

**Committee:** Standards and General Purposes Committee

**Date:** 30 July 2018

Agenda item:

Wards: All

**Subject:** Internal Audit Annual Report

Lead officer: Caroline Holland Director of Corporate Services

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

Forward Plan reference number:

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**Recommendation:**

- A. That the Standards and General Purposes Committee review and comment on the Internal Audit Annual Report 2017/18.
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**1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 The council has a responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of effectiveness of the system of internal control is informed by the work of the internal auditors. Effectiveness of the system is also conveyed by Directors and Heads of Service within the authority that have responsibility for the development and maintenance of the internal control environment.
- 1.2 The Annual Report summarises the work of Internal Audit in 2017/18 and provides the Head of Audit opinion on the adequacy and effectiveness of the internal control environment.
- 1.3 The overall opinion is that the internal control environment is satisfactory. During 2017/18 there were 78% of Internal Audit reviews provided substantial or above levels of assurance. This is an increase to last year (71%).
- 1.4 Some concerns still remain in procurement/contracts issues, with audits on CRM2000 and school meals contract providing a limited assurance. Post implementation reviews were carried on one 3 new IT systems, one of which received a limited assurance- Mayrise system (Environmental Asset Management system). A follow up was untaken on pensions investments where previous recommendation had not been implemented.. Other limited assurances were on service areas such as, Direct Payments and a follow up on Service tenancies, where controls are weakened by lack of procedures and reconciliation or monitoring.

- 1.5 Fraud investigations in 2017/18 have resulted in successful prosecutions on blue badge fraud, housing properties recovered, right to buys cancelled and non eligible housing applications removed from the housing waiting list
- 1.6 Employee investigations have resulted in 3 with a disciplinary, with one dismissal and one case being prepared for prosecution.

## **2 DETAILS**

### **2.1 Background details**

#### **2.1.1 The Accounts and Audit Regulations 2015**

**Regulation 5** requires an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

**Regulation 6** requires bodies to review the effectiveness of the system of internal audit once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control referred to in regulation 5.

The guidance accompanying the Regulations states that in practice councils are likely to take assurance from the work of Internal Audit when discharging their responsibility for maintaining and reviewing the system of internal control. External Audit and other review agencies and inspectorates are also potential sources of assurance.

## **3 ALTERNATIVE OPTIONS**

- 3.1 There are no alternative options as the annual report is a key component of the Annual Governance Statement, which is a statutory requirement,

## **4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1 No alternative consultation has taken place or is planned for this document.

## **5 TIMETABLE**

- 5.1 This report has been prepared to meet the timetable for the approval of the Statement of Accounts.

## **6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1 None for the purposes of this report.

## **7 LEGAL AND STATUTORY IMPLICATIONS**

- 7.1 The report sets out a framework for Internal Audit to provide an annual report for 2017/18. 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 of Merton and assists in the discharge of these statutory duties.

7.2 This report is designed to meet the requirements of the Accounts and Audit Regulations 2015

## **8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

8.1 Effective and timely auditing and advice enable 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 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.

## **9 CRIME AND DISORDER IMPLICATIONS**

9.1 This report has already summarised activities in relation to fraud and irregularities

## **10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

10.1 A review of Risk Management has been included in this report.

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

Appendix 1 Annual Report

Appendix A Internal Audit Activity 2017/18

Appendix B Summary of Limited assurance audits 2017/18

## **12. BACKGROUND PAPERS**

Internal Audit files and papers.

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