

## **Committee: General Purposes Committee**

**Date: 12 March 2014**

Agenda item:

Wards:

**Subject: Internal Audit Plan, Strategy and Charter 2014/15**

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Chair of the General Purposes Committee

Forward Plan reference number: N/A

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### **Recommendation:**

- A. **That members review and comment upon the Draft Internal Audit Plan 14/15 and the Draft Internal Audit Strategy and Charter.**
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## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. The Draft Internal Audit Strategy, Audit Plan and Audit Charter 2014/15 are included in Appendix 1.

## **2 DETAILS**

- 2.1. The Internal Audit Plan has been compiled using the following planning mechanism:
- The Corporate Risk Register
  - Financial systems work required by external audit
  - Strategic audit plan and audit previously identified as limited
  - Areas of concern arising from fraud investigations and Whistleblowing concerns.
  - Departmental requests
  - Best Practice and knowledge of significant new initiatives
  - The Contracts Register
  - The Capital Programme
  - Service Plans

- 2.2 The Head of Audit & Investigations provides copies of the draft plan to department directors and attends the departmental management teams where they may request audits to be added to provide assurance on their areas of risk. Comments are also obtained from their Heads of Services and key managers, business partners, departmental finance advisors.
- 2.3 Final Audit reports are sent to Directors and Heads of service as well as the business partners, in order to improve efficiencies.

#### Anti fraud work

- 2.4 Audit days are included in the audit plan for joint working with the investigation team, and also Council-wide anti-fraud initiatives such as on-line fraud training and updating of anti fraud policies.
- 2.5 Other anti-fraud work is, as far as possible, integrated into individual audits, e.g. an audit of payments would evaluate the controls in place that mitigate the risk of fraud and error. Fraud alerts and information provided by London Audit Group provide areas of potential fraud risk to the authority. Audits are included in the plan where risk is considered high.
- 2.6 The investigation team will be carrying out a range of anti fraud work, these include: - Housing Benefit fraud, NFI data matching, Recruitment fraud and emerging fraud risk

#### Information Technology audits

- 2.6 The Internal Audit section will cover non specialist IT work, such as reviewing the controls in place on the main financial systems. Internal Audit also inputs into advice on new systems.
- 2.7 Where IT audits are of a specialist nature, they require the detailed technical knowledge and expertise of a skilled IT practitioner. A budget has been provided to Internal Audit to buy in external support for this function.

### **3 ALTERNATIVE OPTIONS**

- 3.1. None for the purpose of this report.

### **4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1. The draft Audit Plan has been sent to all Chief Officers who have consulted with their management teams. The Head of Audit & Investigations met with the departmental business partners and financial advisors and has taken into account their comments.

## **5 TIMETABLE**

- 5.1. The Internal Audit Plan will be the basis of Internal Audit's programme of work throughout the 2014/15 financial year. The timing of individual audits is considered in consultation with the Departments where possible.

## **6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1. The audit plan is completed within the provision of existing resources.

## **7 LEGAL AND STATUTORY IMPLICATIONS**

- 7.1. The requirement to maintain an Internal Audit function is defined within legislation, some of which is outlined below:-
- a) Section 151 of the **Local Government Act 1972** requires each Local Authority to *make arrangements for the proper administration of their financial affairs and to ensure that one of their officers is made responsible for the administration of those affairs.*
  - b) The **Accounts and Audit Regulations 2011** require the responsible financial officer of a body, whose accounts are to be audited in accordance with Part III of the Local Government Act 1982, '*A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*'
- 7.2. The Director of Corporate Services is the designated officer responsible for ensuring compliance with these pieces of legislation. In a similar manner to a private company:-
- a) Elected Members will look to the Director of Corporate Services to provide them with an assurance as to the adequacy of the Authority's financial systems and system of internal audit.
  - b) Chief Officers will also seek an assurance that the financial dealings within their departments meet the standard required.

## **8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 8.1. 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 and 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.

## **9 CRIME AND DISORDER IMPLICATIONS**

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

## **10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

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

10.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Draft Plan.

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

- Appendix 1 - Merton's Draft Internal Audit Strategy, Audit Charter and Internal Audit Plan 2014/15

## **12 BACKGROUND PAPERS**

12.1. Papers held within the Internal Audit Section

**INTERNAL AUDIT**  
**STRATEGY, AUDIT PLAN AND CHARTER**  
**2014/15**



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## **Introduction**

This document sets out the council's Internal Audit Strategy and Annual Audit Plan for the year 2014/15.

The purpose of the Internal Audit Strategy and Annual Audit Plan is to:

- Ensure effective audit coverage and a mechanism to provide independent and objective overall assurance to Members, Director of Corporate Services and the Corporate Management Team (CMT);
- Optimise the use of audit resources available, given that they are limited;
- Add value and support senior management in providing effective control and identifying opportunities for improving value for money;
- Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2011

## **Responsibilities and Objectives of Internal Audit**

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:

- Support the Director of Corporate Services to discharge "Proper Officer duties" (S151 responsibilities)
- Provide an Anti Fraud function
- Contribute to the overall effectiveness of corporate governance in the council's activities
- Promote the council's anti fraud policies
- To provide assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- Delivery of the Annual Audit Plan
- 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 agreed they have been fully implemented;
- 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.

## **Internal Audits Role in the Risk, Internal Control and Assurance Framework**

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 Audit & Investigations 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 continually ensure compliance with these professional standards and reflected in our terms of reference contained in our Terms of Reference, shown at Appendix B.

The standard and quality of internal audit is principally scrutinised in three ways:

- An annual review of the effectiveness of internal audit required by the Accounts & Audit Regulations 2011 reported to the General Purposes Committee
- The external auditor seeks to place reliance upon the quality and standard of work our work through principally the 'managed audit' process and reports this to the Council in the annual audit and inspection letter
- Customer feedback and perceptions

This gives an overall assurance on the adequacy of internal controls within the Council in the Annual Report and the Assurance Statement.

In order to give such an assurance, a balanced programme of Internal Audit review is constructed each year. This Audit Plan contains elements of all audit work assessed by a "Risk Based" approach. There are many elements to this including undertaking systems reviews, regularity audits (e.g. schools), contract and computer audit, and an Annual Review of major financial systems such as Council Tax, the Financial Ledger and debtors/creditors systems.

In order to contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance as follows:

- Substantial Assurance
- Satisfactory Assurance
- Limited Assurance
- No assurance



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.

## **Key Issues and Priority Areas for 2014/15**

Having regard to the current risk profile of the council, the following areas have been identified as key issues and priority areas of our work for 2014/15

### **Governance Arrangements**

The council's governance framework covers all aspects of its business, including risk management, internal control and ethical standards. We have a key role to play in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). A number of audits will support this assessment and will take account of the emerging governance arrangements as the council implements its new operating model. The statutory Annual Governance Statement will be produced in June, for approval by the General Purposes Committee and then signed by the Leader and Chief Executive.

### **Key Financial Systems**

The effectiveness of controls and management of risks within key financial systems remains a core part of our audit work. This work is important in providing annual assurance to the council and to meet the requirements of the External Auditor. We continue to develop our audit approach to give greater assurance and ensuring it meets the External Auditor's requirements, including carrying out testing to assist with the annual audit of accounts.

### **Transformation**

Considering the significant financial challenges facing the public sector and the council's continuous transformation program, our Annual Audit Plan will need to be flexible enough to respond to emerging issues and risks from change.

Value for money (VFM) will continue to be an integral part of our risk based audit approach, in particular being alert to opportunities and ensure reporting of issues raised and agreed management actions from audit recommendations. In addition we will support transformation projects, consider changes to the control environment and risk exposure and provide assurance on program management and realisation of benefits.

### **Risk Management**

We will assess the council's risk management arrangements, including risk management strategy, adequacy of strategic and operational risk registers, risk reporting and the extent to which it is embedded. The Head of Audit & Investigations is a member of the Corporate Risk Management Group.

## **ICT and Information Governance**

Information technology is fundamental to the delivery of the council's services and is an area of rapid change. Due to this high risk to the council, providing assurance on the adequacy of electronic systems and controls is a key part of our Annual Audit Plan. Our work recognises the pace of change and adoption of new information technology and as such will be well informed to focus our resources on areas of highest risk and benefit.

## **Partnerships**

The council is increasingly operating and delivering services jointly through partnerships. This also brings risks and opportunities to the council and the delivery of services. We will continue to review key partnerships and also work with auditors from partner organisations for effective coverage and assurance.

## **Contracts, Procurement and Major Projects**

Changing approaches to procurement and contract management are a key part of delivering improved services. This also brings additional inherent risks that need to be managed. Major projects also represent a high risk to the council in terms of corporate importance and resources. Our audit work will continue to focus on embedding risk management and controls.

## **Anti Fraud and Corruption**

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

The investigation team will undertake specific anti fraud exercises, as follows:-

- Housing Benefit fraud – Investigations on this area will continue until further clarification is obtained on the Single Fraud investigation service. Date is currently to be confirmed and could be between October 2013 and March 2015.
- NFI data matching- review of the results of these matches in a range of areas.
- Recruitment fraud- review of the vetting process in place and proactive fraud checks undertaken
- Partnership working with our main housing association on tenancy fraud.
- Work will be undertaken on those areas of emerging fraud risk identified by the Audit Commission in their fighting fraud locally publication. These are on Business Rates, Social Fund and Local Welfare Assistance, council tax reduction, personal budgets.

There will be joint working between auditors and investigators, depending on the type of fraud investigation. Internal Audit will also identify areas of control risks and make appropriate recommendations to reduce the risk of further fraud occurring.

Anti fraud training will be provided to services in the council as required.

## 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 Strategy
- Anti-Money Laundering Policy
- Whistle-blowing policy

## **Internal Audit's Role Providing Advice**

Internal Audit can provide support and advice to managers, particularly regarding the interpretation and application of Council Policies and Procedures.

Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

We provide advice, support and training to schools. We provide templates for schools to improve controls and share best practice. We also issue a guidance manual to schools called 'On the Right Track 5' which covers guidance on all areas of good financial practice.

In order to establish an audit presence and to create sound informal lines of communication as much audit work as possible will be done on location.

## **Audit Resources and Skills**

The staffing structure of the section comprises a mix of qualified, experienced, technician and trainee auditors, with a mix of professional expertise to reflect the varied functions of the section. There is a sum available in the Internal Audit budget to buy in some expertise from external suppliers of internal audit services; this will be used to purchase IT specialist skills.

As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal financial control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a short-life basis.

Members of the internal audit section will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises. Upon request from the Director of Corporate Services, appropriate specialists from departments other than Corporate Services should be made available to take part in any audit or review requiring specialist knowledge.

The Head of Audit & Investigations will carry out a continuous review of the development and training needs of all audit and investigation personnel and will arrange in-service training covering both internal and external courses.

## **Protocol for Audit Reviews**

For each audit review carried out, the responsible Head of Service/Assistant Director, and Service Manager will be consulted in the scoping to ensure that the audit is appropriately focused on current key perceived risks and issues. A terms of reference (Audit Brief) will be produced for each audit review and agreed to ensure the scope, objectives, approach, timetable are understood and agreed.

Draft internal audit reports will be issued for discussion with the appropriate levels of management and normally set-out in the terms of reference.

Final internal audit reports will be issued after the agreement of draft reports and contain completed management actions plans that will identify those responsible for implementation and timescales. The final reports will always be issued to the 'Lead Client' responsible for the area reviewed.

## **External Audit**

We work closely with the council's external auditors to minimise duplication and maximise the benefits the council receives from total audit resources. We will continue to ensure full reliance is placed on our work and continue to seek opportunities for minimising the external audit fee.

## **Implementation of Agreed Audit Recommendations**

At the end of each audit review, an audit report will be produced containing agreed management actions to audit recommendations made. We will ensure these agreed actions to audit recommendations are fully implemented to ensure improvements to the council's control environment and value for money. We will follow-up on all audit recommendations. We will get confirmation from officers responsible for implementation that required actions have taken place.

## **Developing the Annual Audit Plan 2014/15**

The methodology used for developing the Annual Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives. Auditable areas have been selected and prioritised on a rational and objective basis following a systematic assessment using the following predictive factors:

- Control and previous assurance;
- Corporate importance including criticality to the achievement of priorities, legislative and regulatory impact;
- Materiality;
- Value for money and service delivery; and
- Corporate sensitivity and management concern.

The predictive factors are used to determine a risk rating of high, medium or low to reflect the inherent risk or vulnerability. We ensure our coverage is proportionate and appropriately aligned.

Based on past experience and good practice, the Annual Audit Plan includes a contingency for unplanned work requirements to ensure we are able to respond to

changing needs and demands.

The Annual Audit Plan will be indicative and it is inevitable that changes will be made during the year as the risk profile of the council changes. This will be achieved through ongoing review and amendment, in consultation with the relevant lead clients and service managers to reflect the changing needs of the council and to add maximum value.

The General Purposes Committee will be kept informed of progress against the Annual Audit Plan and agree any significant changes during the year.

### **The three lines of defence**

There are three lines of defence in place on controls in the council. The first line of defence is the day to day operational controls, the second line is the management controls which include trend analysis, budget monitoring etc. The third line of defence is independent inspection such as Internal Audit or other assurance providers.

In formulating the Annual Audit Plan, consideration has been given to the work of other assurance providers, both internal and external. Examples include:

- Operational managers identifying, managing risks and improvement actions; (1<sup>st</sup> line of defence)
- Oversight functions such as finance, commercial services, Legal and Health & Safety (2<sup>nd</sup> line of defence)
- Independent assurance providers such as internal audit, external audit, inspectors (3<sup>rd</sup> line of defence)

Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives

### **Annual Audit Plan 2014/15**

Appendix A shows the detailed Annual Audit Plan and provides a brief summary of each review under thematic areas.

Contingency has been provided for unplanned reactive work. This will be used to respond to emerging issues, risks and to have the capacity to respond to requests from senior managers.

Timing of the audit review will be agreed with management during the planning process. There is however flexibility to respond for example to pressures on services audited and audit resource availability.

In addition to the General Purposes Committee receiving regular progress reports against the plan, Corporate Management Team Members will be provided with progress reports as necessary through the year summarising the outcome of reviews and other audit work for the quarter and planned for the quarter ahead. The Head of Audit & Investigations will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

## **Our Performance Management**

To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, we have well established performance targets based on best professional practice and easily comparable with other organisations.

Performance indicators and targets are shown at Appendix C for six aspects of our service:

- Effectiveness of time
- Productivity and process efficiency;
- Quality of output;
- Compliance with professional standards;
- Outcomes and degree of influence; and
- Our Staff.

We will ensure continuous improvement of the Internal Audit Service and adopt new approaches. It is regularly benchmarked with other public sector providers to ensure efficient, effective and competitive.

# Internal Audit Plan 2014/15

	<b>Days</b>
Cross cutting (more than 1 department)	244
Corporate Services	127
Children's Schools and Families	98
Community and Housing	110
Environment and Regeneration	124
IT audits	50
Financial systems	75
Support	165
<b>Total</b>	<b>993</b>

## Corporate Cross Cutting 14/15

<b>Area of Review</b>	<b>Description of work</b>	<b>Days</b>
Annual Governance Statement	To produce Annual report for use in the AGS and attendance at AGS meetings	20
Procurement Card expenditure	To select a sample of high value procurement card users and check compliance with procedures	15
Contract Compliance	To review a sample of procurement expenditure within all areas of the council and test compliance to CSO.	12
Fees and Charges	To provide assurance that the council has a clear policy on levying fees and charges for services it provides to external customers across the council and that fees and charges are annually reviewed and correctly charged to customers in accordance with financial regulations	8
Oyster cards	Review of the use of Oyster Cards, to ensure that there is sufficient monitoring and control over the use of these cards. A sample will be selected from all departments	10
Data Protection	A review of a sample of areas to ensure compliance with processing of data, through inappropriate use, retention, access or inaccuracy of personal data, through change in processes or staff	15
Trusts	Arrangements in place for managing trusts	10
Frauds	To undertake whistleblowing investigations on areas of procedural weakness. To also assist the investigation staff on fraud investigations	60
Pro active fraud training	To provide training for areas in the council that deal with cash income or other areas of fraud risk	15
sickness/absence management	Review of the arrangements in place for the Management of sickness absence and the extent of compliance across departments with Council policy and review and monitoring arrangements in department	10

Business Continuity/disaster recovery	To ensure that appropriate and coordinated business continuity plans are in place within the Council and with local businesses which meet the emergency requirements of London Borough of Merton and to ensure that disaster recovery processes are in place	12
Agency and temporary Staff	To review the use of agency and temporary staff, the process in place for authorising the use and the review and monitoring.	15
APS cards	Review of new APS cards used in place of the previous imprest account to provide funds to vulnerable families. To review the use of these cards in C&H and CSF	12
Risk Management	Assessment of the effectiveness of risk management arrangements throughout the council.	15
Corporate procurement	To review the effectiveness of corporate procurement.	15

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<b>Corporate Services</b>		<b>14/15</b>	<b>Days</b>
Customer services	CHAS Scheme	review of the new company arrangements for CHAS to ensure robust procedures are in place	12
Customer Services	Blue Badges and concessionary fares	Review of procedures for administering blue badge and concessionary fares, to include taxi card scheme and freedom passes. Audit to include proactive fraud work in relation to duplicate cards.	15
Customer services	Local Welfare Support Scheme	Review of the Council's arrangements for administration of the new local scheme for Council Tax	12
Customer services	Registry office	Review of income and expenditure and control of certificates.	12
Customer services	Bailiff service.	Review of bailiff service including a review of the controls on cash handling	10
Corporate Governance	Health & Safety	Review of the arrangements in place for managing the risk of asbestos	8
Resources	Petty Cash Imprest	To review the councils arrangements in place for petty cash imprests	10
Resources	Monitoring of Schools returns	Systems review of the information from the schools and monitoring of this area.	10
Resources	Merton and Sutton Joint Cemetery Board-	review of grant claim	8
HR	Recruitment	To review the robustness of the council's employee vetting procedures and recruitment process making comparison with best practice and third party data sources. The review will include compliance with the Information Safeguarding Authority's requirements and employees rights to work in the uk	15



HR	Corporate Review of DBS Checks	Review compliance with statutory requirements and Council policy and the 'process for safeguarding personal information received across all departments (CRB now DBS)	15
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**Children's Schools and Families**

**2014/15**

**Days**

Children Social and Youth	Children Social Care Contracts	Review of commissioning process, to ensure that it is transparent, robust, and rigorously followed. review of contract in place to include 16+accomodation	15
Education	Schools - Probity reviews	Financial and Governance reviews of a sample of nine schools selected based on risk methodology,	48
Children Social and Youth	Troubled families grant	Review of troubled families grant claims	8
Children Social and Youth	Respite Care Unit-Brightwell.	Review of the financial controls in relation to income and expenditure	5
Education	Schools utility	Review of a sample of schools commissioning arrangements for utilities	10
Education	Youth Service	Follow-up review on previous audit report, in particular a review of procurement cards and expenditure	10

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**Community and Housing****14/15**

		<b>Details</b>	<b>Days</b>
Libraries	Review of libraries- arrangements for managing income, review of petty cash, procurement cards etc.	To review controls in place around income and expenditure. To include the use of procurement cards/imprest accounts	15
Housing	DFG Housing funding- review of Disabled facilities grants	A regularity audit which reviews the procedures relating to the entitlement of grant, calculation of the grant and appropriate division of duties and authorisation.	10
Direct Provision	Review of residential homes - Meadowsweet and Riverside	To review controls in place around income and expenditure. In relation to client monies and to the use of procurement cards/imprest accounts	15
Direct Provision	Mascot Service	Review of the income and expenditure arrangements in place for the Mascot service. Scope of audit coverage to be agreed	10
Commissioning	Home Care contracts	This audit will examine systems and procedures for the management and monitoring of Domiciliary care contracts to ensure that these contracts provide value for money	15
Commissioning	Supporting People	A systems based review covering all the financial aspects of the scheme and the administration of payments made under the scheme.	15
Public Health	Public Health	To review new Public Health arrangements following transfer April 13. In relation to the commissioning arrangements	15
Commissioning	Block and Spot Contracts	Review of commissioning and monitoring arrangements in place	15

**110****Environment and Regeneration****2014/15**

<b>DIVISION</b>	<b>TITLE</b>		<b>Days</b>
Public Protection and Development	Section 106 monies	To review the arrangements in place for setting up Section 106 agreements. To review the bidding process.	15

Public Protection and Development	Car Parks - Penalty Charges	A system review of the issuing and collection of income	15
Street Scene and Waste	Vehicle maintenance	Review of the financial controls, use of external contractors and stock control mechanisms	15
Sustainable communities	Pitch Lettings/public halls/allotments	To review the arrangements in place for bookings and income collection	12
Sustainable communities	Commercial Property Rents	A review of the arrangements for letting commercial properties from agreements to income collection arrangement	12
Sustainable communities	Grounds Maint. Contract	A review of the arrangements in place for monitoring the grounds maintenance contract	12
Public Protection and Development	Service Tenancies	Review of arrangements in place for service tenancies	10
Safer Merton	Safer Merton - CCTV contract	A follow up audit on the CCTV contract. Issues identified in the last review.	10
Street Scene and Waste	Commercial waste	This audit will examine management and control of commercial waste to ensure that sound systems and procedures are in place	15
	Grant claim sign off	To audit grant claims such as city cycle and smiles project.	8

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#### IT Audit Plan 14/15

DIVISION	TITLE		Days
Public Protection and Development	M3 Planning Computer System	IT audit on access controls, user access, input and output controls and security.	10
Public Protection and Development	Parking Computer System	IT audit on access controls, user access, input and output controls and security.	10
Infrastructure and Transactions	Software Licence Audit	IT audit on access controls, user access, input and output controls and security.	10
Housing	Capita housing - academy	IT audit on access controls, user access, input and output controls and security.	10
Resources	Financial System	Progress review of the new financial system. Phased review	10
			<b>50</b>

## Key Financial Systems

Area of Review	Description of work	Days
Review of key controls across fundamental and financial systems	Review of key controls within the councils key financial systems. Ensure compliance with external audit requirements. Systems	<b>75</b>
	Borrowing and Investments/treasury management	15
	Capital budget management	15
	Business Rates	15
	Council Tax Systems Based	15
	Creditors / Payments System	15
<b>Support</b>	<b>2014/15</b>	
Area of Review	Description of work	Days
Consultancy and advice	Audit has an important role to play in advising management on an ad-hoc basis on a range of issues affecting services. This provision is used to offer advice and assistance throughout the year.	20
Committee and member support	Providing support including advice and reporting to Committee	25
Follow up audits	Follow up of reviews carried out in 13/14 to ensure implementation of recommendations	25
Management time	Provision for management time to direct, control and monitor the work of the internal audit team and outsourced provision	35
Carry over of 13/14 audit plan	To finalise all draft reports from 2013/14	60
		<b>165</b>

Investigation Team	Anti Fraud Work	Days
Housing Benefit Investigations	Investigation of Housing Benefit fraud, including issuing sanctions and preparing for prosecutions	940
Fraud Investigations (other)	Investigation of internal fraud, including preparing for disciplinary and if appropriate prosecution	120
Proactive Fraud work	To undertake proactive fraud work on a number of areas of high fraud risk. Workshops to be set up with departments	160
NFI	To take part on the National Fraud Initiative exercise, submitting data and analysing results.	40
Training	To provide ad-hoc anti fraud training with internal audit to areas of risk in the council.	10
Updating fraud policies	To review and update fraud policies; Whistleblowing policy, Anti Fraud & Corruption strategy, Anti Money Laundering and Prosecution policy.	20
		<b>1290</b>

# **Internal Audit Charter 14/15**

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 (which covers the role of the 'board' as defined in the standard) 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 Audit & Investigations 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 audit 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 an 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 Audit & Investigations will also seek to develop pro-active anti-fraud work through a series of specifically focused reviews into areas of high risk of fraud or irregularity.

Joint work will be undertaken on some fraud investigations. Internal Audit will also identify all areas of control risks and make appropriate recommendations to reduce the risk of further fraud occurring.

The investigation team will undertake proactive fraud work on areas of high risk as well as undertaking investigations on reported allegations of fraud either from audit, managers or whistleblowers.

### **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 Audit & Investigations 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 Audit & Investigations 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 Audit & Investigations 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 Audit & Investigations 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 Audit & Investigations 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 Audit & Investigations 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 Audit & Investigations, 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 Audit & Investigations 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 Audit & Investigations 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 Audit & Investigations 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.

## Service Performance Targets

Aspect of	Performance Indicators	Target
<b>Effectiveness of time</b>	Productive/direct time as % of total time	<ul style="list-style-type: none"> <li>• 70%</li> </ul>
<b>Productivity and Process</b>	<ul style="list-style-type: none"> <li>• Achievement of annual plan by 30<sup>th</sup> April 2013 (%)</li> <li>• Issue of draft report after completion of fieldwork</li> <li>• Client responses received to draft audit reports from issue</li> <li>• Issue of final report after agreement with client of draft</li> <li>• Time between start of audit (entry meeting) and exit meeting</li> <li>• Audit reviews delivered within budgeted time</li> </ul>	<ul style="list-style-type: none"> <li>• 90%</li> <li>• Within 10 Days</li> <li>• Within 15 Days</li> <li>• Within 10 Days</li> <li>• Days not exceeding 3x total planned time for audit review</li> <li>• 100%</li> </ul>
<b>Quality of Output</b>	<ul style="list-style-type: none"> <li>• Client satisfaction levels (including added value from audit recommendations), source customer satisfaction questionnaires</li> <li>• External audit reliance on work</li> </ul>	<ul style="list-style-type: none"> <li>• 90% of scores within good to excellent</li> <li>• Reliance placed</li> </ul>
<b>Compliance with Professional Standards</b>	<ul style="list-style-type: none"> <li>• Public Sector Internal Audit Standards</li> </ul>	<ul style="list-style-type: none"> <li>• 100% compliant</li> </ul>
<b>Outcomes and degree of influence</b>	<ul style="list-style-type: none"> <li>• Implementation of agreed recommendations</li> </ul>	<ul style="list-style-type: none"> <li>• 90% of Recommendation</li> </ul>
<b>Our Staff</b>	<ul style="list-style-type: none"> <li>• Professionally Qualified/ Part qualified CPD</li> <li>• Annual Training &amp; Development Received</li> </ul>	<ul style="list-style-type: none"> <li>• 80%</li> <li>• 5 Day(Minimum).</li> </ul>