

# **LONDON BOROUGH OF MERTON**

## **INTERNAL AUDIT ANNUAL REPORT YEAR ENDING 31<sup>ST</sup> MARCH 2015**

## Contents

	<b>Page</b>
1. Head of Audit & Investigations Assurance Opinion	3
2. The Internal Audit Assurance Framework	3
3. 2014/15 Internal Audit Assurances	4
4. Follow up's	7
5. Review of the Effectiveness of the System of Internal Audit	7
6. Anti-Fraud	8
7. Other Anti-Fraud	9

## **1. Head of Audit & Investigations Assurance Opinion**

- 1.1 Internal Audit has reviewed the effectiveness of the Council's systems of internal control for 2014/15 and has taken into account appropriate assurances obtained from other relevant internal and external sources. The opinion, based on this work, is that the Council's systems of internal control are generally sound and effective although the expected high standards of control have not been achieved in a limited number of council activities (detailed below). There is therefore a requirement to improve in these areas.
- 1.2 Appropriate action plans are in place in response to internal audit actions where necessary. It is important that departments ensure that audit actions are implemented in a timely manner to ensure effective controls are in place.

## **2 The Internal Audit Assurance Framework**

- 2.1. A key responsibility of Internal Audit is to give the organisation assurances about the levels of internal control being exercised in the areas of risk and in particular where there are transactions that are considered "material" to the Council.
- 2.2. Internal Audit seeks to ensure that Merton's systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.
- 2.3 Overall, whilst issues have been identified and resolved, the systems of control within the Council are such that reliance can be placed upon them.
- 2.4. In order to give such an assurance, a balanced programme of Internal Audit reviews is constructed each year. This Annual Internal Audit Plan contains elements of all the Council's activities selected using a "Risk Based" approach. There are many tools used to achieve a balanced plan including undertaking systems reviews, regularity audits (e.g. schools), contract and computer audit, fraud and misappropriation reviews and an annual review of major financial systems such as Council Tax, cash and bank and Housing Benefits.
- 2.5. In order to contribute to the Annual Governance Statement, all Internal Audit reports give an audit assurance as follows:
  - a) Substantial Assurance
  - b) Satisfactory Assurance
  - c) Limited Assurance
  - d) No Assurance
- 2.6. In addition each recommendation emanating from the audit review is given a high, medium or low risk priority for implementation. All recommendations are followed up by Internal Audit to ensure that they have been implemented.
- 2.7. The audit plan for 2014/15 covered those area of high fraud risk, as identified through the councils own assessments and through information from CIPFA, the Audit Commission and other sources, where fraud risks are highlighted. Examples of these are Student Council Tax exemptions, council tax refunds and procurement cards, and . These audits reviewed the controls in place, although

no fraud was identified in any of these reviews, a number of recommendations were made to improve the controls.

2.8 In addition to the agreed audit plan, additional audits and reviews at the request of Management have been completed. These have ranged from full audits to focused audit investigations. Examples of these additional pieces of work included:

- Student CTAX exemptions
- Payroll overpayments
- Mayor's trust
- Staff vouchers
- Councillor's declaration of interests
- AYSE grant
- A3 hardware grant
- System Access Policy
- Compromise agreements
- HB subsidy claim
- Performance Related Grant review

2.9 These referrals to Internal Audit help to demonstrate the continued good engagement from departments and their awareness of the role of Internal Audit and the work that they can undertake to support their service. The Council's risk profile is constantly changing. Therefore, Internal Audit and the internal audit plan needs to be flexible to be able to respond to these changing and emerging risks.

2.10 The Internal Audit function is conscious of the significant pressure on resources that the Council is facing and has continued to identify where we can support management through looking to identify potential efficiencies and making recommendations for possibly fewer but better controls wherever possible.

### **3. 2014/15 Internal Audit Assurances**

3.1. During 2014/15 there were 61 internal audit reviews completed and given a level of assurance.

3.2 A full list of the assurances can be found in Appendix A. Action Plans for improvements are in place for all audits. Discussions are being held with Departments and action plans are still to be finalised in some instances.

3.3 The following tables summarise the results by audit type:

**Table 1 Internal Audit Assurances by Audit Type 2014/15**

Assurance	assurance	Limited	N/a	Totals
Procurement	4	4	0	8
Establishments	9	1	0	10
Financial Systems	8	1	0	9
IT	0	1	0	1
Service Specific	19	4		23
Corp Gov/grants	4	0	6	10
<b>Totals</b>	<b>44</b>	<b>11</b>	<b>6</b>	<b>61</b>

3.4 Table 2 summarises results for the last three financial years in the form of number of reviews and % for satisfactory and limited assurance.

**Table 2 Internal Audit Assurances 2012/13- 2014/15**

Assurance				Limited Assurance		
	2012/13	2013/14	2014/15	2012/13	2013/14	2014/15
C&H	4 (57%)	4 (67%)	<b>5 (63%)</b>	3 (43%)	2 (33%)	<b>3 (37%)</b>
CS	18 (69%)	16 (76%)	<b>24 (86%)</b>	8 (31%)	5 (24%)	<b>4 (14%)</b>
E&R	4 (44%)	9 (75%)	<b>10 (83%)</b>	5 (56%)	3 (25%)	<b>2 (17%)</b>
CSF	18 (86%)	15 (83%)	<b>8 (89%)</b>	3 (14%)	3 (17%)	<b>1 (11%)</b>
All depts.		4 (100%)	<b>3 (75%)</b>		0	<b>1 (25%)</b>
<b>Total</b>	44 (70%)	48 (79%)	<b>50(82%)</b>	19(30%)	13 (21%)	<b>11(18%)</b>

3.5. Overall the number of audit assurances achieving a satisfactory or above rating has slightly increased. In all cases action plans are in place for agreed areas of improvement. Management summaries for each limited report were regularly submitted to the General Purposes Committee.

3.6. When analysing these statistics between years the following factors need to be taken into account:

- a) The same areas are not audited every year hence a like for like comparison cannot be made. Individual audits differ considerably in terms of scope and objectives.
- b) The numbers of audits carried out in the year (small numbers in an area can give misleading results in % terms.)
- c) There have been changes in the departmental responsibilities over the three-year period.

**Key Areas for 2014/15**

3.7 Internal Audit has continued to improve their level of engagement with all levels of management. This has been achieved by attending regular DMT's to discuss audit progress, meeting with key stakeholders prior to the start of the audit to agree the audit brief.

3.8 When the audit plan is set, discussions are held with all key people for input, this engagement has enabled the Internal Audit team to focus on the key areas of

risk as well as work closely with management to formulate actions to address areas where improvement is required.

- 3.9 As set out in the above section we have identified areas of good practice and an effective control environment across the majority of the systems, processes and establishments reviewed. This includes the Council's key financial systems as set out below.
- 3.10 However there are a number of areas where further improvements are required to strengthen the control environment and we have summarised the key themes identified below

Procurement

- 3.11 A review was carried out this year on the corporate procurement arrangements in place in the council; this was provided with a satisfactory assurance as we found that overall improvements had been made since the last review in 2013/14, although there are still improvements to be made. A sample of eight areas reviewed found that 4 areas received a limited assurance as their procurement arrangements needed improvement: DFG, supporting people, community equipment service and vehicle maintenance where recommendations for improvement are currently in progress.

Financial systems

- 3.12 Of the 7 main financial systems reviewed this year, one received a limited assurance, Treasury Management. The iTrent system is currently being reviewed.

**Table 3 Financial systems audit assurance for last 3 years**

Financial System	Assurance 2014/15	Assurance 2013/14	Assurance 2012/13
Cash and bank	Not audited	Satisfactory	Limited
Payroll (iTrent)	In progress	Limited	Limited
Carefirst	Not audited	Not audited	Limited
Accounts Payable	Satisfactory	Not audited	Satisfactory
Fixed Assets	Satisfactory	Satisfactory	Not audited
Debtors	Not audited	Satisfactory	Satisfactory
Housing benefits	Not audited	Satisfactory	Satisfactory
Treasury management	Limited	Not audited	Satisfactory
Council Tax	Satisfactory	Not audited	Satisfactory
National Non-Domestic Rates (NDR)	Satisfactory	Not audited	Satisfactory
General Ledger	Not audited	Satisfactory	Not audited
Budgetary Control	Satisfactory	Satisfactory	Not audited

- 3.13 The Payroll (iTrent) audit is being carried out as part of a joint review for London Borough's:-Sutton, Merton, Richmond and Kingston and was undertaken by Moore Stephens. At the time of writing this report, the results of the audit review not been received.
- 3.14 Smaller financial reviews were also carried out on oyster cards, petty cash imprests and council tax refunds all receiving assurance, with minor recommendations to strengthen the controls.

### **Service Specific**

- 3.15 There were 23 service specific audits carried out, Of these 4 received a limited assurance where staff did not following a proper process in financial arrangements leading to weak controls. These limited reviews were in a range of service reviews, monitoring of school returns, service tenancies, DBS and staff vouchers.
- 3.16 During 2014/15 the Head of Internal Audit & Investigations worked closely with other elements of Corporate Governance, including leading on the working group for the 2014/15 Annual Governance Statement. In addition Internal Audit has been involved with a number of governance reviews which have identified areas for improvement across the Council. These are Risk Management, Partnerships and Members declaration of interests.

## **4. Follow up's**

- 4.1 During 2014/15 Internal Audit made a total of 455 recommended improvement actions, at the time of this report 341 actions (75%) were fully implemented. 114 actions have yet to be implemented, of these 11 actions are overdue
- 4.2 For those outstanding actions, an expected implementation date is provided by the manager. Monthly reports are sent out to all managers for actions due, where these are over two months overdue, the Head of Service also receives a copy. If an action is more than 3 months overdue, then the appropriate Director is informed. Any overdue outstanding audit actions are then reported to General Purposes committee.
- 4.3 Where reports are given a limited assurance and therefore have a number of recommendations a full follow up audit is usually carried out in the subsequent year to gain assurance that these recommendations have been actioned.

## **5. Review of the Effectiveness of the System of Internal Audit**

- 5.1 The Annual Audit Plan for 2014/15 was agreed by General Purposes Committee Members at the start of the year. At the year-end 92% of the audit plan was completed and 90% of audit actions implemented by the agreed date.
- 5.2 Internal audit has contributed to the overall corporate governance of the council's activities by:
- Completion of the audit plan

- Member of the corporate risk strategy group.
- Chair of AGS working group
- Providing advice/training on corporate policies and procedures and control issues

5.3 The Public Sector Internal Audit Standards defines the level of effective audit service expected for all public sector audit services. There is a requirement to undertake an annual internal review of compliance to the standard, an internal review of the standard to confirm conformity has been carried out in 2014/15.

5.4 The standard also requires an independent external assessment to be carried out every 5 years. This was undertaken as part of a peer review in March 2014, and resulted in a conclusion that Merton internal Audit service is compliant with the standard.

## 6 Anti-Fraud

6.1 The council Anti-Fraud and Corruption strategy, was last reviewed in 2011 to include the Bribery Act, this strategy sets out the councils approach to detecting, preventing and investigating fraud and corruption This strategy is supported by the council s whistleblowing policy, which was reviewed and updated in 2013 and by the councils code of conduct. The Internal Audit section has a key role in implementing this strategy and to ensure that the internal controls in place are robust to prevent fraud occurring or to tighten controls where fraud has occurred.

6.2 The number of investigators employed by Merton until the end of October 2014 was 7.6 posts, with total available days of 783. From the 1<sup>st</sup> November 2014, the responsibility for investigating Housing Benefit fraud was transferred to the DWP. The investigation team transferred on this date.

6.3 The work of the investigation team for this period is set out as follows

**Table 6 Investigation team outcomes 2014/15 (up to 31<sup>st</sup> October 2014)**

Area	Referrals +on-going	Cases closed	passed to DWP	Cautions/ disciplinary	Prosecutions	Total sanctions
HB	96	49	37	5	5	10
Blue badge	n/a	n/a	n/a	13	0	13
Corporate	4	2	n/a	1	1	2

6.4 The total value of fraud detected for Merton was £101,166, a breakdown of this is as follows:-

- Housing Benefit £85,472
- Council Tax Benefit £13,737
- Corporate fraud £ 1,957

6.5 The amount quoted above for Housing Benefit (HB) relates to the level of HB overpayments made. The council always seeks to recover all overpayments. The



council is also able to claim 40% of this back through their subsidy grant). In 2014/15 £1,600 was recovered for ad-pens issued previously.

- 6.6 In addition to the above there were 30 concerns investigated by Internal Audit. Some of these have been received through whistleblowing, others through management referral or identified through audit reviews.

The results of these investigations are as follows:-

Prosecution	2
Recommended Disciplinary action	2
Reclaim housing assistance	1
Improved controls	7
Investigated and requiring no further action	16
On-going	2

#### **Other anti-fraud work**

- 6.7. In January 2015, the Council Tax section employed Civica Services to carry out a review of Single Person Discount. This review involves matching the council's data to other credit data to establish entitlement. This resulted in 1,053 SPD cancelled with £180,646 debits raised from the date of the match.
- 6.8 Other proactive work being undertaken is on the National Fraud Initiative, where the council's data is matched to data from other councils and organisations to identify potential fraud. The results of this match were received in January 2015 and work is currently on-going to check the matches.
- 6.9 Duplicate creditor data identified through NFI has all been reviewed and where relevant duplicate data such as creditor name, address and bank account have been closed. One duplicate payment has been refunded.
- 6.10 From April 2015, the council joined a five borough fraud partnership with Wandsworth, Sutton, Richmond and Kingston. Funding from the DCLG was received to cover set up costs. The partnership is based at Wandsworth Council and all fraud referrals will be passed to them to investigate. Regular steering group meetings are held with the Heads of Audit. The main focus of the partnership work will be external fraud:- tenancy, business rates, council tax benefit and blue badge fraud as well as ad-hoc requests to investigate allegations of internal fraud.

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