initiative (NFI) provide assurance that the Authority is making every effort to detect potential fraud and prevent its recurrence.

This area of audit work also provides assurance on the ethical framework within the Council, which seeks to improve standards of conduct. This, combined with staffing policies, should therefore reduce the likelihood of fraud.

2.3.7 Risk Based Reviews

Following inclusion in the Plan of all the ‘top sliced’ areas outlined, the remaining audit areas (Risk Based Reviews) included in the audit universe were prioritised for inclusion based on their risk score up to the overall level of resources in the year. These were a key element of the assurance on the entire control environment of the authority. Each review sought to deliver an assurance on the systems for efficiency, effectiveness and economy.

Temporary Accommodation and Homelessness

A review of temporary accommodation and homelessness has been undertaken. The review provided acceptable assurance for the control environment as weaknesses were identified with the control environment in respect of information governance. Limited assurance was provided for compliance with the control environment as weaknesses were identified in the retention of documentation and ensuring consideration of value for money in the procurement of bed and breakfast accommodation. The organisation impact was judged to be minor.

ICT Equipment Purchasing and Disposal Follow Up Review

A review of ICT equipment purchasing and disposal was completed during 2010. This highlighted some control weaknesses for the purchasing and disposal of ICT equipment. A follow up review has therefore been undertaken to establish the progress made in implementing the recommendations made.

The follow up review provided limited assurance for the control environment as although some progress has been made against the recommendations made in the 2010/11 report, recommendations in key areas - including compiling, managing and monitoring asset registers and managing stock across all sites consistently with adequate stock records — remain outstanding. The organisational impact was considered to be minor.

2.3.8 Strategic Landlord Assurance Framework

As in previous years, Internal Audit has again been commissioned by Housing Partnerships to undertake a suite of audits as part of the ALMO/BITMO Assurance Framework. These provide certain assurances in relation to elements of the Housing Partnerships monitoring function and for key risk areas in the BITMO and each of the ALMOs.

During 2011/12, a review of Housing Options Lettings Enforcement was undertaken as part of the Strategic Landlord Assurance Framework. This highlighted some key weaknesses in compliance with the control environment.

A follow up review has been undertaken to assess the progress made towards the implementation of the recommendations made in 2011/12 by Housing Options. The follow up review provided limited assurance on compliance with the control environment as significant weaknesses were identified through compliance testing, particularly around verification of eligibility and retention of documentation. Although progress has been made on implementing the recommendations made in the 2011/12 report by providing training to staff, the findings from the compliance testing undertaken by Internal Audit suggests that this training has not yet been embedded across the service. This was assessed as presenting a moderate risk to the Council if the risks were to materialise.

2.3.9 Other Work

Internal Audit has undertaken other work in a number of areas. These are summarised at 3.7. These include a review requested by the Director of Resources and Deputy Chief Executive of the circumstances surrounding a building closure on health and safety grounds. The resulting briefing note made a number of recommendations for improvement including ensure there are adequate arrangements for up to date electrical testing of buildings, maintaining complete information on the condition of buildings, risk assessment processes for building closure including consultation with all key stakeholders and business continuity plans in the event of closures.

2.4 Summary of Completed Audit Reviews

This section provides a summary of all reports issued since 27th June 2012. Audit reviews completed from 1st April 2012 to 26th June 2012 were reported in the Internal Audit Annual Report for 2011/12. All reviews up to 31st January 2013 where the audit opinion is limited for either the control environment or compliance with procedures have already been highlighted to CG&AC in the quarterly internal audit reports. Any reports with this opinion issued since 1st February 2013 have been highlighted in this annual report.

Further reviews in each area where limited assurance has been provided are scheduled to be completed to ensure recommendations have been adopted and suggested controls are working well in practice.

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Financial and Other Key Systems					
Business Support Centre – Central Payments Service	Good	Good	Minor	Resources	04/07/2012
Sundry Income – City Development	Good	Acceptable	Minor	City Development	05/07/2012
Creditors Year End Reconciliation	Substantial			Resources	24/07/2012
Community Care Finance – Payments to independent providers of residential and nursing care and customers in receipt of direct payments and personal budgets	Good	Acceptable	Moderate	Adult Social Care	31/07/2012
Corporate Financial Management Central Controls	Substantial	N/A	Minor	Resources	06/08/2012
Bank Reconciliation and Cashbook	Substantial	Substantial	Minor	Resources	06/08/2012
Creditors – Adult Social Care	Good	Good	Minor	Adult Social Care	10/08/2012
Capital Programme Central Controls	Acceptable	Good	Moderate	Resources	17/09/2012
Housing and Council Tax Benefits Year End Reconciliation	Substantial			Resources	21/09/2012
Housing Benefit Counter Fraud	Good	Good	Minor	Resources	29/10/2012

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Central Financial Controls of Local Authority Maintained Schools	Good	N/A	Minor	Resources	21/11/2012
Income Management System	Substantial	Substantial	Minor	Resources	25/02/2013
Sundry Income – HMO Licensing	Substantial	Substantial	Minor	Environment and Neighbourhoods	18/03/2013
Sundry Income – Deaf START	Good	Good	Minor	Children's Services	19/03/2013
Central Payments Review	Substantial	Substantial	Minor	Environment and Neighbourhoods	19/03/2013
Central Payments Review	Substantial	Substantial	Minor	Children's Services	19/03/2013
Central Payments Review – Central Payment Service	Substantial	Substantial	Minor	Resources	19/03/2013
Central Sundry Income	Substantial	Substantial	Minor	Resources	20/03/2013
National Non-Domestic Rates	Substantial	N/A	Minor	Resources	02/04/2013
Treasury Management and Bankline	Substantial	Substantial	Minor	Resources	02/04/2013
Council Tax	Substantial	N/A	Minor	Resources	02/04/2013
Housing Rents	Good	Good	Minor	Environment and Neighbourhoods	02/04/2013
Housing Benefits – Assessments and Payments	Substantial	N/A	Minor	Resources	09/05/2013
Housing Benefit and Council Tax Benefit - Reconciliations	Substantial	N/A	Minor	Resources	09/05/2013
Purchasing Cards Management Unit – Central Controls Review	Substantial	N/A	Minor	Resources	14/05/2013
Integrity of Accounts	Substantial	N/A	Minor	Resources	14/05/2013
Payroll and HR Administration	Substantial	Substantial	Minor	Resources	21/05/2013

Compliance Area	Report Title	Level of compliance	Directorate	Date Issued
Ethical Standards	Members Allowances	High	Resources	28/09/2012
Payroll – non basic pay	Overtime Payments 2011-12	Low	Adult Social Care	17/09/2012
	Overtime Payments 2011-12	Medium	Business Support Centre	17/09/2012
	Overtime Payments 2011-12	Low	Children's Services	17/09/2012
	Overtime Payments 2011-12	Low	City Development	17/09/2012
	Overtime Payments 2011-12	Low	Environment & Neighbourhoods	17/09/2012
	Overtime Payments 2011-12	Low	Overarching report	17/09/2012
	Overtime Payments 2011-12	Medium	Resources	17/09/2012

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Compliance Area	Report Title	Level of compliance	Directorate	Date Issued
Unannounced Visits	Dolphin Manor Home for Older People	Medium	Adult Social Care	03/08/2012
	Richmond House Home for Older People	Medium	Adult Social Care	13/08/2012
	Armley Library	High	City Development	21/08/2012
	Garforth Library	Medium	City Development	21/08/2012
	Osmondthorpe Resource Centre	High	Adult Social Care	28/08/2012
	Manorfield House Home for Older People	High	Adult Social Care	28/08/2012
	Scott Hall Sports Centre	High	City Development	28/08/2012
	Morley South Children's Centre	High	Children's Services	20/09/2012
	Fairview Home for Older People	Medium	Adult Social Care	20/09/2012
	Siegan Manor Home for Older People	Medium	Adult Social Care	05/10/2012
Policies and Procedures	Purchasing Cards 2011-12 (Quarter 4)	High	Adult Social Care	30/07/2012
	Purchasing Cards 2011-12 (Quarter 4)	High	Children's Services	30/07/2012
	Purchasing Cards 2011-12 (Quarter 4)	High	City Development	30/07/2012
	Purchasing Cards 2011-12 (Quarter 4)	High	Environment & Neighbourhoods	30/07/2012
	Purchasing Cards 2011-12 (Quarter 4)	High/ Medium	Resources	30/07/2012
	External Consultants – Compliance with CPRs	Medium	City Development	14/11/2012
	External Consultants – Compliance with CPRs	Medium	Adult Social Care	14/11/2012
	External Consultants – Compliance with CPRs	Medium	Children's Services	03/12/2012
	Direct Payments – Children's Social Work Complex Needs	Medium	Children's Services	13/02/2013
	Carbon Reduction Commitment	Low	Resources	25/03/2013
	Direct Payments - Access and Inclusion Service Area	Low	Adult Social Care	01/05/2013
	Direct Payments – Learning Disabilities	Low	Adult Social Care	01/05/2013
	Employment Background Checks	High	Resources	09/05/2013

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Compliance Reviews					
Customer Monies Learning Disabilities Supported Living Service – Delph View	Acceptable	Acceptable	Moderate	Adult Social Care	29/06/2012
Customer Monies Learning Disabilities Supported Living Service – Westerton	Acceptable	Limited	Moderate	Adult Social Care	29/06/2012

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Customer Monies Learning Disabilities Supported Living Service – Albert Court	Acceptable	Limited	Moderate	Adult Social Care	29/06/2012
Customer Monies Learning Disabilities Supported Living Service – South Parkway	Acceptable	Acceptable	Moderate	Adult Social Care	29/06/2012
Benton Park School – follow up review	Good	Acceptable	Minor	Children’s Services	18/07/2012
Income from Cemeteries and Crematoria	Good	Good	Minor	City Development	01/08/2012
City of Leeds High School Follow Up Review	Good	N/A	Minor	Children’s Services	04/09/2012
Swarcliffe Primary School – follow up review	Acceptable	Acceptable	Minor	Children’s Services	12/10/2012
Procurement, Monitoring and Improvement					
Procurement Unit – Off Contract Spend	Good	N/A	Minor	Resources	10/08/2012
Quarterly Review of Published Payments – City Development	N/A	Good	N/A	City Development	21/08/2012
Quarterly Review of Published Payments – Children’s Services	N/A	Good	N/A	Children’s Services	21/08/2012
Quarterly Review of Published Payments – Adult Social Care	N/A	Good	N/A	Adult Social Care	21/08/2012
Quarterly Review of Published Payments – Environment and Neighbourhoods	N/A	Good	N/A	Environment and Neighbourhoods	21/08/2012
Quarterly Review of Published Payments – Resources	N/A	Good	N/A	Resources	21/08/2012
Electoral Printing Services Contract Review	Acceptable	Acceptable	Minor	Resources	04/02/2013
Central Performance Management Review	Good	N/A	Minor	Customer Access and Performance	07/02/2013
Housing Partnerships Central Controls	Acceptable	N/A	Minor	Environment and Neighbourhoods	19/02/2013
UK – Leeds Highways and Transportation Partnership Contract Review	Good	Good	Minor	City Development	16/04/2013
Disabled Facilities Grant	Good	Good	Minor	Environment and Neighbourhoods	08/05/2013
Duplicate Payments Central Controls Review	Substantial	N/A	Minor	Resources	14/05/2013
Plant Hire Contract Review	Good	Substantial	Minor	City Development	21/05/2013
Grounds Maintenance Services Contract Review	1/1/12 to 31/8/12 Limited	1/1/12 to 31/8/12 Limited	Minor	Environment and Neighbourhoods	21/05/2013
	1/9/12 to 28/2/13 Substantial	1/9/12 to 28/2/13 Substantial			
Waste Management Contract Review	Good	Good	Minor	Environment and Neighbourhoods	22/05/2013
Risk Based Reviews					
Information Governance Follow Up Review	Acceptable	N/A	Moderate	Resources	29/08/2012

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Car Loans	Substantial	Good	Minor	Resources	12/10/2012
Insurance	Good	Good	Minor	Resources	24/10/2012
Children's Centre Fee Income – Central Controls	Acceptable	N/A	Minor	Children's Services	30/10/2012
Mortgages	Good	N/A	Minor	Environment & Neighbourhoods/ Resources	06/11/2012
Strategy and Commissioning	Good	Good	Minor	Environment & Neighbourhoods	15/11/2012
Schools Trading Follow Up Review	Acceptable	N/A	Minor	Children's Services	14/12/2012
Temporary Accommodation and Homelessness	Acceptable	Limited	Minor	Environment and Neighbourhoods	20/02/2013
ICT Equipment Purchasing and Disposal Follow Up Review	Limited	N/A	Minor	Resources	21/03/2013
Spending Money Wisely Reviews					
Review of Charges for the Hire of Children's Services Buildings	Spending Money Wisely Review – standard assurance opinion not provided. Recommendations made/options proposed in relation to enforcing current charging policies, developing directorate/council charging policies, maximising usage and consideration of central management of bookings.			Children's Services	10/10/2012
ICT Software Licences Review	Spending Money Wisely Review – standard assurance opinion not provided. Recommendations made to improve controls to ensure there is a system in place that can appropriately manage and monitor software licences throughout the Council.			Resources	21/12/2012
Spending Money Wisely Challenge July 2012	Medium level of compliance			Cross Cutting	15/02/2013
Spending Money Wisely Challenge August 2012	High level of compliance			Cross Cutting	15/02/2013
Review of Travel	High level of compliance			Cross Cutting	19/04/2013
Spending Money Wisely Challenge September and October 2012	Medium level of compliance			Cross Cutting	09/05/2013
Housing Partnerships Assurance Framework					
Procurement – West North West Homes	Acceptable	Acceptable	Minor	Environment and Neighbourhoods	02/08/2012
Tenancy Enforcement (Tenancy Fraud) – West North West Homes	Good	Acceptable	Moderate	Environment and Neighbourhoods	02/08/2012
Information Governance (Freedom of Information and Data Protection Act Requests) - East North East Homes	Good	Good	Minor	Environment and Neighbourhoods	11/12/2012
Information Governance (Freedom of Information and Data Protection Act Requests) – West North West Homes	Good	Good	Minor	Environment and Neighbourhoods	10/01/2013
Housing Options Lettings Enforcement Follow Up Review	N/A	Limited	Moderate	Environment and Neighbourhoods	20/02/2013
Information Governance (Freedom of Information and Data Protection Act Requests) – Aire Valley Homes	Good	Good	Minor	Environment and Neighbourhoods	05/04/2013

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Health and Safety Self-Assessment - BITMO	Internal Audit confirmed that evidence was available to support the assertions made by BITMO in the self-assessment for phases 1 and 2 of the scheme. Phases 3 and 4 could not be reviewed as the scheme had not been completed at the time of the audit.			Environment and Neighbourhoods	26/04/2013
Health and Safety Self-Assessment – West North West (WNWH) Homes	Internal Audit confirmed that evidence was available to support the assertions made by WNWH in the self-assessment for phases 1 and 2 of the scheme. Phases 3 and 4 could not be reviewed by as the scheme had not been completed at the time of the audit.			Environment and Neighbourhoods	29/04/2013
Health and Safety Self-Assessment – East North East (ENE) Homes	Internal Audit confirmed that evidence was available to support the assertions made by ENE in the self-assessment for phases land 2 of the scheme. Phases 3 and 4 were not applicable.			Environment and Neighbourhoods	29/04/2013
Health and Safety Self-Assessment – Aire Valley Homes (AVH)	Internal Audit confirmed that evidence was available to support the assertions made by AVH in the self-assessment for phases 1, 2 and 4 of the scheme. Phase 3 was not applicable for this scheme.			Environment and Neighbourhoods	09/05/2013
Head of Audit Assurances					
Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance) Specific Grant Determination 2010 No 31/1859	Substantial			Resources	13/07/2012
Adel St John the Baptist CE Primary School Voluntary Fund Audit	Good			Children's Services	17/07/2012
Shakespeare Primary School Voluntary Fund Audit	Good			Children's Services	19/07/2012
Interreg Grant Claim - SeNS	Substantial			Adult Social Care	22/08/2012
Welcome to Yorkshire Tourism Grant Claim	Substantial			City Development	28/09/2012
Building Hope Charity	Good			Resources	12/10/2012
Temple Moor High School Science College – Voluntary Fund	Good			Children's Services	25/10/2012
Boston Spa School – Voluntary Fund	Good			Children's Services	29/10/2012
Holy Name Catholic Primary School – Voluntary Fund	Substantial			Children's Services	23/11/2012
Whitecote Primary School – Voluntary Fund	Good			Children's Services	23/11/2012
Oakwood Primary School – Voluntary Fund	Good			Children's Services	23/11/2012

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Bus Operators Grant Claim	Good			Resources	17/12/2012
Leeds City Region - Growing Places Grant Declaration 2012	Substantial			Customer Access and Performance	21/12/2012
Troubled Families Programme Review including the Troubled Families Grant Claim 2012/13	Substantial			Children's Services	22/01/2013
Kirkstall Valley Primary School – Schools Financial Value Standard	Good			Children's Services	15/02/2013
Interreg Grant Claim - SeNS	Substantial			Adult Social Care	20/02/2013
Cookridge Primary School – Schools Financial Value Standard	Good			Children's Services	28/02/2013
Christ the King Catholic Primary School – Schools Financial Value Standard	Good			Children's Services	19/03/2013
Lord Mayor's Appeal Fund – Independent Examination of Accounts	Good			Resources	20/03/2013
St Matthew's C of E Primary School – Voluntary Fund	Acceptable			Children's Services	09/05/2013

Section 3

AUDIT PERFORMANCE AND ADDED VALUE 2012/2013

ENSURING QUALITY

3.1 Customer Feedback

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

A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditees opinion on a range of issues with 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 are 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. The table also shows the percentage scores of 4 or above (good and excellent) to further identify marginal areas for improvement.

Table - Results from Customer Satisfaction Questionnaires

Question	Actual 2011/12 % Score 3 or above	Actual 2011/12 % Score 4 or above	Actual 2012/13 % Score 3 or above	Actual 2012/13 % Score 4 or above
Notice	100	100	100	95
Scope	100	92	98	88
Understanding	92	68	98	80
Efficiency	96	92	95	95
Consultation	100	84	100	93
Professional/Objective	100	92	100	93
Accuracy of Draft	100	84	95	80
Opportunity to comment	100	96	100	100
Clarity & Conciseness	100	96	100	100

Question	Actual 2011/12 % Score 3 or above	Actual 2011/12 % Score 4 or above	Actual 2012/13 % Score 3 or above	Actual 2012/13 % Score 4 or above
Final Report – Prompt	100	88	98	78
Recommendations	100	84	100	88
Added Value	92	80	100	88

Feedback from customer satisfaction questionnaires continues to be very positive. These results are again extremely encouraging, particularly as the nature and complexity of work undertaken by Internal Audit continues to change. The results for 2012/13 show a marked improvement in a number of areas, particularly in the assessment of the Auditor’s understanding of systems and operational issues as good or very good by customers of the service. This has increased from 68 to 80%. There have been improvements in a number of other areas including where customers felt that the level of consultation on the scope and objectives of the audit and the clarity and conciseness of the final report was good or very good. It was also pleasing to note that there were improvements in the area of added value. More of the service’s customers feel that the audits which are being undertaken are constructive and add value overall. Internal audit has been part of the core cities benchmarking club for over ten years – consistently being a high performer across a whole range of key cost and quality measures. Examples include cost per audit day and percentage of productive time as well as customer questionnaires and perceptions of added value.

3.2 Quality Standard Accreditation

All our work is undertaken in accordance with our quality management system, which has now been ISO accredited for over fifteen years. During February 2013 an independent review was undertaken of Internal Audit’s quality system to ensure compliance with the new ISO 9001:2008 standard. The review team conducted a process-based audit, focusing on significant aspects/risks/objectives required by the standard and concluded that:

“..... the organisation has established and maintained its management system in line with the requirements of the standard and demonstrated the ability of the system to systematically achieve agreed requirements for products and services within the scope and the organisations’ policy and objectives.”

The next review visit is due in July 2013.

3.3 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 via in-house training courses and external CPD events such as CIPFA seminars. Much of this CPD is done in officers own time showing a personal commitment to continual improvement of the Team.

The Code of Practice for Internal Audit in local Government in the UK 2006 states that Internal Audit staff have a personal responsibility to undertake a programme of CPD to maintain and develop their competence. This is also a key element of the Public Sector Internal Audit Standards - applicable from 1st April 2013 – which state (at Standard 1230) that *'Internal Auditors must enhance their knowledge, skills and other competencies through continuing professional development.'* At Leeds, evidence of professional training and development activities must be retained and individual/group training needs identified.

3.4 Whistleblowing

Internal Audit continues to act as the custodians of the Council's Whistleblowing Policy. In 2011/12, Internal Audit dealt with a total of 79 (90, 2011/12) potential irregularity referrals. All reported irregularities were risk assessed by Internal Audit and, where appropriate, an audit investigation was undertaken. Where it was more appropriate, the matter was referred to directorates or HR and follow up was undertaken.

Whistleblowing in respect of housing and council tax benefit is dealt with separately and is therefore not included in the above figures.

To further demonstrate the Council's commitment to safeguarding public funds internal audit externally publicises an email address (concerns@leeds.gov.uk) where potential irregularities can be reported. This will continue to be undertaken via the Council's internet.

Referrals were received in relation to the following Directorates:

Directorate	Number of Referrals
Adult Social Care	8
Children's Services	20
City Development	7
Resources	20
Environment and Neighbourhoods	24
Total	79
Number of Referrals where source identified as Whistleblowing	53

Referrals were categorised as follows:

Category	Number of Referrals
Abuse of Position/Ethical Standards	20
Benefit	1
Blue Badge	5
Corruption	3
Council Tax	1
Economic & Third Sector Support	1
Housing Fraud – Non Benefit	3
Income/Debt/Banking/Payments	9
Information/IT	1
Local Taxation	1
Non Fraud	14
Payroll, Employee Contract Fulfilment & Expenses	10
Procurement	6
Recruitment/Personnel Fraud	3
Social Services	1
Total	79

The following action was taken by Internal Audit in response to the referrals:

Action Taken	Number of Referrals
Investigated by Internal Audit	34
<u>No investigation or referral:</u>	
Advice given re controls	6
Withdrawn	1
Referred to Police or other body as outside remit of the Council	2
Already investigated as part of wider audit coverage	1
<u>Referrals made to:</u>	
ALMO	1
Benefits	5
Chief Officer – Libraries, Arts & Heritage	1
Chief Officer – Revenues & Benefits	1
Council Tax	1
Director of Adult Social Care	2
Director of Children’s Services	2
Director of Environment and Neighbourhoods	9
Head of Finance – Children’s Services	1
Head of Finance – Schools Team	1
Human Resources	6
Parking Services	2
School Chair of Governors	1

Action Taken	Number of Referrals
Strategic Landlord	2
Total	79

Outcomes from anti-fraud and corruption work include the following:

- Improvements have been made to the systems and procedures in relation to contractor procurement and the payment of subcontractor invoices within a service area;
- A corporate reminder has been issued to staff regarding the use of social media network and a revised policy for their use has been issued;
- A review of the procedures in place for authorising carry forward leave is to be undertaken within a service area to ensure compliance with the Council's policy;
- Disciplinary action has been taken against a school employee;
- Recommendations to improve the procedures for recruitment & selection, managing attendance, lettings, overtime payments and purchasing card transactions have been made to a school;
- Recommendations have been made to a school to improve the controls for extended schools income. Pro-active fraud coverage is also planned in this area to identify further areas where funds may have been misappropriated;
- Potential cases of single person discount fraud have been raised with the Council Tax team for consideration;
- Improvements have been made within a service area in relation to the process for managing declared employee interests;
- Recommendations have been made to improve the controls relating to the recording and monitoring of reclaimed stone;
- Improvements have been made to the systems and procedures in place within an Adult Social Care establishment in relation to client monies;
- A review of the arrangement between LCC and a service provider is to be undertaken by HR and the Directorate which may lead to potential savings of £14K per annum;
- Raising awareness of inappropriate business practices of companies specifically targeting schools has been raised with Children's Services Finance to reduce the risk of payments being made for goods and services that were not received.

3.5 Data Analytics

The Data Analytics project commenced in October 2011 concentrating initially on the council tax single person discount (SPD) review.

The single person discount review resulted in the following:

- Quarter 1: the review resulted in almost 2,000 SPDs being cancelled, although 330 applied for or had been granted another discount of the same value. The annual equivalent net increase in council tax billings from the work was estimated at £227,000.

- Quarter 2: the number of net SPD cancellations was approximately 300 with an estimated net increase in council tax billings of £67,000. The SPD review work was transferred to the Council Tax team at Hough Top Court from mid-September 2012.
- Quarter 3: for the period October 2012 to January 2013, 108 SPDs were cancelled at a net estimated value of £24,200.
- Quarter 4: for the period February 2013 to March 2013, little work was completed on this review due to staff working on welfare reform changes.

In addition to completing the reviews already commenced, work will also commence on data which has been obtained for a further 15,220 SPD claimants for review, including 8,500 who are claiming benefits.

Work has been undertaken on tenancy sub-letting. Some issues were identified but to date no tenancy frauds have been confirmed from this review. ALMOs have however identified a number of tenancy frauds by other means, e.g. tenancy visits, referrals etc. A number of these were also identified in the data matching exercise. A degree of comfort can be obtained from the fact that the procedures already in place are identifying tenancy fraud. Revised data has been provided for which the high risk cases are currently being reviewed by the ALMOs.

Work has been undertaken on the validity of creditors and voluntary organisations the council makes payments to. No fraudulent organisations have yet been found although work is still ongoing.

The trial reviews on business rates empty property reviews and debtor collection have been completed. Following an analysis of the sample results the Chief Revenues and Benefits officer has concluded that these reviews do not add value.

The contract included a review to whether the Experian Mosaic Public Sector data could help deliver significant cost savings by informing the delivery of services via cheaper channels and by joining up services and the locations from which they are offered. This work was undertaken by the Business Intelligence Team with the data being used on several projects they have been working on.

Whilst the varied range of work undertaken results in potentially intangible benefits to the organisation, there have been some projects that have seen a definite improvement with the use of Mosaic Public Sector data (such as a tangible increase in LeedsCard membership after the January 2012 campaign targeting specific groups). Based on people who purchased a card following this campaign re-apply in 2013 they have estimated potential increased revenue of £1m over a two year period. Feedback from

the other projects has been very positive, with the outputs providing additional intelligence to various pieces of work.

We have been working with Adult Social Care and identified potential areas the data could be used which involve assessing the reasonableness of information clients provide on financial assessments and checking our records of service recipients to mortality records, especially where care is being provided outside the Leeds area, to ensure we are not being charged for anyone who is deceased. We are awaiting the output from Experian to trial these two areas.

Further outputs are due from Experian to help identify any potential conflicts of interest within the creditor payments system, to assess the benefits of Experian data for reviewing council tax empty properties and to compare their records of businesses operating in Leeds to our Business Rates register.

3.7 Reducing bureaucracy

Internal Audit has continued to provide advice on a wide range of issues including interpretation of Contract Procedure Rules and Financial Procedure Rules, and on risks and controls within individual systems or processes. Internal Audit provides clear, risk based recommendations with a view to reducing bureaucracy whilst still maintaining a robust control environment.

Advice has been provided in relation to the following areas:

Area	Number of Queries responded to
Purchasing/Creditors	10
Payroll	7
Information Governance	7
Housing Benefits	5
Assets	4
Clients' Money	3
Budgetary Control	2
Income	2
Treasury Management	1
Grants	1
Unofficial Funds	1
Statutory Compliance	1
Community Care	2
Health and Safety	1
Right to Buy	1
Ethical Standards	1
	49