

Committee: General Purposes Committee

Date: 10th March 2016

Subject: Internal Audit Progress

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Chair of the GP Committee

Forward Plan reference number:

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Recommendation:

- A. **That members note the Internal Audit Progress Report and comment upon matters arising from it.**
- A. **That members note the Whistleblowing update.**

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report summarises the work carried out to date by Internal Audit within the 2015/16 financial year to the end of February 2016. 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.
- 1.4 From the 1st October 2015, Merton became part of the 3 borough Internal Audit partnership with Richmond and Kingston. The Head of Internal Audit has been providing part time interim cover for the Head of Audit post at Sutton since the 1st September 2015.

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 2015/16, advice to departments represented 6% of auditor time.

3 PLANNED AUDIT REVIEWS

- 3.1 This financial year we have finalised 43 audits, 15 of which relate to completion of the 2014/15 audit plan. Eight of these reports have been given a limited assurance (18%).
- 3.2 For the 2015/16 audit plan there are 29 at final stage, 11 at draft stage and 19 in progress. All audit reports issued since April 2015 and outstanding audit actions are included in Appendix A.
- 3.3 Since the last progress report in September 2015, 12 final reports have been issued, 6 with a satisfactory assurance (50%) and 4 reports (33%) with a limited assurance, 1 grant claim (8%) and 2 proactive fraud reports (17%).
- 3.4 As at the end of February 68% of the 2015/16 audit plan had been completed (final and draft reports). It is expected the plan will be completed by the end of May 2016.
- 3.5 Table 1 details those audits with a limited assurance (below the required standard) issued since the last committee report in September 2015

Table 1 – Audit Assurances –limited

Audit Title	Department
Service tenancies	ER
Sickness	All
Adoption	CSF
Smart Centre	CSF

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

3.7 The main concerns identified were-

- Service Tenancies- a management record of current tenancies was not available, agreements were not found for all tenancies and a reconciliation of rent received was not carried out. Rents have not been reviewed and there appeared to be uncertainty on the treatment of ex-employees.
- Sickness Monitoring- managers had not been attaching copies of medical certificates to iTrent to support the days sickness, sickness monitoring was insufficient.
- Adoption- related to agreements not signed, rates not reviewed and procedures not updated.
- Smart Centre- related to the deficit budget, approval of this and plans to reduce this.

3.8 Assurance was sought at the September General Purposes committee regarding proposals to avoid a limited assurance report 2 years running. Internal Audit reports always provide a detailed action plan of recommendations with proposed implementation dates. These are always followed up. The audit is then put back on the plan to do a follow audit including testing to ensure that the controls have improved, in most instances there have been improvement, occasionally these have not improved and a further limited assurance report is issued. Where this occurs Internal Audit will draw this to the attention of the relevant director and to the committee.

3.9 This year so far there have been four additional requests for work where either assurance on controls were required or assistance to other councils for a multi authority fraud. Where additional work is requested, a decision is made on whether this work replaces other planned work on the audit plan. Work this year has included:-

- Procurement card costing review
- Review of arrangements for bailiff cash handling
- HB subsidy grant
- PRG audit of grant

4. FOLLOWING UP ON THE IMPLEMENTATION OF AGREED ACTIONS

- 4.1 In 2015/16 there have been 383 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.
- 4.2 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. There are currently no audit actions overdue by more than 3 months.

5. WHISTLEBLOWING

- 5.1. During 2015/16 there have been 8 whistleblowing concerns received and one on-going case which is being prepared for prosecution.
- 5.2 A summary of all Whistleblowing allegations is reported to the General Purposes committee on an annual basis. Updated reports are provided throughout the year. An outcome of the cases for this year are:-
- One case is being prepared for prosecution (through SWLFP)
 - Three cases are on-going (through SWLFP)
 - Five cases were inconclusive

Table 3 Whistleblowing by departments

Dept	Number
Corporate Services	2
Environment & Regeneration	0
Community & Housing	3
Children Schools & Families	4
Total	9

- 5.3 The council encourages staff, contractors and others to raise concerns. In order to raise awareness of the councils Whistleblowing procedures, the council have undertaken the following:-
- Leaflets sent out to all Departments, partners and schools.
 - Intranet Links on the Procurement site and the CHAS website on the Internet. Standard terms and conditions of contracts.
 - The policy is available on the Intranet and the Internet.

6. FRAUD PARTNERSHIP - 5 boroughs

- 6.1 From April 2015, Merton has been part of a 5 borough fraud partnership led by Wandsworth council, including Sutton, Richmond and Kingston councils, called the South West London Fraud Partnership (SWLFP). This has been set up to pool the resources of each council to gain maximum benefits when investigating fraud and carrying out proactive fraud exercises. Fraud funding from the DCLG of £472,000 was obtained during 2015/16 to assist with setting up this partnership. This funding includes the cost of a tenancy fraud officer for Merton.
- 6.2 Each council prepares a fraud plan of areas for proactive fraud work they want to resource. Other ad-hoc reactive fraud investigations are referred to the SWLFP, including whistleblowing, fraud referral from managers or concerns identified during audit reviews. Other non-fraud related whistleblowing or concerns remain within the council to be investigated by the appropriate section.
- 6.3 The SWLFP provides monthly reports to the Head of Audit and to the Director of Corporate Services. A separate report from the fraud partnership on their progress to date is on the agenda.

7 ALTERNATIVE OPTIONS

- 7.1 None for the purposes of this report.

8. CONSULTATION UNDERTAKEN OR PROPOSED

- 8.1 The strategic plan, Internal Audit Plan and charter 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.
- 8.2 Audit briefs outlining the scope and objectives of each audit are agreed with the relevant manager prior to the audit commencing.
- 8.3 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.

9. TIMETABLE

- 9.1. None for the purposes of this report.

10 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

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

11. LEGAL AND STATUTORY IMPLICATIONS

- 11.1 This report sets out a framework for Internal Audit to provide a summary of internal audit work for 2015/16. 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.

12. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 12.1 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.

13 CRIME AND DISORDER IMPLICATIONS

- 13.1 There are no specific crime and disorder implications arising from this report.
- 13.2 The report does however include brief details of potential fraud investigations in progress.

14 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 14.1. 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.
- 14.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Internal Audit Plan.
- 14.3. 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 2015
- Appendix B – Limited assurance Management summaries and agreed actions.

BACKGROUND PAPERS

Documents held in Internal Audit Files