

LONDON BOROUGH OF MERTON

INTERNAL AUDIT ANNUAL REPORT YEAR ENDING 31ST MARCH 2016

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1. Head of Audit Assurance Opinion

- 1.1 Internal Audit has reviewed the effectiveness of the Council's systems of internal control for 2015/16 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 2015/16 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 procurement cards, business rates, direct payments.

- 2.8 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.
- 2.9 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:
 - Review of bailiff income collection
 - HB subsidy grant
 - PRG audit of grant
 - SCIS payments review
 - DOL assessments
 - Procurement/Interim staff
- 2.10 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.
- 2.11 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. 2015/16 Internal Audit Assurances

- 3.1. During 2015/16 there were 58 Internal Audit reviews completed and given a level of assurance (3 areas of review covered a grant or a specific area of advice).
- 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 2015/16

Assurance	assurance	Limited	N/a	Totals
Procurement	4	1	0	5
Establishments	9	2	0	11
Financial Systems	6	2	0	8
IT	1	1	0	2
Service Specific	20	8	0	28
Corp Gov/grants	4	0	3	7
Totals	44	14	3	61

- 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 2013/14- 2015/16

	Assurance					
				Limited Assurance		
	2013/14	2014/15	2015/16	2013/14	2014/15	2015/16
C&H	4 (67%)	5 (63%)	5 (56%)	2 (33%)	3 (37%)	4 (44%)
CS	16 (76%)	24 (86%)	22 (85%)	5 (24%)	4 (14%)	4 (15%)
E&R	9 (75%)	10 (83%)	4 (57%)	3 (25%)	2 (17%)	4 43%
CSF	15 (83%)	8 (89%)	9 69%	3 (17%)	1 (11%)	4 31%
All depts.	4 (100%)	3 (75%)	0	0	1 (25%)	0
Total	48 (79%)	50(82%)	42 (72%)	13 (21%)	11(18%)	16 (28%)

- 3.5. Overall the number of audit assurances achieving a satisfactory or above rating has decreased. 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 2015/16

- 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 sample of four areas reviewed found that 3 areas received a limited assurance as their procurement arrangements needed improvement, supporting people, spot and block contracts, children's school care contracts 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, Pension Investments. The Debtors audit is currently being reviewed.

Table 3 Financial systems audit assurance for last 3 years

Financial System	Assurance 2015/16	Assurance 2014/15	Assurance 2013/14
Cash and bank	satisfactory	Not audited	Satisfactory
Payroll (iTrent)	satisfactory	Limited	Limited
Accounts Payable	Not audited	Satisfactory	Not audited
Fixed Assets	Not audited	Satisfactory	Satisfactory
Debtors	in progress	Not audited	Satisfactory
Housing benefits	satisfactory	Not audited	Satisfactory
Treasury management/pension investment	Limited	Limited	Not audited
Council Tax	Not audited	Satisfactory	Not audited
National Non-Domestic Rates (NNDR)	satisfactory	Satisfactory	Not audited
General Ledger	satisfactory	Not audited	Satisfactory
Budgetary Control	Not audited	Satisfactory	Satisfactory

- 3.13 The Payroll (iTrent) audit has been carried out as part of a joint review for London Borough's:-Sutton, Merton, Richmond and Kingston undertaken by Moore Stephens.

Service Specific

- 3.14 There were 29 service specific audits carried out, Of these 8 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, Adoption- management & control of adoption services; DBS, DOL assessment; Fuel cards, Market and street traders; Service Tenancies, Sickness, Transport Fleet Management.
- 3.15 During 2015/16 the Head of Internal Audit worked closely with other elements of the Corporate Governance Division including leading on the working group for the 2015/16 Annual Governance Statement. Internal Audit have been involved with a number of governance reviews which have identified areas for improvement across the Council. These are

4. Follow up's

- 4.1 During 2015/16 Internal Audit made a total of 450 recommended improvement actions, at the time of this report 283 actions (63%) were fully implemented. 167 actions have yet to be implemented, of these 21 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 Standards /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 Anti-Fraud

- 5.1 The council Anti-Fraud and Corruption strategy, to 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 2015 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.

SPD matches

- 5.2 The Council Tax section have a contract with Civica to carry out annual data matching on the Single Person Discounts, to identity any incorrect or fraudulent claims. In 2015/16 the results were:-

- 526 letters issued
- 197 reminder letters issued on
- Number of cases to be removed 155
- Number of cases correct 371
- Total debit raised so far (based on ave. band D) **£52,248.00**

Court cases

- 5.3 A previous successful prosecution in relation to a claimant defrauding the council of housing and council tax benefits had resulted in a prison sentence and a confiscation order of £20,000, which the claimant failed to follow resulting in a further prison sentence. Kingston Crown Court increased the sum payable under a confiscation order to £73,183.69. The court ordered the balance of the expected surplus in the proceeds of sale to be paid to Merton as costs.
- 5.4 Benefit fraud case. Case involves benefit fraud overpayments for Merton, Wandsworth & DWP. The defendant pleaded guilty to benefit fraud between 2006 and 2013 totalling £129k and was sentenced for two years, suspended for 18 months

6 Fraud Partnership

- 6.1 From April 2015, the council joined a five borough fraud partnership with Wandsworth, Sutton, Richmond and Kingston, led by Wandsworth Council. This is called the South West London Fraud Partnership.

The work of the fraud partnership Merton cases are:-

2015/16	Open Cases b/fwd	New Cases in Year	Total Cases	Closed No Sanction	Closed With Sanction	Open Cases c/fwd
Tenancy Fraud	n/a	103	103	41	9	56
Right to Buy	n/a	3	3	0	2	2
Permit Fraud	n/a	1	1	1	0	0
Corporate – Internal	2	4	6	2	0	7
Corporate – External	n/a	6	6	2	1	5
Totals	2	116	118	45	12	70

The results for 2015/16 are:-

Area	Number	details
Tenancy Fraud	9	Properties recovered. Releases availability for the councils waiting list
Right to Buy	2	RTB cancelled as tenants no longer in property
Corporate – External	1	benefit fraud – see 5.4
Total	12	

Fraud awareness training:

- 6.2 To enhance the opportunities for highlighting suspected tenancy fraud and misuse cases three fraud awareness training sessions have been provided to staffing teams within Merton Priory Homes.

National Fraud Initiative (NFI)

- 6.3 The Fraud Partnership took over responsibility from Internal Audit for the NFI in November 2015. The NFI matches are:- Creditors, Market Traders, Personal Alcohol Licences, Parking, Payroll, Pensions, Personal Budgets, Residential Care, Council Tax & Electoral Registration. This data is matched between councils and within Merton.
- 6.4 A total of 9,058 matches were identified, of which 2,415 were shown as recommended matches. At the 31st May 2016;
- 588 matches had been completed and closed;
 - 748 matches were in progress (had some action taken on them)
 - 4 matches had been closed as fraud; and
 - 9 matches identified as errors.
- 6.5 In total £31,810.39 has been identified as CTR adjustments/overpaid/incorrectly paid as a result of the NFI.

- 6.6 Council Tax Reduction (CTR) data match pilot. CTR records were submitted as part of the pilot and from these 2,101 (included in figures above) potential matches for investigation were highlighted of which 1,322 matches were within NFI defined high risk reports.
- 6.7 Through the NFI-Flexible Matching Service, the Council Tax and Electoral Registration Data were matched and they were released to view in March 2016 following the completion of the compliance declaration.

7. Review of the Effectiveness of the System of Internal Audit

- 7.1 The Annual Audit Plan for 2015/16 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.
- 7.2 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
- 7.3 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 2015/16. A small number of changes are required to reflect the new audit partnership. These include updating the audit manual, service plan and carrying out a training needs analysis.
- 7.4 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. The next external assessment will be on the audit partnership.

Quality assurance

- 7.5 Internal Audit operates a Quality Assurance system for its internal audits. This includes detailed independent review of all planning documents, terms of reference, audit files and reports.

Compliance with Standards

- 7.6 Based upon our ongoing assignment and review processes, together with the results of our Customer Surveys, we believe that we are substantially compliant with those Performance Standards. The self-assessment for 2015/16 has identified some areas where processes and documentation could be improved. None of the areas for improvement have had any significant adverse impact on the audit work undertaken.

Quality control

7.7 Quality control is achieved through:

- Preparation of a detailed audit plan which is reviewed by the Director of Corporate Services and the Shared Service Board prior to submission to the General Purposes Committee for approval;
- Regular review of progress against the plan to ensure we are delivering the work we have promised. Bi monthly reports are made to the Shared Service Board
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to a review protocol;
- The use of qualified, highly trained and experienced staff;
- Monitoring of performance against targets;