

Committee: Standards and General Purposes

Date: 14 March 2019

Wards:

Subject: Internal Audit Progress Report

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Peter McCabe Chair of the Standards and GP Committee

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Recommendation:

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 March 2019 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 Standards and 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 April 2018 we have finalised 28 audit reviews.
- 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) Limited Assurance
 - d) 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.

3 Progress against the Plan

- 3.1 Progress against the 2018/19 plan as at 28 February is as follows

	Audits	Days
Number of audits in the 2018/19 plan (+ 5 audits from 2017/18)	47	
Audit Days delivered*		714
Number of audits finalised	28	
Number of audits at draft report stage	1	
Number of audits in progress	16	

* audit plan days is 765

- 3.2 At the time of this report, approximately 93% of the plan has been completed on the basis of number of days delivered. The plan days are expected to be delivered by year end.

Planned Audit Reviews

- 3.3 Since the April 2018, there have been 21 reports issued with a substantial assurance and 5 reports issued with a limited assurance. (There have also been 2 accounts signed off)
- 3.4 A summary of the findings and agreed actions are detailed further in Appendix B for all those receiving a limited assurance report (Declaration of Interest and Corporate Procurement) since the last progress report to committee in October 2018.

Table 1 – Audit Reviews with a limited assurance

Audit Title	Department	Progress against implementation
CM2000	CH	6/14 completed
Service Tenancies follow up	ER	8/18 completed
School Meals Contract	CSF	6/11 completed
Declaration of Interests	All	0/4 completed
Corporate Procurement	All	0/3 completed

- 3.5 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.

Procurement/contract

- 3.6 There are eight procurement audits undertaken this year, five have been finalised:-

- two with a substantial assurance, Management of taxi contract and Commissioning of SEN placements,
- three with a limited assurance CM2000, School Meal contract, Corporate Procurement.

- 3.7 Three audits are in progress: Contract Monitoring of Commissioned Services, SLWP-waste and SLWP –parks.

IT systems

- 3.8 There have been two IT audits completed this year, IT asset Management and Software licence audit, both of these have a substantial assurance.

Financial systems

- 3.9 There are four audits completed this year for the main financial systems, all with a substantial assurance (Payroll, General Ledger, fixed assets, treasury management). Corelogic Mosaic, Budget setting & control and petty cash imprests are in progress.

Schools

- 3.10 To date we have finalised six school audit reports and one draft with substantial assurance and three due to be undertaken shortly.

- 3.11 Where schools have received a limited assurance report, a copy is sent to the Chair of Governors and to the finance team supporting schools so that they can offer additional support. Internal Audit carry out a follow up audit six months later to review the effect of the changes.

Service Specific

- 3.12 Other audits undertaken have been grouped into 'service specific' type audits. Eight reviews have been finalised,

- Seven with a substantial assurance Section 106/CIL, school insurance, purchasing card expenditure, corporate asset plan, commercial rent, market and street traders, adult social care debt)
- one with a limited assurance (Service Tenancies follow up).

Governance

- 3.13 There has been one governance type review carried out this year on Declaration of Interest (officers), which received a limited assurance. A review is in progress on GDPR.

Additional audit reviews

- 3.14 Internal audit attends Department Management Teams a number of times throughout the year to discuss progress against the plan and to review the audits which are still to be undertaken to ensure they are still relevant and timely. Additional requests for work are also received from managers and reviews are undertaken in areas where fraud has occurred to ensure that controls are sufficient.
- 3.15 Internal Audit has undertaken seven additional reviews this year; which means that some planned audits for 2018/19 will move to 2019/20. The additional work this year covers the following areas:-
- Review of controls in place for cash, card and laptops (final).
 - Planning decision (final)
 - Mobile phone contracts- schools (final)
 - Insurance arrangements – Schools (final)
 - Financial audit – care home fees (final)
 - Commissioning review (final)
 - Planning process (in progress)

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

- 4.1. The agreed actions for audits completed in 2018/19 have been followed up. At the time of this report 94% of audit actions had been implemented at the due date, 6% were due to be implemented.
- 4.2 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.
- 4.3 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.
- 4.4 As at the 28th February there were 11 audit actions overdue by more than 3 months. Responses to these actions are actively being sought.
- 4.5 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.

5. ALTERNATIVE OPTIONS

5.1 None for the purposes of this report.

6 CONSULTATION UNDERTAKEN OR PROPOSED

6.1 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 has periodic meetings with the Directors to report upon progress against the Plan.

6.2 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.

7 TIMETABLE

7.1. None for the purposes of this report.

8 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

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

8.2 As at the end of January (period 10) there was a forecast overspend for the year of £7k on internal audit.

9 LEGAL AND STATUTORY IMPLICATIONS

9.1 This report sets out a framework for Internal Audit to provide a summary of internal audit work for 2018/19. 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. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

10.1 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.

11 CRIME AND DISORDER IMPLICATIONS

- 11.1 There are no specific crime and disorder implications arising from this report.
- 11.2 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 A – Audit reports issued since April 2018
- Appendix B - Audit Report summary (limited assurance)

BACKGROUND PAPERS

- i. Documents held in Internal Audit Files