

Committee: General Purposes Committee

Date: 17th September 2014

Agenda item:

Wards:

Subject: Internal Audit Progress Report

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Chair of the GP Committee

Forward Plan reference number:

Contact officer: Margaret Culleton Head of Internal Audit & Investigations

Tel. 020 8545 3149 margaret.culleton@merton.gov.uk

Recommendation:

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

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report summarises the work carried out by Internal Audit up to September 2014 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 2014, we have finalised 34 audit reviews and have 13 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 2014, there have been 21 reports issued with a satisfactory assurance or above and 5 reports issued with a limited assurance. There have also been 5 grant claims audited and 3 audit reports issued covering specific issues where concerns have been raised. (see Appendix 1).

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

Table 1 – Audit Reviews with a limited assurance

Audit Title	Department
Payroll (Itrent)	CS
No recourse to public funds	CH/CSF
Community Equipment Service	CH
Sherwood primary school	CSF
Itrent expenses	CS

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 The payroll audit was carried out by Moore Stephens, commissioned by London Borough of Sutton on behalf of the other authorities in the Itrent partnership, Merton, Kingston and Richmond. This review received a qualified opinion based on a number of control weaknesses detailed in appendix 2.

2.8 The main issues relating to iTrent expenses related to the authorisation of expenses, retention of receipts. Despite guidance notes asking Line Managers to redirect claims to respective budget holders for authorisation (if they are not a budget holder) this does not always occur. There does not appear to be a process in place for accountancy to account for VAT on VATable expenses claimed via iTrent.

2.9 In the 'No recourse to public funds' audit it was found that the assessment stage was not robust and there was lack of regular review.

2.10 The community equipment audit identified poor budget setting, reconciliation and weaknesses in the authorisation process.

Key reviews planned for the third quarter

- 2.11 In the third quarter of the year we plan to issue final reports for budget management, procurement, bailiff service, vehicle maintenance and SLWP.
- 2.12 Key audits due to commence include: Public health, capital budget management, use of interim staff and financial systems.

Investigations & whistleblowing

- 2.13 The Investigation Team are responsible for undertaking both Housing Benefit and corporate fraud investigations, received either through Whistleblowing, manager concerns or as a result of an internal audit review.
- 2.14 The responsibility for Housing Benefit investigations will be transferring to the DWP on the 1st November 2014. A corporate anti-fraud function will continue to be funded by the council.
- 2.15 Other proactive fraud work undertaken by the investigation team, is on blue badge fraud. Since April 2014, there have been 10 cautions (written warning) and 1 prosecution.
- 2.16 Whistleblowing allegations are investigations by the Investigation Team, Internal Audit, HR or an outside appointment, depending on the nature of the allegation.
- 2.17 Reported to GP committee in March 2014, there were 24 cases for 2013/14 of which 12 cases were on-going, an update on the status of these is as follows:
- One case is being prepared for prosecution
 - Four cases recommended disciplinary action, one resulted in a written final warning and 3 are in progress.
 - One case recommended improved controls
 - Two are in progress with Internal Audit
 - Four cases have no further action
- 2.18 There have been 18 Whistleblowing allegations received since March 2014. (this is a slight increase from 16 this time last year). 13 resulted in no further action, due to insufficient evidence of fraud, of the remaining 5 cases:-
- Two cases are in progress with the Investigation Team.
 - Three are with Internal Audit (1 final and 2 draft report recommending improved controls).

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

- 3.1. The agreed actions for audits completed in 2013/14 have been followed up. At the time of this report 84% of audit actions had been implemented, 16% 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 9th September there were no audit actions overdue by more than 3 months.
- 3.5 Where there are overdue actions Internal Audit contacts the manager to seek explanations for the delays in implementing these recommendations. If an action remains outstanding, these audit areas are considered for a follow up audit review.

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 Internal Audit & Investigations 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 2014/15. 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 2014
- Appendix 2 - Audit Report summary (limited assurance)

BACKGROUND PAPERS

- i. Documents held in Internal Audit Files

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