

## **Committee: General Purposes Committee**

**Date: 26<sup>th</sup> September 2013**

Agenda item:

Wards:

**Subject:** Internal Audit Progress Report and Internal Audit Charter

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 report and comment upon matters arising from the Internal Audit Progress Report**
  - B. **That members approve the Internal Audit Charter**
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## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 This report summarises the work carried out by Internal Audit up to September 2013 and the key areas of activity planned for the remainder of the year.
- 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 Since the last progress report in March 2013, we have finalised 38 audit reports and have 5 reports at draft stage.
- 2.2 In order to contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance as follows:

- a) Full Assurance
- b) Substantial Assurance
- c) Satisfactory Assurance
- d) Limited Assurance
- e) No assurance

2.3 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.

### Planned Audit Reviews

2.4 Since the last progress report in March 2013, there have been 31 reports issued with a satisfactory assurance or above (see Appendix 1). There have also been 7 reports issued with a limited assurance.

2.5 The seven limited assurance reports are detailed in the table below; details of the review are included in Appendix 2.

**Table 1 – Audit Reviews with a limited assurance**

Plan Year	Audit Title	Department
12/13	Cash and Bank	Corporate Services
12/13	Payroll	Corporate Services
12/13	Personalisation/self directed support	Community and Housing
12/13	Adoption- payment review	Children Schools & Families
12/13	Carefirst	Community and Housing/Children schools and families
13/14	Wimbledon Park and Grounds Income	Environment and Regeneration
13/14	West Wimbledon	Children Schools & Families

2.6 The actions recommended are all either implemented or in progress to be implemented. Follow-up of audit actions are always undertaken to seek assurance that the weaknesses in controls have been strengthened.

2.7 On the main financial systems, two areas received a limited assurance, the cash and bank audit had previously received a limited assurance in 11/12, this audit identified that some of the concerns previously raised had not yet been implemented. The payroll audit identified a number of issues in relation to evidence of additional payments and the reconciliation to the main accounting system.

2.8 The Parks income audit was a follow-up audit, previously undertaken in 11/12 which had received a limited assurance. This review identified that the actions had not been implemented from the previous audit, therefore resulting in the assurance remaining as a limited assurance.

- 2.9 A summary of the findings and agreed actions are detailed further in Appendix 2 for all those receiving a limited assurance report.

### **Key reviews planned for the third quarter**

- 2.10 In the third quarter of the year we plan to issue final reports for risk management, effectiveness of procurement and contract compliance.
- 2.11 Key audits due to commence include, commissioning to the voluntary sector, partnerships and financial systems reviews of debtors, cash & bank, General Ledger.

### **Schools audits**

- 2.12 Since the last committee report, four school audit reports have been finalised. Of the 4 reports issued, one was limited, three were satisfactory

**Table 2 Assurance level comparisons for school reviews since March 2013**

	<b>Current audit assurance</b>	<b>Previous audit</b>
Merton Abbey Primary School (f/u)	Satisfactory	Limited
Aragon Primary School	Satisfactory	satisfactory
West Wimbledon Primary School	Limited	Satisfactory
Haslemere Primary School	Satisfactory	satisfactory

- 2.13 Meetings have been held with the governors at West Wimbledon Primary School, and they have taken an active role in ensuring that the actions have been implemented. A follow up audit review will take place later in the year.

### **Training**

- 2.14 Training is provided to managers and staff within the council on internal controls. Currently training is being arranged in relation to cash handling.

### **Anti-Fraud**

- 2.15 An allocation of time is included in the 2013/14 audit plan for investigation work, and joint working with the Investigation Section.
- 2.16 Internal Audit identifies control weaknesses in areas where fraud has occurred and issue reports to managers to improve their controls.
- 2.17 Since April 2013, Internal Audit has reviewed two areas where concerns have been raised, one related to a potential conflict of interest and one to financial concerns. Neither of these cases resulted in evidence of fraud, but recommendations for improved controls have been provided.
- 2.18 Reported to GP committee in March 2013, there were 7 on-going fraud allegations for 2012/13, an update on the status of these is as follows:

- One case has no further action.
- Two cases resulted in the employee resigning
- One case resulted in the employee being dismissed
- Three are in progress with the Investigation Team

2.19 There have been sixteen Whistleblowing allegations received since March 13.

- Five have resulted in no further action, although some of these received advice on improved controls.
- One case is currently going through a disciplinary process
- Three cases are with HR to investigate and are in progress
- Five cases are in progress with the Investigation Team.
- Two are with Internal Audit

### 3. Following up on the Implementation of Agreed Actions and responses to Draft Reports

3.1. The agreed actions for audits completed in 12/13 have been followed up. At the time of this report 92% of audit actions had been implemented, 8% were due to be implemented.

3.2 Follow up reminders are sent out monthly to officers responsible for implementing the agreed actions when the due date is reached, to ascertain whether the actions have been implemented.

3.3 If the actions have not been implemented by the following month reminders are escalated to Heads of Service/ Assistant Director Level. Once they reach 3 months overdue a report is then sent to Directors for those actions.

3.4 As at the 16th September there were 43 overdue actions. None of these actions are more than 4 months overdue. These are actions that have passed the implementation date agreed by the manager.

**Table 3 Overdue outstanding audit actions**

Priority	0- 3 Mths (up to 90 days)	3- 4 Mths (91 to 120days)	4 Mths +( 121 days plus)
<b>12<sup>th</sup> September 2013</b>			
High	4	0	0
Medium	25	0	0
Low	13	1	0
<b>Total</b>	<b>42</b>	<b>1</b>	<b>0</b>

3.5 Internal Audit has also contacted managers to seek explanations for the delays in implementing these recommendations. This has assisted in implementing the

outstanding actions. Where actions remain outstanding, these audit areas will need to be considered for a follow up audit review.

#### **4. The Internal Audit Charter**

- 4.1 Under the provisions of the new Public Sector Internal Audit Standards (PSIAS), which took effect on the 1st April 2013, all internal audit services operating within the public sector are required to produce an Internal Audit Charter.
- 4.2 The Internal Audit Charter replaces the previous Terms of Reference for Internal Audit that has been presented to committee for approval in previous years. The contents of the Internal Audit Charter is broadly similar to that of the previous Terms of Reference in that it provides an explanation as to why local authorities have an internal audit service, and sets out the parameters that internal audit operate in within the London Borough of Merton. Whereas in the past it was always good practice for the General Purposes Committee to consider and agree the terms of reference, it is now a requirement of the PSIAS for the committee to do this on an annual basis.
- 4.3 The Internal Audit Charter set out in Appendix 3 to this report.

#### **4. ALTERNATIVE OPTIONS**

- 4.1 None for the purposes of this report.

#### **5. CONSULTATION UNDERTAKEN OR PROPOSED**

- 5.1. The Internal Audit Plan has been agreed with Chief Officers who have consulted with their Management Teams. Service Level Agreements are in place. The Head of Audit has periodic meetings with the Directors to report upon progress against the Plan.
- 5.2. All audit reports are discussed with the relevant manager 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 1 – Audit reports issued since March 2013
- Appendix 2 - Audit Report summary (limited assurance)
- Appendix 3 – Audit Charter

### **BACKGROUND PAPERS**

- i. Documents held in Internal Audit Files

## Audit progress since March 2013

Audit Title	Department	Final Report Date	Assurance	No of actions	No of outstanding actions	No of overdue actions
Grant claim sign off- cycle city and smilee	E&R	March 13	n/a	n/a	n/a	n/a
Merton Abbey Primary School	CSF	08/03/2013	assurance	9	0	0
Creditors	CS	19/03/2013	assurance	3	2	2
Youth Service Inventory equip	CSF	25/03/2013	n/a	7	0	0
PFI	CSF	25/03/2013	assurance	12	8	0
Personalisation/self directed support	CH	27/03/2013	limited	18	6	4
Cash and Bank	CS	27/03/2013	limited	15	8	2
Passenger transport -mgt	ER	12/04/2013	Part review	2	0	0
IT Disaster Planning and Recovery f/u	CS	17/04/2013	f/u on limited	2	0	0
Residential care contracts	CH	17/04/2013	assurance	8	8	0
IT security in schools- Morden	CSF	25/04/2013	assurance	10	6	4
IT security in schools- SS Peter & Paul	CSF	26/04/2013	assurance	4	4	4
IT security in schools- Haslemere	CSF	26/04/2013	assurance	7	5	5
Legal shared service	CS	30/04/2013	assurance	7	3	0
Asset Management	ER	03/05/2013	assurance	11	10	1
Financial Assessments	CH	15/05/2013	assurance	2	0	0
Debtors	CS	24/05/2013	assurance	6	1	0

IT security in schools- Pelham	CSF	31/05/2013	assurance	11	10	0
Court of Protection/Appointeeship	CH	31/05/2013	assurance	8	5	4
Recruitment/retention	CS		assurance	25	16	5
Adoption payment review	CSF	27/06/2013	<b>limited</b>	15	7	0
Housing Benefit	CS	23/07/2013	assurance	6	3	0
NNDR	CS	15/7/2013	assurance	16	13	3
Council Tax	CS	15/7/2013	assurance	3	1	0
Fostering payment review	CSF	29/7/2013	Assurance	10	8	0
Gifts and Hospitality	CS	26/4/2013	Assurance	4	2	2
Facilities Management- Schools	CS	24/6/2013	Assurance	8	4	0
MSJCB	ER	-	n/a	-	-	-
Aragon Primary School	CSF	19/7/2013	Assurance	7	4	0
Transforming families July 13 claim	CSF	-	n/a	-	-	-
Carefirst	CSF/CH	19/8/13	<b>Limited</b>	13	9	0
Abandoned Vehicles	ER	30/8/13	Assurance	8	6	0
Cemeteries	ER	13/9/13	Assurance	10	9	0
Payroll	CS	13/9/13	Limited	16	1	0
Parks income	ER	16/9/13	<b>Limited</b>	9	6	0
West Wimbledon	CSF	17/9/13	<b>Limited</b>	30	0	0



Audit Ref.	Audit Title	Department	Management Summary
CS37	Cash and Bank	Corporate Services	<p>The cash collection contract is currently undertaken by two companies, Loomis and Banking Automation. Whilst the perception is that Banking Automation is performing well, information relating to the monitoring of the contractors performance was not available.</p> <p>Both contracts commenced in 2002 and were for a period of four years. However these contracts were still being extended at the time of this audit and despite this issue being raised in a previous audit report has not yet been re-tendered.</p> <p>Several problems have been reported to the contractor regarding the performance of the Loomis contract, but despite numerous requests a satisfactory response has not yet been received. The recently appointed contract manager has therefore suspended payments to the contractor relating to the issues identified.</p> <p>In January 2013, Loomis returned two security bags to the contractor that had previously been collected from the authority in July and August 2012. One bag containing over £53,000 (cash and cheques) had not been identified as not being received at the bank until the unbanked income was returned to the authority. Processes to address this are now being implemented.</p> <p>A request for a copy of the unreconciled E Return report identified that there had been no reconciliation or monitoring of this report for some time. Unreconciled E Returns from May 2008 to December 2012 were found to total £313,000.</p> <p>Approximately £73,000 of duplicate items was identified during the audit and arrangements are currently being made for them to be cancelled.</p> <p>Three further amounts of income processed by CSF Business Support Team, totalling £11,668.00 were identified as having been collected by Loomis between May and December 2012 but not processed by the bank. The remaining £175,000 still requires further investigation by the Reconciliation Team.</p> <p>Duplicate entries totalling approximately £2.4million have been evident in the General Ledger since September 2012 and had not been cleared at the time of this audit.</p> <p>Problems were identified with missing data files received from Civica CON relating to the receipt of debit and credit card payments. This issue and other areas of concern will be addressed as soon as possible via the monitoring of the contract.</p>

Audit Ref.	Audit Title	Department	Management Summary
<p><b>Final report issued:- 27<sup>th</sup> March 2013</b></p>	<p><b>No of agreed actions: 15</b></p>	<p><b>No.of outstanding actions: 8</b></p>	<p><u>Summary of agreed action</u>                      A tender process has now commenced for the Cash Collection contract which should be completed by the autumn of 2013. (Note: this has now been revised to Jan 14)                      There will be robust monitoring of the new contract and monitoring requirements will be clearly defined in the contract                      The Head of Customer Contact is currently in discussions with Loomis (the providers of the current contract) regarding recently identified issues. Current contract charges are being withheld pending the outcome of these discussions.                      The duplicate entries in the General Ledger totalling approximately £2.4 million were reversed on 18<sup>th</sup> March 2013                      The processing of all e-returns will be incorporated into the system currently operated by the Cash Office, prior to dispatch for banking                      Problems identified with the CivicIcon contract will be dealt with and brought to the attention of the Accounts Manager at the periodic supplier performance review meetings                      A process to enable the production of a regular CivicIcon transaction report is currently being developed.                      The Head of Accountancy will ensure that all e-returns up to 31<sup>st</sup> March 2013 are fully reconciled as part of the closure of the 2012/13 accounts                      A project team will be established to undertake a comprehensive review of current systems and processes of the e-return system                      All staff involved in the secure bagging of income will be reminded of the need to evidence their actions and the procedures to be followed on the receipt of income</p>

Audit Ref.	Audit Title	Department	Management Summary
CSF/218	Adoption payment review	Childrens Schools and Families	<p>Confirmation cannot be given that the Adopters, Special Guardianship Order or Residential Orders are receiving the correct rate of payment. This is due to there being no clear guidance or documented decisions where discretionary payments can be awarded.</p> <p>There was no audit trail of the decisions for financial support provided for majority of the sample selected.</p> <p>Documentation to support financial assessment and means tested document are not being held on file. There was no consistent approach found in the means testing of Adopters, Special Guardianship Order and Residential Order.</p> <p>No contracts are held between the London Borough of Merton and the Adopter's, Special Guardianship Orders or Residential Orders where financial support is being provided.</p> <p>Declarations of Interest Forms are not being completed annually by the Social Workers or Officers within the team.</p> <p>The Adoption and Permanence Team procedures and monitoring were found to be weak, the report has highlighted areas where improvement should be made to strengthen the lack of controls. These include:</p> <ul style="list-style-type: none"> <li>- Documenting procedures</li> <li>- A more comprehensive monitoring arrangement including regular review of any changes in circumstances.</li> <li>- An introduction of a review database, holding all Adopters, Special Guardianship Order and Residential Orders. These cases should be reviewed on an annual basis.</li> </ul> <p>There is no process in place to reconcile the amount paid to Adopters, Special Guardianship Orders and Residential Orders. The move to CarePay within CareFirst would assist in the reconciliation process, and help provide a more robust system.</p>

Audit Ref.	Audit Title	Department	Management Summary
<p><b>Final issued: 27<sup>th</sup> June 2013</b></p>	<p><b>No of agreed actions:- 15</b></p>	<p><b>No of outstanding audit actions: 10</b></p>	<p><b>Summary of agreed actions</b>                      Documented procedure's are being established and will be reflect changes made from the Audit review.                      The Adoption Reviews Policy dated July 2006 will be reviewed.                      Contracts are being drafted between London Borough of Merton and the Adopter's, Special Guardianship Orders or Residential Orders.                      Reviews will be undertaken on all discretionary and means tested payments to confirm correct amounts are being paid.                      All decisions and payments to Adopter's, Special Guardianship Orders or Residential Orders will be fully documented, authorised and filed.                      Annual review has been agreed to be performed for all payments to Adopter's, Special Guardianship Orders or Residential Orders</p>

Audit Ref.	Audit Title	Department	Management Summary
CS/55/2012-13.bf	Payroll - Systems 2012-13	Corporate Services Department	<p>Since the last review the payroll service has been outsourced to Agilisys Payroll Services and supported in house by the Payroll Clients and Central Operations teams. The bulk of the sample used for testing concentrated on the 3 main pay groups (new/old officer and teacher). The workflow process is supposed to allow managers and employees to submit claims via iTrent, however, it was noted that schools and some satellite site are unable to this. As a result the Central Operations team is manually inputting claims on their behalf using spreadsheet. There is an increase risk of inaccurate and unauthorised payments being made. 40 per cent of the sample of non statutory deductions tested could not be evident by the original authorisation document. As at the time of the report Internal Audit has not been able to verify that 90 per cent of additional payments to employees have been authorised by the relevant budget manager. Sample testing found a number of leavers had been paid after their last day of service, this would imply that the controls in place to ensure that employees are only paid up to the last working day is not working as expected. Further work needs to be undertaken to ensure that managers inform payroll at the earliest opportunity to prevent employees being overpaid. The reconciliation of the Payroll file, General Ledger (FMIS) and the Councils Bank account has yet to be signed off. The inability to sign off the banking reconciliation could increase the risk of incorrect payments being made and going undetected.</p> <p><b>Summary of agreed actions.</b></p> <p>A process for rolling out the authorisation of expense claims through self service to an approved budget manager has been discussed with Finance and is due to be trialled in the autumn. Some work has been undertaken with Business Improvement to review the current electronic Leavers/Movements form is completed by managers with a view to enhancing the functionality. When completed a communication will be made to managers to advise them of the changes. A process will be put in place for payroll exception reports to be signed off and a copy retained. HR are in discussion with Agilisys with a view to putting in place process whereby Agilisys will confirm via a report the amount transmitted</p> <p>Signed copy of the BACS release form will now detail the bank details of the transmitting account. The 2012/13 payroll bank reconciliation has been completed and audited by external auditors. The Business Finance Systems Liaison Manager has established monthly meetings with the Head of Joint HR Transactional Services to deal with any payroll issues.</p>
<b>Final report sent 13/9/13</b>	<b>No of actions:16</b>	<b>No of outstanding actions: 13</b>	

Audit Ref.	Audit Title	Department	Management Summary
	Carefirst	C&H and CSF	<p>This report has been prepared following a council wide consultation with staff from C &amp; H, CS &amp; CSF. Although the original audit involved staff from both CS and C&amp;H, but not from CSF, CSF staff were consulted about the recommendations, and contributed to the action plan schedule.</p> <p>Our review has shown that there is an effective system for ensuring that providers are paid correctly and on time.</p> <p>However, a number of control issues were found during the course of the audit which, when considered in aggregate, could have a significant impact upon the overall internal control environment.</p> <p>To improve the control environment, we have made a number of recommendations which are set out in the main body of the report.</p> <p>Recognition has been given to limitations within the CareFirst System, which has contributed towards some of the control issues. It is also acknowledged that staff have managed to work around these limitations as best as possible and continued to provide a good level of service.</p> <p>CareFirst crosses departmental boundaries and its management involves different systems, processes and teams. The loss of staff through re-structuring may potentially lead to loss of knowledge in key areas. However we found that there has not been a corresponding review of how this has affected effective management of CareFirst and what steps need to be taken to ensure a co-ordinated and joined up approach is in place.</p> <p>Our review has highlighted the need to re-define the roles and responsibilities of staff involved in managing the systems and processes to provide assurance that they are functioning effectively. Gaps have appeared in some areas following changes within teams and personnel. This has created the impression of a system that is not transparent and lacks overall direction.</p> <p>A number of issues were identified in relation to the evidence of authorisation on copies of some service agreements held on CareFirst. This is a key document and should provide a reliable source of confirmation that service agreements have been appropriately authorised. However, we found that this information was missing from some of the current open service agreements.</p> <p>In addition, we found that there is not a Council wide list of authorisers and their limits. Although separate lists exist with different officers, a comprehensive and up to date list could not be found</p> <p>We found that, generally, client's financial contributions were correctly assessed and invoiced. However, our review of a client account for an assessment in relation to Direct Payments showed that the client account had not been debited with the correct amount. Although we made enquiries to identify the cause of this, it was not possible to establish who had responsibility for investigating and resolving this error.</p>



Audit Ref.	Audit Title	Department	Management Summary
<p>Final report issued 5<sup>th</sup> September 2013</p>	<p>No of agreed actions:- 12</p>	<p>No of outstanding audit actions: 9</p>	<p>There have been a number of factors, including e-mail instructions to invoice clients not being sent and glitches within the CareFirst and CM 2000 systems, which have resulted in failure to raised invoices or delays in raising invoices promptly. Although it is acknowledged that the former is being addressed, we have recommended that “live” cases of financial contributions, as per the Financial Assessment Team, should be agreed to actual invoices produced on the Ash Debtors System. This should help in identifying errors and discrepancies.</p> <p>In response to client enquiries and request to provide clarification in some areas of the audit, appendices have been attached to the report, which set out the background to how the scope was developed, and provides explanations/response to other matters raised</p> <p><b>Summary of Agreed actions</b></p> <p>Roles and responsibilities of officers involved with CareFirst to be reviewed and clearly defined. A working group to be set up to address this</p> <p>To undertake a review of a sample of agreements; to be co-ordinated by a single point of contact in C &amp;H and CSF</p> <p>To establish targets for agreements not authorised within a pre-defined timescale</p> <p>To establish clear guidelines and responsibility for data cleansing</p> <p>Give consideration to embedding controls within the system, such as separation of duties, spend limits and the inclusion of full origination and authorisation audit trail on all service agreements when procuring a new social care management system</p> <p>Reporting functionality to be an important consideration in the selection of a new social care management system</p> <p>To investigate further the feasibility of agreeing clients who have been assessed to make a financial contribution to invoices raised. A review of present system of setting up new users and access limits</p> <p>Progress the Procedure Manual to completion</p>

Audit Ref.	Audit Title	Department	Management Summary
	<p>Wimbledon Park and Grounds Income 2013-14</p>	<p>E&amp;R</p>	<p>Based on our enquiries, observation and examination of systems and procedures at Wimbledon Park Hut, we found that overall, the internal control environment has not improved since the last audit was undertaken in 2011/2012. A significant number of recommendations made in the previous report have not been implemented, placing the system at risk from errors and abuse. Areas of concern that have not been dealt with effectively include inconsistent and incorrect application of procedures; unexplained differences between income records and actual cash collected and banked; and delays in collection, banking and posting of E-returns. The report therefore highlights the need for effective action to improve the control environment at Wimbledon Park Hut. These include putting in place sound procedures and good controls for income collection. We have made a number of recommendations, set out in the main body of the report, which are designed to assist in this process. We also carried out a review of the current process for identifying and analysing information and data for the purposes of preparing E-returns. We noted that staff within the Leisure &amp; Culture Support Team had been proactive in finding a solution and had devised new forms for paying in Greenspaces income and set up a process for staff at Wimbledon Park Hut. These changes had already made a significant improvement to the system at the time of this audit. A revised procedure has been suggested, enhancing the above changes to simplify the process and enable staff to process information quickly and correctly without any additional cost</p> <p><b>Summary of agreed action</b>                      Will develop and implement new procedures.- to include clear changeover and end of day procedures. To set out clearly the role and duties of the Parks Support Manager.                      Will set up a system for recording unders and overs and investigate significant differences.                      Cash collection receipts, together with daily taking sheets, to be given regularly to the Leisure Support Team.                      Will develop a system for monitoring the timeliness of cash collection and banking.                      Targets will be established for posting E-returns to the appropriate cost centres</p>
	<p><b>No of Actions:-</b> 9</p>	<p><b>No of outstanding audit actions</b> 6</p>	



Audit Ref.	Audit Title	Department	Management Summary
	West Wimbledon primary school	CSF	<p>The Internal Audit review has identified areas of concern where procedural changes are required in order to achieve effective control. There are control weaknesses resulting in money being unaccounted for.</p> <p>There are significant weaknesses relating to safe access, cash security, the security of keys and, in the past, passwords for the accounting system were shared with the school's accountant in contravention of guidelines. While the school uses their own accountant for management reporting there needs to be closer attention to the reporting procedures for the LA to ensure that Governors have access to the backup information from the SIMS FMS systems. Quarterly financial returns in CFR format are not being forwarded to the LA as required and therefore the Authority has little or no knowledge of the financial affairs of the school throughout the year. The school is not following the correct procedures for recruiting staff in all cases and significant control weaknesses have been identified in this area</p> <p>Internal Audit had previously reported that the school fund accounts had not been independently audited for five years and this report will show that the school fund account were then not audited for a further five years. Other significant weaknesses have been identified with the school fund accounts and the audit of these accounts.</p> <p>The school has not published a current School Development Plan and there is not therefore a demonstrable link between the schools budgeting and its plan for raising standards.</p> <p>Other significant findings were identified in relation to:</p> <ul style="list-style-type: none"> <li>• Ordering and payments procedures</li> <li>• Cheque signatories</li> <li>• Petty cash authorisation</li> <li>• Financial records relating to school trips</li> <li>• Lettings</li> </ul>

Audit Ref.	Audit Title	Department	Management Summary
<p>Final report issues 17/9/13</p>	<p>No of agreed actions:- 30</p>	<p>No of outstanding actions- 0</p>	<p><b>Summary of agreed actions</b>                      We will search for a best practice approach as our current small part time office presents difficulties. Our move to a fulltime SBM will cover most of the highlighted concerns  <u>Staff vacancies</u> - we have revisited and tightened our procedures  <u>Budget Monitoring</u> - The Governors are highly confident that the schools budgeting is highly robust. In time this will be addressed by the new SBM. The bursar's skills are not commensurate with this task and properly reviewing the finances, as we have highlighted. In the meantime we will implement.  <u>Governors report</u> - We will attach FMS reports to budgets. SIMS FMS are distilled into excel and are therefore open to as much risk as anything else for any useful MA  <u>Quarterly budget reports</u> to be sent to LA  <u>School Development Plan</u>- The draft document was close to completion and is now ready  <u>Trips income</u>- Process updated and adopted. Figures are in different places so the information is available but not consolidated which will now be the case. New SBM shall improve these processes</p>

Audit Ref.	Audit Title	Department	Management Summary
CH25	Personal Budgets/Direct Payments	Community and Housing	<p>Due to the number of recommendations and the fact that some represent the failure or lack of key controls a limited assurance opinion has been given. The key controls whose failures have contributed to this audit opinion are:-</p> <ul style="list-style-type: none"> <li>• An inconsistent approach to reviewing care packages. Reviews are performed by social workers and other practitioners based on personal judgement because they know when customers are likely to need review, rather than because there is a formal system enforcing a review at that time</li> <li>• No spot checks to ensure that direct payment account reviews are being performed to a suitable standard</li> <li>• The most pressing issue relates to the decisions of one officer who is responsible for handling the card accounts of 110 care customers (Merton Managed Accounts) but these are not subject to any form of review.</li> </ul> <p><u>Summary of agreed actions</u></p> <p>A working group is to be set up addressing personal judgement in the review and decision making process, and to make the review process more consistent</p> <p>Working alongside Business Support, Direct Payments are formulating a checklist for the entire card monitoring process which monitoring officers will be required to complete for all cases monitored. As part of this, the monitoring officer will be prompted to complete a "stat sheet" on which the case number reviewed; date of review and conclusion will be recorded. From this a sample of reviews will be selected on a regular basis and subject to spot checks</p> <p>A revised Direct Payments monitoring process is being developed, and alongside Business Support, Direct Payments are formulating a checklist for the entire card monitoring process which monitoring officers will be required to complete for all cases. This revised monitoring process will ensure that MMA accounts are also subject to light touch audits and spot checks and therefore that MMA expenditure is also being reviewed</p>
<p><b>Final Report issued: 27<sup>th</sup> March 2013</b></p>	<p><b>No of action accepted- 18</b></p>	<p><b>No of outstanding actions - 8</b></p>	

## Internal Audit Charter 13/14

This charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.

The charter will be reviewed annually and presented to the GP Committee for approval.

### **Purpose**

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

The Accounts and Audit Regulation 2011 require an annual review of the effectiveness of its system of internal audit to be reported to the General Purposes committee for consideration. The system of internal control is broader than just the work of the internal audit section and includes the framework of assurance covering how the risks to the authority are identified with effective managed controls. Assurances are provided by a range of internal and external providers. The Head of Internal Audit will assess whether the overall framework of assurances is adequately designed and effectively operated through a plan of internal audit work.

In addition to the above, the Director of Corporate Services has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform that duty the Section 151 Officer relies on, amongst other things the internal audit work for reviewing systems of internal control, financial management and other assurance processes.

The standards for 'proper practice' in relation to internal audit are laid down in Public Sector Internal Audit Standards (effective from 1<sup>st</sup> April 2013). We will ensure continued compliance with these professional standards.

### **Authority**

In carrying out their duties and responsibilities, Internal Audit shall be entitled to have full and unrestricted access to all of the Council's activities, records, property, personnel and information, which they consider to be necessary to properly fulfill their function. Access also applies to other third parties / organisation's as permitted through contract, shared services and partnering

Internal audit will consider all requests from the external auditor for access to

any information, files or working papers obtained or prepared during audit work and which external auditors need to discharge their responsibilities.

## **Responsibilities**

As an independent appraisal function within the authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of the control environment comprising the systems of governance, risk management and internal control as a contribution to achieving the council's objectives and the proper, economic, efficient and effective use of resources.

In addition, the other objectives of the function are to:

- To provide a quality independent and objective audit service that effectively meets the Council's needs, adds value, improves processes and helps protect public resources
- To provide assurance that the Council's operations are being conducted in accordance with legislation and relevant external and internal regulations, policies and procedures
- To provide assurance that significant risks to the Council's objectives are being managed
- To continue to develop and have a lead in the council's corporate governance arrangements including production of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement.
- Promote the council's anti fraud, anti bribery and anti corruption culture within the Council to aid the prevention and detection of fraud
- To provide assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- To support management through the provision of advice and guidance on the overall control environment and where new systems and / or procedures are implemented
- To be responsive to transformational change and service demands;
- To continue to meet the requirements of the council's external auditors;
- To follow up on agreed actions to ensure that those agreed have been fully implemented;
- To assist investigations where there is suspected fraud bribery and corruption and to provide recommendations for improved controls.

In meeting its responsibilities, the activities of Audit will be conducted in accordance with the council's objectives, established policies and procedures. In addition, internal auditors comply with the Public Sector Internal Audit Standards.

Audit will co-ordinate effectively with the External Auditors for optimal audit coverage and to ensure that appropriate reliance can be placed on internal

audit work.

The Head of the Internal Audit is required to provide the Council via the Director of Corporate services and the General Purposes Committee with an annual opinion on the adequacy and effectiveness of the internal control system for the whole council.

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by internal audit's work. When carrying out its work internal audit will provide management with comments and report on breakdowns failures or weaknesses of internal control systems together with recommendations for remedial action. However internal audit cannot absolve line management of responsibility for internal controls.

Where appropriate internal audit will undertake audit or consulting work for the benefit of the Council in organisation's that are wholly owned by the Council (such as CHAS). Internal audit may also provide assurance to the Council on third party operations where this is provided for as part of the agreement or contract.

### **Anti Fraud and Corruption**

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit reviews alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Audit will however be alert in all their work to risks and exposures that could allow fraud or corruption.

The Head of Internal Audit will also seek to develop pro-active anti-fraud work through a series of specifically focused audits into areas of high risk of fraud or irregularity.

Internal Audit will liaise with the Investigation Section on all cases of fraud and in some instances will carry out joint fraud investigations. Internal Audit will also identify all areas of control risks and make appropriate recommendations to reduce the risk of further fraud occurring.

### **Related Documents**

This document is one of a series that, together, constitute the policies of the authority in relation to anti-fraud and corruption. The other documents are:

- Anti-fraud and Corruption Policy
- Anti-Money Laundering Policy
- Whistle-blowing Policy

### **Reporting**

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report directly to the top of the organisation and those charged with governance. This will be done as follows:

- The Audit Charter will be agreed with the GP Committee
- The annual audit plan will be compiled by the Head of Internal Audit following discussions with senior managers at their Departmental Management Team (DMT) meetings
- Progress reports will be made to DMT's on a quarterly basis
- The Head of Internal Audit will report at least twice a year to the General Purposes Committee on progress made against the Annual Audit Plan together with any significant risk exposures and control issues arising and the summarised outcomes of individual audits.
- The Head of Internal Audit will provide an Annual Audit Report to the General Purposes Committee that includes an opinion on the adequacy and effectiveness of the control environment.
- Any instances of non conformance with the Public Sector Internal Audit Standards will be reported to the General Purposes Committee and will be included in the Head of Internal Audit annual report. Any significant failings will be included in the Annual Governance Statement
- Any external review of the internal audit function will be agreed by and reported to the General Purposes Committee

## **Independence**

The main determinant of the effectiveness of Internal Audit is that it is seen to be independent. The Head of Internal Audit has full and unrestricted access to the following:

- The Director of Corporate Services (S151 officer)
- Chief Executive
- Chair of the General Purposes Committee
- The Council's Monitoring Officer
- All senior management

The Internal Audit Section is part of the Corporate Governance Division within Corporate Services. The Head of Internal Audit, who is required to hold a professional qualification (CCAB) and be suitably experienced, is responsible for the strategic management and appropriate resourcing of the service. The Head of Internal Audit has a management reporting line to the Assistant Director of Corporate Governance (monitoring officer) and also reports to the Director of Corporate Services, (Section 151 officer).

The Council General Purposes Committee meets at least 4 times a year. The Head of Internal Audit reports directly to the Council via the General Purposes Committee, and has a right of access to the Chair of the General Purposes Committee.

Notwithstanding the above, the Head of Internal Audit has the right of direct



access to any officer and member of the Council

Every effort will be made to preserve objectivity by ensuring that all audit members of staff are free from any conflicts of interest and do not undertake any non-audit duties. All audit staff complete an annual declaration of interests form and would not be assigned audit work if there was any potential conflict.

### **External auditors**

The external auditors fulfill a statutory duty. Effective collaboration between internal and external audit helps to ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal and external audit will meet periodically to discuss respective work plans and coverage and potential issues arising from work completed.

### **Due Professional Care**

The Internal Audit Section is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.