

## **Committee: Standards and General Purposes**

**Date: 9 November 2017**

Wards:

### **Subject: Internal Audit Progress Report**

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Peter McCabe Chair of the standards/GP Committee

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### **Recommendation:**

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**That Members note the report 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 2017 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 the last progress report in March 2017, we have finalised 31 audit reviews and have 4 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) 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 2016/17 plan as at 31<sup>st</sup> September is as follows

	<b>Audits</b>	<b>Days</b>
Number of audits in the plan	53	
Audit Days delivered*		391
Number of audits finalised	31	
Number of audits at draft report stage	4	
Number of audits in progress	9	
Number of audits booked to start	9	

\* audit plan days is 908

- 3.2 At the time of this report, approximately 43% 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 2017, there have been 22 reports issued with a substantial assurance and 5 reports issued with a limited assurance. (There have also been 3 advisory reports and 1 grant claim).
- 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**

<b>Audit Title</b>	<b>Department</b>	<b>Actions implemented</b>
Cricket Green School	CSF	Yes
Corporate Review of DBS Checks f/u	CS	In progress
Holy Trinity school	CSF	In progress
Direct Payments	CH	In progress
E tendering	CS	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.

### **Procurement/contract**

- 3.6 There are five procurement audits on the plan for this year, to date two audits have been finalised, (E Tendering and PFI). The PFI review received a substantial assurance.
- 3.7 The E Tendering audit has resulted in a limited assurance. A number of recommendations have been made and are in progress. An audit is due to start on Corporate Procurement which will reflect some of these changes.
- 3.8 The other audit reviews due to be undertaken are; Commissioning of Special Education Placements and Contract Monitoring of Commissioned Services.

### **IT systems**

- 3.9 There have been five IT audits completed to final report stage, these have all resulted in substantial assurance. These cover, cyber essentials, internet payments, mobile devices, and firewall & network infrastructure.
- 3.10 Internal Audit have also carried out a post implementation review of the main financial system E5, providing a substantial assurance on the data migration.
- 3.11 There are a further two IT audits on the plan, these are currently at draft report stage with a substantial assurance. These are Change Management and a post implementation review on the new social care system 'Mosaic', to provide assurance on the migration and integration with other systems.
- 3.12 The controls on both of the E5 and Mosaic systems are to be reviewed later this year.

### **Financial systems**

- 3.13 There are seven audits on the plan for the main financial systems, three have been finalised with a substantial assurance (Payroll, Housing Benefit overpayments, Car Parking on and off street) , One is in progress (NNDR) and three are due to start shortly (General Ledger, Creditors, fixed assets).
- 3.14 There are also three other financial areas at final report stage with a substantial assurance: itrent expenses, acquisition and disposal of land and building and highway network assets.

### **Establishments (Schools)**

- 3.15 The number of schools audited each year has reduced and is undertaken on a risk based approach. We currently have 48 schools on the audit plan and aim to complete audits in six schools each year. The schools selected for audit will be a mixture of those not audited for several years and those with potential budgetary or other concerns.
- 3.16 To date we have finalised seven school audit reports (3 related to 2016/17 plan), five have received a substantial assurance. Two reports have received a limited assurance report.

- 3.17 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**

- 3.18 Other audits undertaken have been grouped into 'service specific' type audits. Nine reviews have been finalised, eight with a substantial assurance and one with a limited assurance (Direct Payments).

### **Governance**

- 3.19 There are three governance type audits on the plan, two have been finalised; DBS and Information Security and a review on declaration of interest is due to be undertaken. The DBS (Disclosure Barring Service) was a follow up review on a previous limited assurance. The review found that the actions had mainly been put in place, but a new issue was identified in relation to checking of volunteers, which resulted in a limited assurance.

### **Additional audit reviews**

- 3.20 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.
- 3.21 Internal Audit has undertaken three additional reviews this year; which means that some planned audits for 2017/18 will move to 2018/19. The additional work finalised this year covers the following areas:-
- Memorandum of Understanding
  - Housing Agreements
  - Concerns relating to recruitment processes
  - Review of procurement card usage

### **Whistleblowing**

- 3.22 Reported to GP committee in March 2017, there were six cases on-going, four cases are being prepared for prosecution, one has closed and one is awaiting comment.
- 3.23 There have been 3 Whistleblowing allegations received since March 2017. These have been passed to the fraud partnership. One has resulted in a recommendation for disciplinary action and the other two are ongoing,
- 3.24 The fraud partnership will be providing a progress report to this committee. This update will include 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 90% of audit actions had been implemented at the due date, 10% 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 24th October there were 6 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.

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

- Appendix A – Audit reports issued since March 2017
- Appendix B - Audit Report summary (limited assurance)

### **BACKGROUND PAPERS**

- i. Documents held in Internal Audit Files