

London Borough of Sutton Internal Audit Progress Report: 2017/18

Report drafted by:
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Audit Committee –11 January 2018



1. Introduction

- 1.1 In March 2017, the Audit Committee agreed 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 November 2017 and the key areas of activity planned for the remainder of the year.
- 1.2 Internal Audit seeks to ensure that Sutton's financial and other systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.
- 1.3 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. These standards state that the Head of Audit should make arrangements for interim reporting in the course of the year and this report is designed to meet that requirement.

2. Executive Summary

- 2.1 The key messages and issues from the audit work completed in this period are as follows:
 - The Audit Plan and associated key deliverables remain on-track for completion by the end of 2017/18
 - 32 audit assurance opinions were issued, categorised as following:
 - 0 (0%) **Full Assurance** audit opinions
 - 25 (78%) **Substantial Assurance** audit opinions
 - 7 (22%) **Limited Assurance** audit opinions
 - 0 (0%) **No Assurance** audit opinions.
 - An advisory report on Risk Management and an audit of the Bandon Hill Cemetery were also undertaken.
 - 143 audit recommendations were issued to management, of which:
 - 25 (17%) were High Priority
 - 100 (70%) were Medium Priority
 - 18 (13%) were Low Priority
- 2.2 Internal Audit will produce an annual report for presentation to the Audit Committee in July 2018. This will include the Head of Audit's opinion on the internal control environment for 2017/18 and will take into account the audit work completed over the full 12 months to 31 March 2018.

3. Completed Audit Work

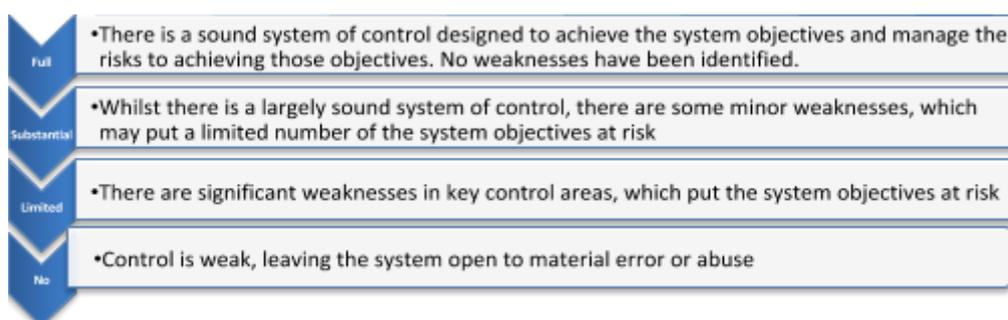
Audit Assurance Opinions

- 3.1 Progress against the 2017/18 plan as at 30 November is as follows. In total, 38 audit opinions have been issued and a further 11 audits are work in progress

	Audits	Days
Number of audits in the plan	54	
Audit Days delivered*		556
Number of audits finalised	32	
Number of audits at draft report stage	6	
Number of audits in progress	11	
Number of audits booked to start	5	

* audit plan days is 765

- 3.2 At the time of this report, approximately 73% 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.
- 3.3 **Appendix A** includes details of the results of all individual audit assignments that were initiated during the period to the end of November. Audit assurance opinions issued by Internal Audit are classified into one of the four categories described below.



- 3.4 Overall, 25 (78%) of final audit reports issued during this period resulted in either substantial or full assurance (In 2016/17 at this period it was 59% substantial or above). Although not much audit work remains to be completed before any firm conclusions are drawn, these part year statistics should be interpreted as encouraging.
- 3.5 The year end position on all work undertaken during 2017/18, including any third party assurances, will be evaluated and reported in July 2018 and used

to determine the Head of Audit's annual opinion on the Council's internal control environment.

Limited Assurance Opinions

- 3.6 The 7 reports that were categorised as Limited Assurance fall within the scope of Internal Audit's follow up work, and may require a further audit within 12 months to check that management actions have been implemented by the agreed date. A summary of the main findings and priority 1 recommendations from these reports is included at **Appendix B**.

Table 1 – Audit Reviews with a limited assurance

Audit Title	Department
Pension Fund Administration	Resources
Corporate Procurement	CE
Direct Payments/Personal budgets	People
Sutton companies review	CE
Appointeeship & Deputyship Accounts	People
No recourse to public funds	People
Grant to Voluntary Groups follow up	CE

- 3.7 The actions recommended are all either implemented or in progress to be implemented.

3.8 Procurement/contracts

- 3.8.1 There were originally six procurement/contract type audits on the plan, one of which has been moved into the 2018/19 plan. One review has been finalised; Corporate Procurement which received a limited assurance and one is at draft (Public Health Commissioning), with a substantial assurance.

The other three audits are in progress or due to start shortly.

- Integrated commissioning arrangements with Clinical Commissioning Groups (CCG)
- Monitoring of contracts with the 3rd Sector
- Contract Monitoring of commissioned services (moved into next year's plan)
- Contract Compliance

3.9 IT systems

- 3.9.1 There are five IT audits on the plan, three have been finalised with substantial assurance (Network Security, Cyber essentials and Change Management). An audit on Northgate (Revenue and Benefits) is due to start in quarter 4.

3.9.2 A post implementation review of Mosaic is currently in progress. The move from frameworki to Mosaic occurred at the end of October 2017. This review is to provide assurance on the data migration and controls in the new system.

3.10 Financial systems

3.10.1 There are five audits on the plan for the main financial systems, three have been finalised with a substantial assurance (Debtors, Cash and Bank and Payroll), and one has received a limited assurance (pension fund administration). The review on NNDR is in progress.

3.10.2 There are follow up audits on four other financial areas on the plan due to a previously issued limited assurance. Two reviews have now been finalised (procurement cards and crisis loans) and have moved to a substantial assurance. The follow up reviews on Paypoint and Imprest accounts are scheduled to start shortly.

3.11 Schools

3.11.1 The number of schools audited each year has reduced and is undertaken on a risk based approach. We currently have 38 schools on the audit plan and aim to complete nine audits each year.

3.11.2 To date we have finalised six school audit reports (1 related to 2016/17), and one follow up all have received substantial assurance. A further two school reports are at draft with a substantial assurance.

4 Additional audit reviews

4.1 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.

4.2 Internal Audit has undertaken five additional reviews this year; which means that some planned audits for 2017/18 will move to 2018/19. The additional work undertaken or due to be undertaken covers the following areas:-

- Sutton Libraries
- Procurement cards in Children's Services
- Integrated Insurance Service
- Acquisition of Properties (HRA)
- Housing Benefits Overpayments

5. Counter-Fraud and Investigations

- 5.1 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.
- 5.2 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 examines areas of potential risk and also includes fraud awareness training/briefings.
- 5.3 A separate report is provided by the SWLFP detailing the cases referred and the outcome of any investigations.
- 5.4 Any allegations of corporate fraud or corruption are brought to the attention of the Head of Internal Audit in the first instance. A decision is then taken on whether these cases are referred to the SWLFP or initial work undertaken within Audit.
- 5.5 Any area of potential Internal Control weaknesses identified during fraud investigations are considered for inclusion on the internal audit plan.

6. Following up on the Implementation of Agreed Actions

- 6.1. The agreed actions for audits completed in 2017/18 have been followed up. At the time of this report we have 23 Priority 1 actions due to be implemented.
- 6.2 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.
- 6.3 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. The overdue actions will also be reported to Strategic Directors and to Audit Committee when overdue by more than 3 months.