

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

**Date: 22 September 2020**

Wards: All Wards

## **Subject: Internal Audit Progress report 2020/21**

Lead officer: Caroline Holland- Director of Corporate Services

Lead member: Chair of Standards and General Purposes Committee

Contact officer: Margaret Culleton Head of Internal Audit

### **Recommendation:**

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To consider and comment on the attached progress report

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## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 In March 2020, the Standards and General Purposes Committee agreed to an Annual Audit Plan comprising a total of 765 chargeable days. This report summarises Internal Audit's progress in delivering the Annual Audit Plan up to September 2020.

## **2 Details**

- 3.1 The Accounts and Audit Regulations 2015 require an adequate and effective internal audit of accounting records and the system of internal control in accordance with proper practices. This task has been delegated to the responsible finance officer under Section 151 of the Local Government Act 1972. At Merton, the role of the responsible finance officer is fulfilled by the Director of Corporate Services and the internal audit requirement is met through the South West London Audit Partnership (SWLAP), which Merton joined in October 2015.
- 3.2 Internal Audit follows the Public Sector Internal Audit Standards (PSIAS). These standards comprise the public sector interpretation of existing standards set by the Chartered Institute of Internal Auditors. As supplementary guidance, specific to the local government sector, an application note has been issued by CIPFA/IIA; this guidance establishes the requirement for interim reporting [of Internal Audit activity] during the year and the report is designed to meet that requirement.

## **4 Issues**

### Internal Audit Progress

- 4.1 The table shown below summarises the planned and actual audit activity during the period in question.

<b>2020/21 Audit Plan</b>	<b>Audits</b>	<b>Days</b>
Number of audits on the plan	43	
Audit Days Delivered *		245
Number of audits at final stage	8	
Number of audits at draft stage	6	
Number of audits in progress	11	

\* Audit days on plan 765

4.2 At the time of writing this report, 32% of the plan had been completed at the end of August on the basis of days delivered.

4.3 10 audit assurance opinions were issued since April 2020, categorised as following:

- 1 (10%) **Full Assurance** audit opinion
- 4 (40%) **Substantial Assurance** audit opinions
- 5 (50 %) **Limited Assurance** audit opinions
- 0 (0%) **No Assurance** audit opinions.

61 audit recommendations were issued to management, of which:

- 21 (35%) were Priority 1
- 38 (62%) were Priority 2
- 2 (3%) were Priority 3

4.4 Appendix A includes details of the results of all individual audit assignments that were initiated during the period up to September 2020, including the draft audits and recommendations, which may be subject to change.

4.5 Each audit is given an opinion based on 4 levels of assurance depending on the conclusions reached and the evidence to support those conclusions. Members and management should note that the assurance level is an opinion of controls in operation at the time of the audit. The auditor will agree with management a number of recommendations which, when implemented, will result in a reduction of the exposure to risk. Each recommendation is given a priority ranking and an implementation date and these are monitored on a regular basis by the Internal Audit team. Priority 1 recommendations are defined as being those where major issues have been identified for the attention of senior management.

Levels of assurance	
<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
<b>Substantial Assurance</b>	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
<b>Limited Assurance</b>	There are significant weaknesses in key control areas, which put the system objectives at risk.
<b>No Assurance</b>	Control is weak, leaving the system open to material error or abuse.

PRIORITY OF RECOMMENDATIONS	
<b>1</b>	Major issues that we consider need to be brought to the attention of senior management.
<b>2</b>	Important issues which should be addressed by management in their areas of responsibility to avoid exposure to significant risk.
<b>3</b>	Minor issues where the risk is low. Action is advised to enhance control or improve operational efficiency.

4.6 In addition, each recommendation emanating from the audit review is given a priority rating of 1, 2 or 3 for implementation, with priority 1 being a high risk requiring immediate attention. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

4.7 At this stage a conclusion about the overall Council assurance cannot be reached until further work is completed. The year-end position on all work undertaken during 2020/21, including any third party assurances, will be evaluated and reported in June 2021 and used to determine the Head of Audit's annual opinion on the Council's internal control environment.

#### Limited and No Assurance Opinions

4.8 Since April 2020, there has been 1 limited assurance final report on Building Control. A summary of the main issues are detailed below.

- The Building Control regulations require that the figures for expenditure and income relating to chargeable building regulation services are published each year within six months of the end of the financial year. There appears to be a breach of the regulations as this report is not being published by the Environment and Regeneration Finance Team
- Separation of duty requirements are inadequate, as the same building

control surveyor is involved in all stages of the process, from the start to end of the application. A quality checking process/ peer review should be considered to provide assurance that the right process has been followed and the correct decision has been made within each case recorded in M3.

- The current process in place for the issuing of inspection invoices using the BC52 forms, highlighted poor controls as no reconciliation or checks are currently undertaken between the M3 system, the invoices raised, or income received.
- Reconciliations between the M3 system and E5, to ensure that full income has been received and recorded appropriately are not being undertaken.

#### Additional Audit reviews

4.9 Internal audit has undertaken and completed no additional reviews this year. This is in addition to the ad hoc advice provided to services.

#### Follow - up on Priority 1 actions

4.10 At the time of this report, there were 8 P1's due to be implemented. See Appendix B for details. The table below shows the audits where actions are outstanding or have not yet due to be implemented. These actions are in the process of being followed up.

<b>Audit</b>	<b>P1's outstanding/still due</b>
Declaration of interests	1
Deprivation of liberty safeguards assessments	1
BACS/CHAPS	1
Tree Maintenance	2
Building Control	3
<b>Total</b>	<b>8</b>

#### Counter-Fraud and Investigations

- 4.11 The responsibility for managing the risk of fraud and its prevention and detection lies with management. However, Internal Audit's planned work includes evaluating controls for their effectiveness in mitigating the risk of fraud.
- 4.12 Counter-fraud work has been undertaken by the South West London Fraud Partnership (SWLFP) since April 2015. This falls across three categories, namely:

- Reactive investigations arising from external intelligence, management referrals or whistleblowing disclosures
  - Co-ordination and investigation work in line with the requirements of the National Fraud Initiative data matching exercise
  - Proactive counter-fraud work which includes data matching and online fraud awareness training.
- 4.13 A separate report is provided twice yearly by the SWLFP detailing the cases referred and the outcome of any investigations.
- 4.14 Any allegations of corporate fraud or corruption are brought to the attention of the Head of Internal Audit in the first instance. Whistleblowing concerns are also recorded by Internal Audit and the outcome reported annually to the committee.
- 4.15 Any area of potential internal control weaknesses identified during fraud investigations are considered for inclusion on the internal audit plan.

## **5 Alternative options**

- 5.1 None for the purposes of this report.

## **6 Consultation undertaken or proposed**

- 6.1 n/a

## **7 Timetable**

- 7.1. None for the purposes of this report.

## **8 Financial, resource and property implications**

- 8.1 The Council's budget includes provision for the audit plan.

## **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 2020/2021. 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. This report also complies with the requirement of the following:
- Local Government Act 1972
  - Accounts and Audit Regulations 2015
  - CIPFA/IIA: Public Sector Internal Audit Standards (PSIAS)
  - CIPFA/IIA: Local Government Application Note for the UK PSIAS

The provision of an Internal Audit service is integral to the financial management at Merton and assists in the discharge of the Council's duties.

**10. Human rights, equalities and community cohesion implications**

10.1 n/a

**11 CRIME AND DISORDER IMPLICATIONS**

11.1 N/A

**12 Risk management and health and safety implications**

12.1 n/a

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

Appendix A – Audit Assurances since April 2020

Appendix B- Summary of Priority One Recommendations