

Committee: Standards and General Purposes

Date: 12 March 2020

Agenda item:

Wards:

Subject: Internal Audit Progress Report

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Peter McCabe- Chair

Forward Plan reference number:

Contact officer: Margaret Culleton Head of Internal Audit

Tel. 020 8545 3149 margaret.culleton@merton.gov.uk

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 February 2020 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 April 2019, we have finalised 32 audit reviews and have 3 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 2019/20 plan as at 28 February 2020 is as follows

	Audits	Days
Number of audits in the plan	48	
Audit Days delivered*		685
Number of audits finalised	32	
Number of audits at draft report stage	3	
Number of audits in progress	13	
Number of audits booked to start	0	

* audit plan days is 765

3.2 At the time of this report, approximately 90% 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 April, 80% of audit assurance reports issued (final and draft) have provided Substantial Assurance.

- 28 final assurance reports, 22 Substantial Assurance and 6 Limited Assurance (2 grant claims and 2 advisory).
- 3 draft assurance reports, 1 Substantial Assurance and 2 Limited Assurance. Further details of these will be provided once the reports are finalised.

3.4 Further details on the final limited assurance reports issued since the last Committee report (November 2019) are included in Appendix C. These are:-

- BACS/CHAPS
- Payment Card Industry Data Security Standard
- Perseid School
- Procurement Card expenditure

- Tree Maintenance

Additional audit reviews

- 3.5 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.
- 3.6 Internal Audit have also been involved in providing advice and support (61 days) on corporate fraud cases, assisting with court case documentation, updating fraud policies as well as carrying out reviews in relation to procedural concerns. These have resulted in advisory reports and assistance for the following areas:-
- Planning
 - School fund review
 - Voluntary sector
 - Conflict of issue concern
 - Contract compliance
 - Court case preparation

Procurement/contract

- 3.7 There are seven contract audits on the plan for this year, to date two audit have been finalised and one at draft;
- Contract Monitoring of Commissioned Services - Limited assurance (previously reported to committee in July 2019)
 - Adult learning contract, -Substantial assurance
 - Facilities contracts-Limited (draft)
- 3.8 The following contract audits are in progress;
- CM2000 follow up audit
 - Block and Extra Care contracts
 - South London Waste Partnership (Waste Collection)
 - South London Waste Partnership (Parks)

IT systems

- 3.9 There are two IT audits finalised:
- iTrent IT application controls (joint service led by Kingston and Sutton) --Substantial assurance.
 - Payment Card Industry Data Security Standard- Limited

Financial systems

3.10 The following audits have been undertaken this year on the key financial systems:-

- Treasury Management -Final - Substantial assurance
- Payroll – Final - Substantial assurance
- Pension Administration (joint service) –Final Substantial assurance
- Accounts Receivable – Draft - Substantial
- Council Tax – Final - Substantial
- Budget setting and monitoring- Final Substantial

3.11 Other financial audit progress:

- Petty Cash Imprests -Final -Substantial assurance
- BACS/CHAPS – Final- Limited assurance.
- Procurement Card expenditure- Final -Limited Assurance

Schools

3.12 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.

3.13 To date we have finalised six school audit reports, five with Substantial assurance, one school (Perseid) has a limited assurance.

3.14 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.

Service Specific

3.15 Other audits undertaken have been grouped into 'service specific' type audits. To date, 9 reviews have been finalised, 7 with Substantial assurance, and 2 with a Limited Assurance; Tree Maintenance, Local Land charge income and one report is at draft stage; Direct Payments.

Governance

3.16 We have 4 governance reviews on the plan, GDPR, FOI/Subject Access Requests and Risk Management have a Substantial Assurance, and an advisory report on compliance with the Transparency agenda.

4. Following up on the Implementation of Agreed Actions

- 4.1. The agreed actions for audits completed have been followed up. At the time of this report there were the following P1's outstanding (see Appendix B):-
- 5 Priority 1 actions outstanding from 2018/19 with implementation dates due end of March 2020. (Total actions this year 252).
 - 6 Priority 1 audit actions are due to be implemented from the 2019/20 audit plan
- 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 February there were no audit actions overdue by more than 3 months.
- 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 2019/20. Section 151 of the Local Government Act 1972 (and subsequent legislation) requires the proper administration of all financial affairs within the Council. 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.

12 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 12.1. 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.
- 12.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Internal Audit Plan.
- 12.3. 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 2019.
- Appendix B -- Summary of Priority One Recommendations

BACKGROUND PAPERS

- i. Documents held in Internal Audit Files