Committee: General Purposes Committee

Date: 13th March 2013

Agenda item:10

Wards:All

Subject: Internal Audit Progress Report

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Chair of the GP Committee

Forward Plan reference number:

Contact officer: Margaret Culleton Head of Audit

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Recommendation:

A.   **That Members note the Internal Audit Progress Report and comment upon matters arising from it.**

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1   PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1   This report summarises the work carried out to date by Internal Audit within the 2012/13 financial year. It also details the progress on implementing recommendations from audits completed.

1.2   Internal Audit seeks to ensure that Merton's financial and other systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.

1.3   Internal Audit is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole Council, including Members and all levels of management. It is not an extension of, nor a substitute for, good management. The Internal Audit Service is responsible for giving assurance on all control arrangements to the General Purposes Committee and the Director of Corporate Services (also known as the Section 151 Officer); it also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible.

2.   Details

2.1   In order to contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance. The definitions of these opinions are given below:

Opinion	Definition
Substantial Assurance	There is an adequate system of controls designed to achieve the system objectives
Satisfactory Assurance	All key controls in place, but there is some evidence of minor controls not operating or documentation missing
Limited Assurance	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.
No assurance	Control is weak, causing the system to be vulnerable to error and abuse

2.2   In addition each recommendation is given a high, medium or low risk priority. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

2.3   A key part of internal audit work is to provide advice to managers; this can either be attendance at meetings, working groups or telephone advice. During 2012/13, advice to departments represented 6% of auditor time.

2.4   Planned Audit Reviews

2.4.1   This financial year we have finalised 53 audit reports, 20 of which relate to completion of the 2011/12 audit plan. For the 2012/13 audit plan there are 33 at final report stage, 16 at draft stage and 12 in progress. All audit reports issued since April 2012 and outstanding audit actions are included in Appendix A.

2.4.2   Since the last progress report in September 2012, there have been 10 final reports issued with a satisfactory assurance and 8 final reports issued with a limited assurance.

2.4.3   As at the end of February 80% of the 2012/13 audit plan had been completed (final and draft reports). It is expected the plan will be completed to final report stage by the end of April 2013.

2.4.4   Table 1 details those audits with a limited assurance (below the required standard) issued since the last committee report in September 2012. Table 2 lists those audits with satisfactory assurance issued since September 2012.

Table 1 – Audit Assurances –limited

Audit Title	Department
Youth service	CSF
Hatfeild Primary School	CSF
Passenger transport	ER
Fuel	ER
Review of day centre provision	CH
iTrent	CS
Effectiveness of procurement	All depts
Contract compliance	All depts

2.4.6 The Management Summaries of all these limited reports including a summary of the agreed actions can be found in Appendix B.

Table 2 – Audit Assurance – Satisfactory/substantial

Audit Title	Department
Risk Management	CS
Bailiffs- In house	CS
Civica ICON e payments	CS
IT security and Data Handling –Merton Park	CSF
IT security and Data Handling- The Priory	CSF
Raynes Park High	CSF
Ricards Lodge	CSF
Cricket Green School	CSF
School Extension project	CSF
On and Off Street Parking	ER

2.4.7 We are continuing our proactive fraud work to analyse financial systems and transactional data on a regular basis. Currently, we are reviewing and analysing duplicate creditor payments.

2.4.8 This year six additional audits were requested, one grant claim and three areas where assurances on controls were required following suspected irregularities. Where additional work is requested, a decision is made on whether this work replaces other planned work on the audit plan.

2.5   Fraud Investigations

2.5.1 An allocation of 82 days was included in the 2012/13 audit plan for investigation work, to cover joint working with the Investigation Section. Regular meetings are held with the Head of Investigations to ensure that any corporate concerns are identified and to direct the audit plan. As at the end of January 2013 35 days has been used in undertaking investigations of fraud both jointly with or separately from the Investigations Team.

2.5.2 Internal Audit identifies control weaknesses in areas where fraud has previously occurred and issue reports to managers to improve their controls. Internal Audit continues to carry out fraud prevention work.

2.5.3 Pro-active fraud testing is included in all work carried out by Internal Audit, this testing ensures that controls are strengthened to reduce the risk of fraud. Where fraud has occurred in the authority, it is likely that controls have been bypassed or as a result of direct theft.

2.5.4 This year, Internal Audit has reviewed controls in five of the twelve areas where allegations have been received.

3. Following up on the Implementation of Agreed Actions

3.1.1 In 2012/13 there have been 540 agreed actions by managers. The agreed actions for all audits are always followed up. Future implementation dates are agreed with management and a monthly trigger report is run when this date is met. A follow-up report is then sent to officers responsible for implementing the agreed actions to ascertain whether the action has been implemented or reasons for non implementation. At the current time there are 2 overdue outstanding actions. (see Appendix C)

3.1.2 If responses are not received from managers by the following month reminders are escalated to Heads of Service/ Assistant Director Level. If no response is received for those overdue by 3 months or more, then these are reported to GP Committee.

Overdue Outstanding audit actions as at 4th March 2013

	3-6 Months	6 Months +	total
High Priority	1	0	1
Medium Priority	1	0	1
Total outstanding	2	0	2

4 ALTERNATIVE OPTIONS

4.1 None for the purposes of this report.

5. CONSULTATION UNDERTAKEN OR PROPOSED

5.1 The strategic plan, Internal Audit Plan and terms of reference have been agreed with Chief Officers who have consulted with their Management teams. Business Partners and Financial Advisors for each department have also been consulted. Customer Agreements are in place. The Head of Audit has monthly meetings with the Director of Corporate Services to report upon progress against the Plan.

5.2   Audit briefs outlining the scope and objectives of each audit are agreed with the relevant manager prior to the audit commencing.

5.3   All audit reports are discussed with managers prior to issuing as a draft, further meetings are held if required and comments from the Manager and Head of Service/Assistant Directors are included in the final report.

6.   TIMETABLE

6.1.   None for the purposes of this report.

7   FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

7.1   The planned work and unplanned work is undertaken within the budget allocated.

8.   LEGAL AND STATUTORY IMPLICATIONS

8.1   This report sets out a framework for Internal Audit to provide a summary of internal audit work for 2012/13. The Local Government Act 1972 and subsequent legislation sets out a duty for Merton and other councils to make arrangements for the proper administration of their financial affairs. The provision of an internal audit service is integral to the financial management at Merton and assists in the discharge of these statutory duties.

9.   HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

9.1   Effective and timely auditing and advice enables Departments, Voluntary Organisations and Schools to provide quality services to their clients. These client groups are often vulnerable members of the community, e.g. elderly people, disabled people, asylum seekers, members of staff and voluntary organisations. The audit service helps to identify weak financial management and sometimes reflects weaknesses in other operational systems such as quality and ethnic monitoring. Audit, therefore, has a crucial role in ensuring that Council resources are used to enable a fair access to quality services.

10   CRIME AND DISORDER IMPLICATIONS

10.1   There are no specific crime and disorder implications arising from this report.

10.2   The report does however include brief details of potential fraud investigations in progress.

11   RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

11.1.   The Audit Plan has a risk assessment formula built into the process. This takes such aspects as expenditure, income, and previous audit findings into account and calculates priorities and the frequency of the audit.

11.2.   In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Internal Audit Plan.

11.3. The Audit Brief at the beginning of the audit, and the internal audit reports at the end of the audit also identify risks. Audit Recommendations are categorised high, medium or low priority in relation to the level of risk involved.

APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix A   Internal Audit Progress since April 2012

- Appendix B – Limited assurance Management summaries and agreed actions**.**

- Appendix C- Overdue Outstanding audit actions

BACKGROUND PAPERS

  i. Documents held in Internal Audit Files

Internal Audit progress since April 2012

Audit Title	Department	Final Report Date	Assurance	No of actions	No of outstanding actions	No of overdue actions
2011/12 audit plan						
e tendering	CS	10/04/2012	Satisfactory	8	0	0
Merton Abbey primary school	CSF	20/04/2012	Limited	15	0	0
Hollymount primary school	CSF	25/04/2012	Assurance	10	0	0
High Path/All Saints Day Centre	CH	26/04/2012	Limited	7	0	0
Wimbledon College high school	CSF	27/04/2012	Substantial	6	0	0
Cricket Green school	CSF	30/04/2012	Limited	22	0	0
The Sherwood primary school	CSF	02/05/2012	Limited	26	0	0
Private Sector Housing Grants	ER	15/05/2012	Limited	28	6	0
Acquisition and sale of land	ER	31/05/2012	Satisfactory	5	5	**5**
Personal budgets	CH	15/06/2012	Satisfactory	5	0	0
Budget monitoring	CS	21/06/2012	Satisfactory	4	2	0
Housing Benefit overpayments	CS	29/06/2012	Satisfactory	7	1	0
Agency contract	CS	03/07/2012	Satisfactory	18	5	0
Street Lighting	ER	05/07/2012	Satisfactory	7	0	0
Capital accounting	CS	09/07/2012	Satisfactory	3	3	**1**
Debtors	CS	11/07/2012	Satisfactory	12	0	0
Treasury management	CS	26/07/2012	Satisfactory	3	0	0
Safer Merton	ER	26/07/2012	Limited	23	18	0
Adult Social Care	CH	17/09/2012	Satisfactory	16	12	0
Declaration of interests	All dept	10/09/2012	Limited	6	3	0
2012/13 audit plan						
MSJCB	ER	31/05/2012	n/a	n/a	n/a	0
Annual Governance statement	All	01/06/2012	n/a	n/a	n/a	0
St Marks Primary school	CSF	26/06/2012	Substantial	6	0	0
William Morris Primary school	CSF	29/05/2012	Substantial	8	0	0
Wireless networking	CS	16/07/2012	Satisfactory	4	2	**2**
Garden Primary School	CSF	18/07/2012	Substantial	3	0	0

Malmesbury Primary School	CSF	18/07/2012	Satisfactory	12	0	0
Red Hut children's centre	CSF	18/07/2012	Satisfactory	3	0	0
Bishopsford Arts College	CSF	10/09/2012	Satisfactory	17	0	0
Disabled facilities grants procurement	ER	20/09/2012	No assurance	7	7	0
CHAPS/BACS	CS	08/10/2012	Satisfactory	5	0	0
Contract compliance	All depts	8/10/12	Limited	6	4	
SWLP (Kingston report- recommendations for Merton)	ER	9/10/12	Limited (on part)	2	2	**2**
Bailiff Procurement	CS	16/10/12	Limited	5	2	0
Bailiffs- In house	CS	26/10/12	Satisfactory	9	0	0
Risk Management	CS	29/10/12	Satisfactory	15	14	0
Corporate procurement	All depts	13/10/12	Limited	18	17	0
Fuel	ER	24/10/12	Limited	32	6	0
Civica ICON e payments		12/11/12	Satisfactory	7	2	**1**
Hatfeild Primary School	CSF	18'12/12	Limited	20	0	0
Review of day centre provision	CH	20/12/12	Limited	17	16	**1**
Passenger transport	ER	7/1/13	Limited	12	3	**1**
Youth service	CSF		Limited	41	5	
iTrent	CS	14/1/13	Limited	9	4	
IT Security and Data Handling – Merton Park Primary School	CSF	24/1/13	Satisfactory	5	0	0
IT Security and Data Handling The Priory Primary school	CSF	24/1/13	Satisfactory	6	0	0
Car Parking – on and off street	ER	29/1/13	Satisfactory	9	9	0
Network and Infrastructure	CS		Follow up on limited assurance	6	6	0
Cricket Green School	CSF	11/2/13	Satisfactory	4	0	
SMILES project grant claim	ER	15/2/13	N/A			
School extension project	CSF	4/3/13	Assurance	8	4	
Raynes Park High	CSF	4/3/13	substantial	3	2	
Ricards Lodge High	CSF	4/3/13	Satisfactory	13	7	0
Draft						
Merton Abbey Primary School	CSF		Satisfactory			
Legal shared service	CS		Satisfactory			
IT security in schools	CSF		Satisfactory			
IT Security and Data Handling – SS	CSF		Satisfactory			

Peter &Paul Primary School						
IT Security and Data Handling Morden Primary school	CSF		Satisfactory			
IT Security and Data Handling – Pelham Primary School	CSF		Satisfactory			
IT Security and Data Handling Haslemere Primary school	CSF		Satisfactory			
Creditors	CS		Satisfactory			
Cash & Bank	CS		Limited			
Payroll	CS		Limited			
PFI	CSF		Satisfactory			
Youth Service Inventory equip	CSF		n/a			
NNDR	CS		Satisfactory			
Council tax	CS		Satisfactory			
Debtors	CS		Satisfactory			
Recruitment/retention	CS		Satisfactory			
In progress						
Cemeteries	ER					
Housing Benefit	CS					
Carefirst	CH					
Court of protection/Appointeeship	CH					
Abandoned Vehicles	ER					
Fostering and Adoption	CSF					
Residential Care Contracts	CH					
IT Disaster recovery and backup	CS					
Asset Management	ER					
Financial assessments	CH					
Personalisation/self directed support	CH					
Procurement cards	CS					

Internal Audit Report Summary

Service: Youth Service	
Date of Final Audit Report	1st March 2013
Audit Objectives	
To review the financial controls and adherence to procedures for the Youth Service	
Summary of Audit Findings	

Documentation relating to the use of Procurement card expenditure for 2011/2012 undertaken by the Youth Office totalling £56,505.00 could not be located at the time of audit. Internal audit are therefore unable to provide assurance relating to this expenditure and the fact that this documentation is missing is of serious concern

For 2011/2012, where VAT has been claimed there is no supporting VAT invoice. In the absence of a VAT receipt, VAT should not be claimed but re-charged back to the relevant cost centre

For expenditure undertaken in 2012/2013, although receipts were available, supporting documentation could not always demonstrate a full audit trail for the purchase.

Gift Vouchers are used as rewards for young people, but records to confirm both the youth centre at which the vouchers were issued or the service user in receipt of the voucher were inadequate.

Invoices are raised manually by the Youth Office and not via the council's debtor system Ash

There are currently no documented procedures for the opening and closing of youth centres and Leyton Rd (which is used by 3 agencies including the youth office) and no Health and Safety Policy on Leyton Rd was available at the time of the audit.

Fuel was found to have been purchased for the Youth Office vehicles using the Corporate Procurement Card, not by a Corporate Fuel card. There had not been any reconciliations between fuel purchased and vehicle mileage.

A management report was requested by the Head of Social Care and Youth Inclusion following the issue of the draft internal audit report. That report was prepared by the Principal Youth Officer. Where appropriate the conclusions in that report have been incorporated into the Action Plan of this internal audit report.

Summary Response and update from Managers

An action plan has been completed in response to the youth service audit. The Head of Social Care and Youth Inclusion oversaw the implementation of the action plan to ensure thorough and embedded changes where required. The actions have been supported by colleagues from Human Resources, the Corporate Information Team and IT services, so that we can be reassured that the processes now in place as in line with council policy and procedures. A quality assurance review was carried out in February 2013 to ensure that the changes had embedded in the service.

- There was a through investigation, alongside colleagues from the corporate information team into the circumstances of the lost box. A report has been supplied to Audit and all archiving is in line with council's procedures using Wincanton.

- An investigation was carried out into all purchases listed into the report. All purchases were located and were relevant for youth service use, however policy has

been amended to ensure sign off prior to purchase and equipment and furniture under £25 only to be purchased on cards. All cards were then reinstated under the new policy. This new procedure was signed off prior by the Head of Social Care and Youth Inclusion in the autumn and has been quality assured in February for all January purchases and all documentation now required was in place. All items are delivered to the youth office and placed on the inventory prior to being moved to centres. This was checked in February 2013 and was in place.

- Gift vouchers as rewards for young people had not been used for a number of years are no longer held by the youth service.

- All relevant staff are now trained in the Ash system this has been in place since 12th November 2012.

- Overtime was agreed with the line manager and HR has confirmed that this was within their contract. A new process of sign off for pay claims has been introduced. All claims have two checks and are returned if any errors are found. February quality assurance showed that 1 in 5 have been returned for resubmission. This will be rechecked monthly to ensure increasing compliance.

- A procedure is now in place for the opening and closing of buildings. A Health and Safety Policy and related Fire Safety Manual are all in place for Leyton Rd building, which contains the youth office. All youth centres used by young people have health and safety policies in place, which have been independently inspected.

- All fuel is now purchased in line with the council system. This was checked in February 2013 and no fuel had been purchased on procurement cards. There is an outstanding issue where agreed policy is being sought for long distance journey such as duke of Edinburgh expeditions when use of a fuel card may not be possible.

Service:	**Corporate Procurement**
Final Report Date:	13th November 2012

Audit Scope
A cross cutting audit on corporate procurement to review the councils approach to ensure there is a clear strategy and approach

Summary of Audit Findings
The Commercial Services Team (CST) was set up in 2010 with the primary role of providing advice and guidance to procurement officers across the authority as per the Operating Model agreed at the time. Since then, much work has been done to ensure that the Council's main objective of achieving value for money is achieved. However, this objective cannot be achieved until information systems that form the cornerstone of an effective procurement policy and strategy provide accurate, reliable and meaningful information. The two key areas of information systems which have remained the focus of the Procurement Team's work since 2010, have been: • To ensure that the Contract Register is an accurate and reliable record of contracts across the Council, • Spend data is produced regularly, is accurate and analysed in a format that helps management to make informed decisions regarding procurement strategies and policies and identifying savings opportunities. At the time of this audit, work was at an advanced stage in both areas, but had not reached the stage where assurance could be given that controls are embedded within systems and processes to provide reliable, accurate and meaningful information consistently and regularly. Our review identified a key weakness in the approach that was adopted for the period between 2010 and the present time. During this period, the Council did not have a formal approved Procurement Strategy, which should set out clearly the objectives, risks and actions to mitigate those risks within defined timescales as well as form the basis of future direction of procurement activities. Audit had sight of the latest draft strategy in September 2012, but this appeared to be work in progress. Processes and activities have continued to be built around an informal or draft strategy; without the benchmark of a formal document that is based on good practice, governance and clear goals. The absence of a formal, approved procurement strategy can lead to an unstructured approach and lack of direction. Progress is not measured against established objectives and performance targets. In addition, we found that the roles and responsibilities within the existing framework and structure of Procurement in the Authority lacked clarity and needed to be reviewed and redefined. Our review has also highlighted areas where internal controls need to be strengthened. The lack of a robust control environment can mean that goods or services can be procured without using the Council's existing suppliers or established processes, resulting in poor value for money or breach of Standing Orders. In conclusion, the following areas need to be addressed to ensure that an effective

procurement policy is in place to achieve Council's objectives:

- Developing a formal Procurement Strategy, which sets out the objectives, risks and actions to mitigate those risks to achieve the desired outcome; and to form the basis on which future progress on procurement activities is monitored and reported.
- Developing the role of the Commercial Services Team to ensure that it has sufficient authority within the devolved model to deliver the Procurement Strategy.
- Re-defining the role of the Procurement Board so that it plays the more strategic role of monitoring progress against an action plan with defined timescales and regular reports from officers responsible for delivering each aspect of the strategy.

Strengthening the internal controls (these are set out in the main body of the report) in key areas to ensure that information systems provide timely, accurate and reliable information to enable management to make meaningful decisions

Comments from Interim Head of Commercial Services

I have recently joined Merton as Interim Head of Commercial Services and welcome the opportunity to work with Officers and Elected Members to encourage strategic and planned procurement, to deliver best value outcomes for our residents.

We operate a devolved procurement structure, as detailed in the Audit Report, with individual departments undertaking their own procurement and a small central team (the Commercial Services Team – "CST") providing guidance and advice, in line with a Service Level Agreement and agreed Operating Model. In addition to these agreed activities, we need to recognise that we are now in unprecedented economic times and, to achieve the level of savings necessary, must think "outside the box". Traditional procurement savings alone will not suffice and, with this in mind, I see the key roles of the central team moving forward as:

- To be a centre of excellence for procurement and contract management, including opportunities for collaboration, benchmarking and best practice
- Ownership and maintenance of contracts register
- Market awareness and intelligence
- Spend analysis, specifically identification of savings opportunities and smarter ways of contracting, including payment by results
- Advice on commissioning and potential delivery models
- Local issues, engagement e.g. with local business organisations and SMEs
- Preparation for local right to challenge, to see this as an opportunity
- Work with senior management in relation to best value reviews
- Production and ownership of Council Procurement Strategy
- Training, including Elected Members

Of course, as with any organisation, there are certain basics which must be in place, to provide a solid and reliable platform to inform our commercial decisions and the Audit has highlighted some of these areas. It is important to note that most of these have already been taken on board and appropriate action commenced. Specifically:

The **Procurement Strategy** is in draft form and I have committed to enhancing this and taking a further document to the Procurement Board next spring

The **Contracts Register** will be uploaded by the end of November, supported by detailed spend data. This data is at the hub of our commercial decision in the future and will be updated regularly. However, as detailed in the Audit Report, this must be underpinned by strong internal controls and processes and the recommendation is agreed

I have also undertaken to review the **roles** of the Procurement Board, central team and devolved teams, to ensure responsibilities and deliverables are clearly understood,

appropriate checks and balances are in place, the objectives being threefold,:

- always to ensure that the right decisions are taken at the right level
- value for money is obtained through procuring strategic outcomes and managing contracts and suppliers proactively we protect the Council's commercial position

Current Position (Feb. 13)- Comments from Chair of Procurement Board:
Since September 2011 the Procurement Board has focussed on and delivered:

Building a reliable contracts register
Making a start on systematic spend analysis
Implementing the agreed system of Gateways 1-3 for the oversight of significant contracts across the council
Revising the standing financial instructions which underpin safe procurement
Producing standard Terms and Conditions
Trying out a system of Operational Procurement Groups for each department to enable the CST to engage with each department on matters of key importance

It is acknowledged that finalising the actual procurement strategy is taking longer than intended, but this has not prevented progress being made in these key areas. The arrival of the interim head of procurement will as he states offer a renewed opportunity to review these areas.

The procurement board held a dedicated workshop on 6 February to consider its own effectiveness, and taking into account the findings and recommendations of this audit report. This led to a shared view of changes required, and will be fed into the work programme of the procurement board for 2013/14.

Service:	Contract Compliance
Date of Final Audit Report	8th October 2012

Audit Objectives

To review a sample of expenditure to ensure that contract standing orders has been followed.

Summary of Audit Findings

The weaknesses identified in this report have been highlighted in previous reviews and it would appear the controls that should had been put in place are either not working or are not being complied with.

A number of payments were found to have been made from different budgets to the same company and the cumulative value brings the expenditure above the Contract Standing Order (CSO) thresholds that requires the work to be tendered.

The review found no evidence of a process that allows departmental Contract Officers and Budget Managers to identify payments to companies across departments.

It is understood that a spend analysis has recently been undertaken and is with the Commercial Services team for further analysis. When completed it is important that this information is made available to Budget Holders and Contract Managers to assist them in ensuring the most effective method is used to procure services.

The review also identified that some current contracts had been omitted from the corporate contract register. The same issue regarding the contract register was also highlighted in another review in 2010 titled "Effectiveness of the Procurement Board and Contract Register" which found that reliance could not be placed on the contract register as a monitoring tool.

It has been noted that the new CSO (that became effective on 1 April 2012) does address the requirement for departments to complete the corporate contract register, however this will require all employees with responsibility for purchases including Budget Managers to be made aware of their requirement and responsibilities

Summary Response from Managers

The final version of the Contract Register will be brought to the Procurement Board in October 12, prior to going to CMT and then published on the London Tenders Portal. The Head of Commercial Services will remind members of the Procurement Board and also DMT members in October 2012 and send around a copy of the CSOs.

In both cases, officers will be asked to forward the communication and CSOs onto relevant budget and contract officers in their departments. A process is to be developed, using the annual spend data, where budget managers and contract officers will have improved visibility of spend across the Council in order to identify where different departments are spending money on similar services and/or with the same supplier.

The workshops will be held on a regular basis going forward and a list of attendees circulated to Procurement Board members for information. Future workshops will be held and budget managers and contract managers will be invited.

Current Status of Actions

4 actions implemented and 2 due in March 2013.

Service:	iTrent
Date of Final Audit Report	14th January 2013
Audit Objectives	
All processing carried out by the system is complete, accurate, timely and secure	
Summary of Audit Findings	

As a developmental issue in relation to the implementation of iTrent, it was noted that while 'parallel running' for pensions payments was carried out between October and December 2011, prior to pensions going live in January 2012, parallel running for staff payrolls was only conducted over a two month period prior to go live, rather than over three months, as originally planned. Historically, this increased the risk that any significant differences between payroll processing in iTrent and in the previous system, which would be indicative of failures in iTrent, might not be identified and remedied in a timely manner, leading to incomplete and inaccurate processing by the new system.

We also identified a number of significant weaknesses in the design of the control framework around the live iTrent application, including, principally:

- Since the iTrent system went live the monthly exception reporting and payroll reconciliation processes have not always been performed before the live payroll run and release of payments to BACS. This increases the risk of incorrect payments being credited to staff's bank accounts. This could result in unnecessary costs to the Councils concerning the recovery of overpaid amounts or issuing additional sums where there have been underpayments.

- At the time of this review there was no direct connectivity between schools and the Partnerships' iTrent systems. This has resulted in the need for manual workarounds for certain staff payments, increasing the risk of unauthorised or inaccurate payments made to schools staff. This could lead to increased costs of recovery of payments claimed fraudulently or made incorrectly and reputational damage to the Councils concerned.

- There is a lack of procedures for reconciling new starters and leavers input to iTrent with records on the pensions database for the London Boroughs of Merton and Sutton and changes to pensioners' personal data have not been notified to the Merton pensions team since March 2012. This increases the risk of inaccurate or incomplete pensions contributions data being held by the Boroughs. This could lead to over or underpayments of pensions contributions and an increased risk of reputational damage.

- There is a lack of awareness by some staff of the learning resources available internally to staff in the London Boroughs of Sutton and Merton regarding the use of iTrent. This increases the risk that staff will not be able to obtain adequate guidance on using the application. This in turn increases the risk of operational difficulties in using iTrent and potentially to increased payroll and HR errors.

- 90 London Borough of Sutton iTrent users have not been included in the single sign-on arrangements for staff. Their ability to access iTrent is therefore governed partly by the password policies set within the application itself, which do not generally conform to industry standards and best practice. This increases the risk of unauthorised users guessing the passwords of genuine users and exploiting them to gain unauthorised access to the personal data of Council staff or to make unauthorised amendments to the payroll.

- The authorisation hierarchy in the iTrent application does not correspond to the London Borough of Merton's Scheme of Delegation, increasing the risk that overtime and expense payments will be made to staff which are not correctly

authorised i.e. authorised by those with no responsibility for, or knowledge of the budgets concerned.

- There is a lack of procedures for defining, reporting and reviewing security events in the iTrent system, resulting in an increased risk that attempts at unauthorised access to HR and payroll data may not be identified promptly and mitigating actions taken.

- There is no formal process for reviewing whether the iTrent service level targets are being met, increasing the risk that instances where application support is not being provided in line with the SLA will not be identified and remedied in a timely manner, resulting in the failure of core payroll and HR services.

- Although business continuity/disaster recovery arrangements and backup procedures for the Councils' iTrent system and data are documented in Midland HR's Disaster Recovery (DR) Process Template, these do not specifically include a programme of Disaster Recovery tests regarding the iTrent systems at the London Boroughs of Sutton and Merton. This increases the lack of assurance that the Disaster Recovery procedures in the template will operate as intended, which could in turn lead to delays to or failure of the recovery process and the inability to operate payroll and HR services in line with business requirements

Summary Response from Managers

- The Client Manager will ensure that as part of the processes in place to ensure payroll accuracy that all corrections are made prior to the point of data submission. There will also be a need to ensure that each of the HR Transactional managers in each of the three boroughs are sent exception reports from the iTrent Client Manager at the relevant time which require their teams to rectify data originating from their areas prior to the payroll being run each month.
- Via the secure connection provided by LgFL, 32 schools in LB Merton and LB Sutton have now been granted access to People Manager in iTrent. In January 2013, more schools will be granted access as the managed 'roll-out' continues. Fast Input solutions to input monthly variable pay data will subsequently occur in a controlled and managed way
- For the limited number of users who are not currently logging into iTrent using USO (unified sign on), we agree that the security controls need to be strengthened as recommended. The changes will be managed through the agreed change control process
- Merton Council has requested a non-standard set of reporting outputs for employee pensions record administration by the borough's pensions team. These are currently being worked on by Agilisys staff to ensure that the Council's requirements are met.
- Regular communications updates via the established media – Insight (Sutton) and Bulletins (Merton) encourage staff to visit the 'iTrent and Me' intranet pages which provide direct links to the Learning Pool elearning material. This is ongoing. New starter induction packs also signpost staff to use the elearning facility for iTrent information. More accessible is the iTrent self service facility which contains linksto appropriate iTrent application learning tools.
- Agilisys have prepared a business proposal for LB Merton to consider in relation to the scheme of delegation.

Current Position

6 actions have been implemented and 3 are due to be implemented

Service:	Adult Service- Direct Provision
Date of Final Audit report	20th December 2012

Audit Scope

To review the financial controls in place at Day Centre

Summary of Audit Findings

This audit has been carried out using control self assessments completed by the managers of the establishments. The responses have been assessed for reasonableness and compared with financial information from the Council's general ledger and other corporate systems, and discussions have been held with the Direct Provision business unit.

A limited assurance has been provided as all key controls are not currently in place.

A 2011/12 internal audit report identified weakness in internal control in relation to halls lettings and amenity funds at High Path. The Direct Provision Business Unit has proposed new arrangements to address these risks but these are not yet in place. One factor that alerted DPBU to the potential weaknesses in internal control was the lack of halls lettings income at High Path, and at present High Path still has no budget for halls lettings.

Prior to this audit review DPBU had identified that petty cash monies were not accounted for at High Path and that it had an excessive number of petty cash imprests. An investigation into this has been completed. This Internal Audit review has identified that Eastway reported an over on its petty cash as part of the corporate year-end procedures, and that there do not appear to be clear roles and responsibilities for the investigation of variances in petty cash identified as part of closing.

The arrangements for the local collection of client fee income at Eastway are not currently effective, and new controls are being put in place. cost centre management for these fees may not provide an appropriate level of transparency to assist with effective budget monitoring in this regard.

There is a need to address the potential lack of sufficient staff at the establishments to provide independent local checking of client cash in-hand monies. The DPBU must urgently investigate the number of procurement cards held at the establishments. This should be checked against corporate finance records of cards issued as currently there appears to be a mismatch.

Summary Response from Managers

Revised procedures for amenity funds will be authorised. Local amenity funds will be independently audited and then local bank accounts that hold the amenity funds will be closed and monies transferred to the Council bank account.
High Path now has a lettings budget.
The number of procurement cards held at establishments will be confirmed and agreed to corporate records, and all cards will have Head of Service authorisation.
The profiling of budgets will be reviewed and correctly aligned to income sources.
The profiling of client fee income and the subjective financial codes to which they are posted will be reviewed. Client fee arrears will be collected in accordance with an authorised policy. Direct Provision Business Unit officers can now check the completeness of client fee income on Carefirst.
The coding of employee costs on iTrent is being reviewed.
Unnecessary petty cash imprests will be closed; the apparent variance on the 2011/12 Eastway petty cash year-end certificate will be investigated, and responsibility will be documented for investigating future such variances at any establishment.
The intention to withdraw from the cash collection contract will be discussed with Corporate Finance.
Security standards at establishments will be discussed with establishment managers.
Client cash-in-hand will be independently reconciled.

Current Status

4 actions implemented. 13 awaiting implementation

Service:	Passenger Transport
Date of Final Audit report	27.12.12

Audit Scope

To review the commissioning arrangements in place for passenger transport and the recharges to departments.

Summary of Audit Findings

The implementation of the framework contract can provide some assurance on passenger transport procurement. However an overall limited assurance has been given based on the need to have a more transparent documented process in place to evidence the decisions made when awarding individual routes. These include:-

- The periodic review of routes to ensure best prices are achieved:
- The need to ensure transparency for when routes are awarded at short notice outside of the formal "route quotation" process:
- Redesigning of the quote result form to ensure all relevant data is captured: and
- Retention of evidence to support tendered routes.

An issue was identified with regards to the distribution of routes amongst the suppliers. Of the 34 suppliers on the framework contract 21 had yet to be given any work and 2 suppliers have received 62% of the total expenditure to date 13 months into the contract.

It was also noted as at the start of the review which commenced in September 2011 the framework contract between the Council and the suppliers had yet to be signed by both parties.

The changes in the way recharges have been undertaken since April 2012 should make it clearer for departments to understand what they are being charged. However, this needs to agreed and documented and form part of an SLA between the Commissioning team and the departments.

Testing confirmed that in all cases there was evidence to support request that a request had been received from the service department before transport was put in place. Testing also confirmed that in the majority of cases there was evidence to support that the driver and escort had been CRB cleared

Summary Response from Managers

The Framework contract has been passed to the Head of Street Scene and Waste for signing.

A periodic review of routes will be undertaken to ensure best prices is achieved.

The "Quote Result" form will be redesigned to capture more information to ensure the decision making process is documented.

Additional documentation will be added to the list of documents checked as part of the spot checks.

Current Status (as at 28.2.13)

9 actions implemented. 3 actions due to be implemented (1 of which are overdue)

Service:	Fuel
Date of Final Audit report	24th October 2012
Audit Scope	
To review the controls in place for managing the arrangements for fuel.	
Summary of Audit Findings	
There needs to be an overall strategy for fuel usage in the council, and if all council vehicles should be purchased through the Transport team this should be documented and enforced.	
Contract and agreement documentation needs to be found and stored securely. Information needs to be added to the Corporate Contract Register.	
Work needs to be carried out on PIN numbers and passwords. PIN numbers for the fuel bunker should not be easy to guess, and passwords for the Fueltek system should be regularly changed.	
The fuel bunker risk assessment should be carried out more frequently and should include more detail on security, fire and worker health and safety.	
An overall policy and procedure for BP fuel cards should be put in place to ensure that all teams are using the cards in the same way, and only teams with a business need for the cards are able to have one.	
The administration charge added to each litre of diesel from the fuel bunker needs to be made explicit in service level agreements.	
Budget managers should receive monthly reports about fuel usage.	
Summary Response from Managers	
An overall strategy for fuel will be developed, which will address the issues raised in this report	
Contract documentation will be stored securely in line with Contract Standing Orders	
Current Status	
27 actions implemented. 6 outstanding action – due to be implemented (Feb. to June 2013	

Service: **Hatfeild Primary School**	
Final Report Date	18th December 2012

Audit Scope
To review the financial arrangements in place at the school

Summary of Audit Findings
This school was given a limited assurance, due to its arrangements for handling cash.
Staff were found to have borrowed school money for personal use and staff personal money was also mixed with school money.
Breakfast Club money was being handed over to the school office but was not documented or signed for and it is unclear where money taken was being stored.
School Trips income was also not being recorded adequately.
Other findings related to procedural changes required updated documentation in relation to cheque signatories on the terms of reference, virement forms not being authorised and petty cash form not always being signed or authorised or VAT reclaimed.

Summary Response from Managers
All recommendations accepted. Memo to all staff to inform them that must no longer borrow money All containers for money collection now very clearly marked when stored in the safe. Safe limits not exceeded
Four actions due to be implemented.

OVERDUE OUSTANDING AUDIT ACTIONS AS AT 4th March 2013   **APPENDIX C**

Responsible Officer (Post)	dept	Auditable Area Name	Priority	Target Date	Revised Target Date	Action Ref
Waste Services Manager	ER	ER/93/2012 - Waste Disposal Contracts- SLWP	High	31/10/2012	31/10/2012	R01
Waste Services Manager	ER	ER/93/2012 - Waste Disposal Contracts- SLWP	Medium	31/10/2012	31/10/2012	R02