

Committee: General Purposes Committee

Date: 12th March 2015

Agenda item:

Wards:

Subject: Internal Audit Progress and Fraud Update

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Chair of the GP Committee

Forward Plan reference number:

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Recommendation:

- A. **That members note the Internal Audit Progress Report and comment upon matters arising from it.**
- B. **That members note the Whistleblowing update.**
- C. **That members note the proposal to join a 5 borough fraud partnership led by Wandsworth Council.**

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report summarises the work carried out to date by Internal Audit within the 2014/15 financial year to the end of February 2015. It also details the progress on implementing recommendations from audits completed.
- 1.2 Internal Audit seeks to ensure that Merton's financial and other systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.
- 1.3 Internal Audit is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole Council, including Members and all levels of management. It is not an extension of, nor a substitute for, good management. The Internal Audit Service is responsible for giving assurance on all control arrangements to the General Purposes Committee and the Director of Corporate Services (also known as the Section 151 Officer); it also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible.

2. Details

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

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

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

- 2.3 A key part of internal audit work is to provide advice to managers; this can either be attendance at meetings, working groups or telephone advice. During 2014/15, advice to departments represented 6% of auditor time.

2.4 Planned Audit Reviews

- 2.4.1 This financial year we have finalised 45 audits, 15 of which relate to completion of the 2013/14 audit plan. Eight of these reports have been given a limited assurance (18%).
- 2.4.2 For the 2014/15 audit plan there are 30 at final stage, 12 at draft stage and 17 in progress. All audit reports issued since April 2014 and outstanding audit actions are included in Appendix A.
- 2.4.3 Since the last progress report in September 2014, 22 final reports have been issued, 14 with a satisfactory assurance (64%) and 4 reports (18%) with a limited assurance, 1 grant claim (4%) and 3 proactive fraud reports (14%).
- 2.4.4 As at the end of February 71% of the 2014/15 audit plan had been completed (final and draft reports). It is expected the plan will be completed to 90% by the end of April 2015.
- 2.4.5 Table 1 details those audits with a limited assurance (below the required standard) issued since the last committee report in September 2014.

Table 1 – Audit Assurances –limited

Audit Title	Department
Vehicle Maintenance	ER
Mango IT system	ER
Sherwood Primary School	CSF
Vouchers	CS

- 2.4.6 The audit on Vehicle Maintenance highlighted concerns regarding compliance with the councils contract standing orders. Lack of stock control, services and brake testing not been carried out in compliance with Driver & vehicle standards agency. There was a lack of audit trail in relation to work carried out on vehicles. Disposal of vehicles has not carried out as required by the DVLA. All recommendations have been agreed and are in the process of being implemented.
- 2.4.7 The main concerns relating to the Mango system were operational procedures relating to access set up, disabling accounts and system access levels which need to be established and reconciliations between Mango and payments received in Civica need to be undertaken to ensure that all booking have been paid for. All recommendations have been agreed and are due to be implemented by the end of March 2015.
- 2.4.8 Sherwood Primary School has a number of financial issues, which the school were working to resolve at the time of audit. This is however the second limited assurance audit review, the first review was carried out in February 2014, which resulted in this follow up audit, carried out in November 2014. A further follow up review has been requested by the Head teacher in the next few months to gain assurance on the improved controls.
- 2.4.9 A review of the storage and issue of vouchers found several weaknesses, these related mainly to the reconciliation and storage of vouchers. All recommendations have been accepted and have already been put in place.
- 2.4.10 The Management Summaries of all these limited reports including a summary of the agreed actions can be found in Appendix B.
- 2.4.11 This year so far there have been three additional requests for work where either assurance on controls were required or assistance to other councils for a multi authority fraud. Where additional work is requested, a decision is made on whether this work replaces other planned work on the audit plan.

- Manager Access Requests- assistance on setting a council policy
- Council tax refunds- review of controls
- Assistance on multi council fraud – preparing witness statements

3. Following up on the Implementation of Agreed Actions

- 3.1 In 2014/15 there have been 383 agreed actions by managers. The agreed actions for all audits are always followed up. Future implementation dates are agreed with management and a monthly trigger report is run when this date is

met. A follow-up report is then sent to officers responsible for implementing the agreed actions to ascertain whether the action has been implemented or reasons for non implementation.

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

4. Fraud Investigations

4.1. Fraud Investigations can be received from whistleblowing, concerns raised by managers or concerns identified during audit reviews. During 2014/15 there have been 23 whistleblowing concerns received and four areas of concern (see 2.4.11).

4.2 A summary of all Whistleblowing allegations is reported to the General Purposes committee on an annual basis. Updated reports are provided throughout the year.

4.3 Appendix C outlines the allegations received and the action taken since the last time the Whistleblowing activity was reported to committee in March 2014. There have been 23 Whistleblowing incidents reported in the last year and one case on-going from 2013/14. This compares to 24 incidents in 2013/14 and 13 the year before.

- One case has resulted in legal action
- Two cases have resulted in disciplinary action
- Two cases have resulted in recommendations on improved controls.
- One case resulted in reclaiming funds
- Eight cases are on-going (includes 1 from previous year)
- Ten cases were inconclusive

Table 3 Whistleblowing by departments

Dept	Fraud/Corruption	HR issues
Corporate Services	4	1
Environment & Regeneration	7	2
Community & Housing	4	1
Children Schools & Families	1	3
Total	16	7

4.4. Merton's investigation team moved to the DWP in November 2014 and all fraud whistleblowing allegations and management referrals have been investigated by the Internal Audit team since then.

4.5 The council encourages staff, contractors and others to raise concerns. In order to raise awareness of the councils Whistleblowing procedures, the council have undertaken the following:-

- Leaflets sent out to all Departments, partners and schools.
- Intranet Links on the Procurement site and the CHAS website on the Internet. Standard terms and conditions of contracts.
- The policy is available on the Intranet and the Internet.

4.6 Local Government Transparency Code. Under the code the Council is required to publish the following data regarding its fraud activity. The data for 2014/15 covers until the end of February 2015. Responsibility for Housing Benefit fraud transferred to DWP on the 1st November 2014, Merton investigators were TUPED to DWP from this date.

Table 4: Fraud Activity Data 2014/15

Description of required publication	Total's
number of occasions powers are used under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers Benefit Fraud Investigations (under the Social Security Fraud Administration Act 2001)*	23
total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	Absolute FTE
Benefit Fraud Investigation *	7 7.0
Other fraud	1 0.8
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	Absolute FTE
PINS trained Investigation*	7 6.7
Cipfa Certificate in Investigative practice	1 0.8
Total amount spent by the authority on the investigation and prosecution of fraud total number of fraud cases investigated.	£000's
Benefit Fraud Investigations*	167.4
Other Fraud	56
Total number of fraud cases investigated	
Benefit Fraud Investigations*	31
Other investigations	28

*Data to 31st October 2014.

5. Fraud Partnership – 5 boroughs

5.1 From April 2015, Merton will be part of a 5 borough fraud partnership led by Wandsworth council, including Sutton, Richmond and Kingston councils. This has been set up to pool the resources of each council to ensure we get

maximum benefits when investigating fraud and carrying out proactive fraud exercises. Staff experiences and training can be shared as well and data matching between councils. Fraud funding from the DCLG of £472,000 has been obtained to assist with setting up this partnership. This funding includes the cost of a tenancy fraud officer for Merton.

- 5.2 Each council will prepare a fraud plan of areas for proactive fraud work they want to resource, to be provided by Wandsworth council. Other ad-hoc reactive fraud investigations will also be referred to Wandsworth, including whistleblowing, fraud referral from managers or concerns identified during audit reviews. Other non-fraud related whistleblowing or concerns will remain within the council to be investigated by the appropriate section.
- 5.3 Wandsworth will provide quarterly reports to the Head of Audit & Investigation on progress, and this information will form part of the progress report for GP committee on audit and investigation activity.
- 5.4 During 2015/16, tenancy fraud work will be carried out with Merton Priory Homes as part of a proactive fraud exercise, to ensure that properties have not been illegally sublet. Proactive fraud work will be undertaken on Business Rates, council tax discounts and blue badges.

6 ALTERNATIVE OPTIONS

- 6.1 None for the purposes of this report.

7. CONSULTATION UNDERTAKEN OR PROPOSED

- 7.1 The strategic plan, Internal Audit Plan and charter have been agreed with Chief Officers who have consulted with their Management teams. Business Partners and Financial Advisors for each department have also been consulted. Customer Agreements are in place. The Head of Audit & Investigations has monthly meetings with the Director of Corporate Services to report upon progress against the Plan.
- 7.2 Audit briefs outlining the scope and objectives of each audit are agreed with the relevant manager prior to the audit commencing.
- 7.3 All audit reports are discussed with managers prior to issuing as a draft, further meetings are held if required and comments from the Manager and Head of Service/Assistant Directors are included in the final report.

8. TIMETABLE

- 8.1. None for the purposes of this report.

9 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

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

10. LEGAL AND STATUTORY IMPLICATIONS

- 10.1 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.
- 10.2 The creation of the Fraud Partnership is to be established by the Councils in exercise of their powers under section 1 of the Local Authority (Goods and Services) Act 1970, sections 111, 112, 113 and 136 of the Local Government Act 1972, section 3 of the Local Government Act 1999, and section 1 to 8 of the Localism Act 2011 and all other enabling powers.
- 10.3 Merton has no investigator posts to transfer to the fraud partnership as the posts are vacant. Those posts funded by Merton will be advertised and appointed by Wandsworth council on behalf of the partnership.

11. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 11.1 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.

12 CRIME AND DISORDER IMPLICATIONS

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

13 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 13.1. 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.
- 13.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Internal Audit Plan.
- 13.3. The Audit Brief at the beginning of the audit, and the internal audit reports at the end of the audit also identify risks. Audit Recommendations are categorised high, medium or low priority in relation to the level of risk involved.

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

- Appendix A- Internal Audit Progress since April 2014
- Appendix B – Limited assurance Management summaries and agreed actions.
- Appendix C- Whistleblowing

BACKGROUND PAPERS

Documents held in Internal Audit Files