

Committee: Standards and General Purposes Committee

Date: 3 November 2016

Subject: Internal Audit Progress Report

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Peter McCabe, Chair of the Standards and General Purposes Committee

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Recommendation:

1. That Members note and comment upon matters arising from the Internal Audit Progress Report.
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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report summarises the work carried out by Internal Audit up to October 2016 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 2016, we have finalised 27 audit reviews and have 11 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.

3 Progress against the Plan

3.1 Progress against the 2016/17 plan as at 31st September is as follows

	Audits	Days
Number of audits in the plan	58	
Audit Days delivered*		381
Number of audits finalised	27	
Number of audits at draft report stage	11	
Number of audits in progress	12	
Number of audits booked to start	8	

* audit plan days is 936

3.2 At the time of this report, approximately 41% of the plan has been completed on the basis of number of days delivered. The plan is weighted to the last 2 quarters as this is when the outsourced audits are scheduled. The plan days are expected to be delivered by year end.

Planned Audit Reviews

3.3 Since the last progress report in March 2016, there have been 12 reports issued with a satisfactory assurance or above and 6 reports issued with a limited assurance. There have also been 5 control reports following fraud investigation 1 grant claim, the mayor's charity and a review of the arrangements in place for corelogic and the AGS.

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

Table 1 – Audit Reviews with a limited assurance

Audit Title	Department	Actions implemented
West Wimbledon primary school	CSF	Yes
Fuel Bunker and fuel cards	ER	Yes
Civic Regalia	CS	In progress
Market Street Traders	ER	In progress
Pension Investments	CS	In progress
APS cards	CSF	In progress

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.

Additional audit reviews

- 3.6 Internal audit visits 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.
- 3.7 Internal Audit has undertaken ten additional reviews this year; which means that some planned audits for 2016/17 will move to 2017/18. The additional work undertaken covers the following areas:-
- DOL assessments (final)
 - Apprenticeship recruitment (final)
 - Facilities procurement (final)
 - Memorandum of Understanding review (in progress)
 - Highway Assets (in progress)
 - E5 pre-implementation review (in progress)
 - Recruitment investigation (in progress)
 - Blue Badge review (in progress)
 - Parking Permit (in progress)
 - Safeguarding Adults (draft)

Whistleblowing

- 3.8 Reported to GP committee in March 2016, there were 4 cases on-going, 2 cases are being prepared for prosecution, 2 are in progress.
- 3.9 There have been 5 Whistleblowing allegations received since March 2016. These have been passed to the fraud partnership and 4 are on-going and 1 has closed.
- 3.10 The fraud partnership will be providing a progress report to the March committee. This update will include the corporate fraud and external fraud work on areas such as tenancy fraud and blue badge.

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

- 4.1. The agreed actions for audits completed in 2015/16 and 2016/17 have been followed up. At the time of this report 83% of audit actions had been implemented, 17% 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 13th October there were 8 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.

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 2016/17. 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.

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

- Appendix A: Audit reports issued since March 2016
- Appendix B: Audit Report summary (limited assurance)

13 BACKGROUND PAPERS

- 13.1 Documents held in Internal Audit Files.

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