

LONDON BOROUGH OF MERTON

INTERNAL AUDIT ANNUAL REPORT YEAR ENDING 31ST MARCH 2019

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1. Head of Audit Assurance Opinion

1.1 As Head of Internal Audit for the London Borough of Merton, I am required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment: I base my opinion upon:

- All internal audit assignments undertaken during the year
 - Any follow up action taken in respect of previous audit work
 - Any significant recommendations not accepted by management and the consequent risks
 - Matters arising from previous reports to the Standards and General Purposes Committee
 - Any limitations, which may have been placed on the scope of the internal audit.

Opinion

I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control environment. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided subject to the limited assurance opinions detailed in this report.

1.2 Where weaknesses in controls have been identified, action plans are in place. It is important that departments ensure that audit actions are implemented in a timely manner to ensure effective controls are in place.

2 The Internal Audit Assurance Framework

2.1. A key responsibility of Internal Audit is to give the organisation assurances about the levels of internal control being exercised in the areas of risk and in particular, where there are transactions that are considered "material" to the Council.

2.2. Internal Audit seeks to ensure that Merton's systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.

2.3 Overall, whilst issues have been identified and resolved, the systems of control within the Council are such that reliance can be placed upon them.

2.4. In order to give such an assurance, a balanced programme of Internal Audit reviews is constructed each year. This Annual Internal Audit Plan contains elements of all the Council's activities selected using a "Risk Based" approach. There are many tools used to achieve a balanced plan including undertaking systems reviews, regularity audits (e.g. schools), contract and computer audit, fraud and misappropriation reviews and an annual review of major financial systems such as the main accounting system, payroll, Council Tax and Housing Benefits. There are 4 levels of assurance provided:-

- a) Full Assurance
- b) Substantial Assurance
- c) Limited Assurance
- d) No Assurance

- 2.5. 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.
- 2.6. The audit plan for 2018/19 covered those area of high fraud risk, as identified through the Council's own assessments and through information from CIPFA, and other sources, where fraud risks are highlighted. Examples of these are procurement cards, business rates, and direct payments.
- 2.7. These audits reviewed the controls in place, although no fraud was identified in any of these reviews, a number of recommendations were made to improve the controls.

3 Planned coverage and output

- 3.1. The total number of audit days commissioned for 2018/19 was 765 days. We can report that we have completed 100% of the total number of commissioned audit days.
- 3.2. The plan was compiled with reference to the Council's Strategic Risk register and following discussions with each departmental management teams (DMTs). This ensured that audit work was focused on the Council's key risks and targeted areas where senior managers required independent assurance over controls in their service areas.
- 3.3. Changes to the plan and updates on progress were discussed at DMT's quarterly and significant changes reported to the Standards and General Purposes Committee in the progress reports.
- 3.4. In terms of reports delivered by the audit tam, the audit plan at the start of the year included 42 audits. The plan is always flexible to allow for movement in the number of audits in the plan and the days delivered reflecting changing client needs. The overall number of reports will be subject to change over the course of the year as audits may be deferred or no longer required. However, additional reviews may be added if concerns are raised about a specific control area or existing reviews may have their budgets increased. During the year, there were 7 additional audits requested. These have ranged from full audits to focused audit investigations. These included:
- Mobile phone usage
 - Controls on assets/cash
 - Voluntary organisation review
 - 2 Planning reviews
 - Grant funding review
 - Review of payment to a care home

- 3.5 Internal Audit has also undertaken substantial testing on the social care system, Corelogic.
- 3.6 These referrals to Internal Audit help to demonstrate the continued good engagement from departments and their awareness of the role of Internal Audit and the work that they can undertake to support their service. The Council's risk profile is constantly changing. Therefore, Internal Audit and the internal audit plan need to be flexible to be able to respond to these changing and emerging risks.
- 3.7 The Internal Audit function is conscious of the significant pressure on resources that the Council is facing and has continued to identify where we can support management through looking to identify potential efficiencies and making recommendations for possibly fewer but better controls wherever possible.

4. Internal Audit Assurances 2018/19

- 4.1. There were 42 audits on the Internal Audit plan for 2018/19. To date, 38 audits are at final or draft. Of these, four relate to grant claims or signing off accounts.
- 4.2 There were 31 substantial assurances provided and 3 limited assurances, while 4 audits are in progress.
- 4.3 A full list of the assurances can be found in Appendix A. Action Plans for improvements are in place for all audits. Discussions are being held with Departments and action plans are still to be finalised in some instances.
- 4.4 The following tables summarise the results by audit type:

Table 1 Internal Audit Assurances by Audit Type 2018/19

| Assurance | assurance | Limited | Totals |
|--------------------------|------------------|----------------|---------------|
| Procurement | 1 | 2 | 3 |
| Establishments | 9 | 0 | 9 |
| Financial Systems | 8 | 0 | 8 |
| IT | 2 | 0 | 2 |
| Service Specific | 10 | 0 | 10 |
| Corp Gov/grants | 1 | 1 | 2 |
| Totals | 31 | 3 | 34 |

Key Areas for 2018/19

- 4.5 Internal Audit has continued to improve their level of engagement with all levels of management. This has been achieved by attending regular DMT's to discuss audit progress, meeting with key stakeholders prior to the start of the audit to agree the audit brief.
- 4.6 When the audit plan is set, discussions are held with all key people for input; this engagement has enabled the Internal Audit team to focus on the key areas of risk as well as work closely with management to formulate actions to address areas where improvement is required.

- 4.7 As set out in the above section we have identified areas of good practice and an effective control environment across the majority of the systems, processes and establishments reviewed. This includes the Council's key financial systems as set out below.
- 4.8 However there are a number of areas where further improvements are required to strengthen the control environment and we have summarised the key themes identified below.

Governance

- 4.9 There were 2 reviews included on the 2018/19 audit plan, covering corporate governance. These were declaration of interests and GDPR. The review on declaration of interest resulted in a limited assurance report. Since this audit a reminder has gone to employees to complete a declaration of interest form. The new form and guidance is in the process of being reviewed. Implementation of the audit actions will be followed up and reported back to committee.

Declaration of Interest – Officers (summary of audit findings)The council has a process for declaring conflicts of interest for officers, although at the time of audit review the guidance was not readily available and officers were not routinely completing the forms, in particular those officers in a senior role, budget holder or those responsible for procurement. The declaration of interest form has been in the process of being updated for the last few years but has not been agreed.

- 4.10 A review on the Council's arrangements for GDPR provided a substantial assurance. Although there were areas still in progress, the Council had made good progress with implementing these changes and putting a process in place through the Information Governance board to have oversight of this and review any breaches.
- 4.11 During 2018/19 the Head of Internal Audit worked closely with other teams in the Corporate Governance Division including leading on the working group for the 2018/19 Annual Governance Statement. Internal Audit have been involved with a number of governance reviews that have identified areas for improvement across the Council.

Procurement

- 4.12 There were 3 procurement audits on the plan: SEN Taxi contract received a substantial assurance; Corporate Procurement and Contract monitoring of commissioned places received a limited assurance. The actions on both of these reviews are in the process of being implemented. Regular training sessions are now provided to officers on Contract Standing Orders. A follow up review has been included in the 2019/20 audit plan to undertake further testing on Corporate Procurement to provide assurance on improvements made.

Corporate Procurement (summary of audit findings)

Sample testing found that 78% of quotes or bids had not gone through the e-tendering portal Pro Contract as required by CSO's and the Procurement Toolkit and 88% not published on the Council's Contract Register.

There was a lack of information, clarity and transparency around the reporting of extensions including the number of extensions allowed under the contract.

Department OPG minutes found that Forward Plans were not up to date and not complete.

Contract Monitoring of commissioned services (summary of audit findings)

Sample testing found 70 per cent of contracts had followed CSO in relation to tendering or seeking appropriate exemption.

Signed contracts or extensions letters (by both parties) were not in place for 80 per cent of the contracts tested.

Contract monitoring was found to be limited with priorities given to contracts where significant concerns have been identified, based predominantly around safeguarding concerns

4.13 In the previous audit year (2017/18), we reported 2 limited assurance audits on procurement; CM2000 and schools meals. The audit actions on CM2000 still have two priority 1 actions in progress. A follow up audit has been included in the 2019/20 audit plan to provide assurance on improvements in this area. The two outstanding actions relate to-

- Contract extension- update: The exemption to January 2020 was sought to align with the project plan for the new Home Care contracts. The system used has implications for providers, who have to interface it with their rostering systems.
- Contracts in place for all off-contract providers update: The new contract requires contracted providers to use CM2000. It will take time to migrate all care to the new arrangements.

Financial systems

4.14 Of the 5 main financial systems reviewed this year, four received a substantial assurance and one is in progress and will be reported in the 2019/20 update report.

Table 3 Financial systems audit assurance for last 3 years

| Financial System | Assurance 2016/17 | Assurance 2017/18 | Assurance 2018/19 |
|------------------|-------------------|-------------------|-------------------|
|------------------|-------------------|-------------------|-------------------|

| | | | |
|--|--------------|--------------|-------------|
| Cash and Bank | Satisfactory | Not audited | Not audited |
| Payroll (iTrent) | Satisfactory | Satisfactory | Substantial |
| Accounts Payable | Not audited | Satisfactory | Substantial |
| Fixed Assets | Not audited | Satisfactory | Not audited |
| Debtors | Satisfactory | Not audited | Not audited |
| Housing benefits | satisfactory | Satisfactory | Not audited |
| Treasury management/pension investment | Not audited | Limited | Substantial |
| Council Tax | Satisfactory | Not audited | Not audited |
| National Non-Domestic Rates (NNDR) | Not audited | Satisfactory | Not audited |
| General Ledger | Satisfactory | Satisfactory | Substantial |
| Mosiac | n/a | Satisfactory | In progress |

4.15 The Payroll (iTrent) audit has been carried out as part of a joint review for London Borough's Sutton, Merton, and Kingston undertaken by Mazars.

4.16 The actions on the limited assurance audit on pension investments in 2017/18 have been followed up and these have now been actioned. A review on treasury was included in the 2018/19 audit plan and received a substantial assurance.

IT audits

4.17 There were 2 Information Technology audits this year, both received a substantial assurance. These audits covered IT asset management and software licences. The audit actions on the limited assurance review in 2017/18 on Mayrise (environmental system) post implementation have been followed up and have now been actioned.

Service Specific

4.17 There were 11 service specific audits carried out, these all received a substantial assurance.

4.18 There were 3 limited assurance audits reported in 2017/18, the actions on these have regularly been followed up. The actions have now been completed on Direct Payments, and Court of Protection and there are 9 priority 1 actions on Service Tenancies (due to be implemented by December 2019, which we will continue to follow up).

Schools

4.19 There were 9 school audits carried out this year. These all received a substantial assurance. There were 2 limited assurance reviews reported in 2017/18, the actions from these reviews have now been implemented.

4.20 Internal Audit work closely with finance throughout the year to be aware of any concerns at schools in relation to budget deficits and late returns. Where concerns are raised, these are taken into account in the audit planning for each year.

5. Implementation of recommendations

5.1 During 2018/19 Internal Audit made a total of 236 recommended improvement actions, at the time of this report 193 actions (82%) were fully implemented. 43 actions have yet to be implemented, of these no actions are overdue.

5.2 For those outstanding actions, an expected implementation date is provided by the manager. Monthly reports are sent out to all managers for actions due and where these are over two months overdue, the Head of Service also receives a copy. If an action is more than 3 months overdue, then the appropriate Director is informed. Any overdue outstanding audit actions are then reported to Standards /General Purposes committee.

5.3 Where reports are given a limited assurance and therefore have a number of recommendations a full follow up audit is usually carried out in the subsequent year to gain assurance that these recommendations have been actioned.

6. Review of the Effectiveness of the System of Internal Audit

6.1 A requirement laid down in the Accounts and Audit (England) Regulations 2015 states that 'the relevant body shall, at least once a year, conduct a review of the effectiveness of its internal audit'. An annual self-assessment against CIPFA's Code of Practice for Internal Audit in Local Government has to be carried out each year and an external assessment every 5 years.

6.2 A self assessment has been undertaken against the Public Sector internal audit standard (PSIAS). This demonstrated substantial compliance with the standards. An external Assessment against the PSIAS was carried out in May 2018 and provided substantial assurance. Where actions have been identified these will be reviewed and included in the Quality Action Implementation Plan and progress reviewed.

6.3 The key focus of the review of the effectiveness of internal audit is the delivery of the service to the required standard in order to produce a reliable assurance on internal controls and the management of risks in the authority. In coming to a view on the effectiveness of the system of internal audit, the following factors are all indicators that should be taken into accounts.

- Performance of the internal audit provider (in-house and/or contractors) in terms of both quality and cost.
- Views of external audit & reliance placed on work by internal audit.
- Role and effectiveness of the Standards and General Purposes Committee.

- The extent to which internal audit adds value to the organisation and helps delivery of objectives.

6.4 During 2018/19, the internal audit service has achieved the following:-

- Delivery of 100% of the audit plan
- 100% client satisfaction for audit work

7 Fraud Investigations

7.1 The Council's Anti-Fraud and Corruption strategy sets out the Council's approach to detecting, preventing and investigating fraud and corruption. This strategy is supported by the Council's whistleblowing policy, which was reviewed and updated in 2018 and by the Council's code of conduct. The Internal Audit section has a key role in implementing this strategy and to ensure that the internal controls in place are robust to prevent fraud occurring or to tighten controls where fraud has occurred.

Fraud Partnership

7.2 The South West London Fraud Partnership was established on the 1st April 2015 as a 5 borough shared fraud investigation service between LB Merton, RB Kingston, LB Sutton, LB Richmond and led by LB Wandsworth.

7.3 During 2018/19, the SWLFP has undertaken counter fraud activities in the following areas:

- National Fraud Initiative (NFI)
- Blue badge/parking permits
- Council tax reduction/discount
- Employee fraud
- NNDR/Business rate relief
- Social care fraud
- Housing tenancy fraud/abuse

Investigation caseloads

7.4 In total 245 cases have been opened as a result of the referrals received and concerns highlighted through proactive fraud drives and NFI matches during the year. A breakdown of fraud referrals accepted for investigation is shown in the table below:

| 2018/19 Fraud Category | Sanction Target | Open Cases b/fwd | New Cases in Year | Total Cases | Closed No Sanction | Closed With Sanction | Open Cases c/fwd |
|------------------------------|--------------------|------------------------|-------------------------|----------------|--------------------------|----------------------------|------------------------|
| Tenancy Fraud | 10 | 31 | 50 | 81 | 31 | 9 | 41 |

| | | | | | | | |
|-------------------|------------|-----------|------------|------------|-----------|------------|-----------|
| Right to Buy | 5 | 15 | 3 | 18 | 3 | 8 | 7 |
| Hsg Apps Rejected | 20 | 1 | 160 | 161 | 3 | 156 | 2 |
| Blue badge | n/a | 5 | 7 | 12 | 7 | 2 | 3 |
| Employee | n/a | 5 | 10 | 15 | 6 | 1 | 8 |
| CTR/SPD/HB | n/a | 2 | 10* | 12 | 1 | 3 | 8 |
| Other | n/a | 11 | 2* | 13 | 6 | 1 | 6 |
| Totals | n/a | 70 | 242 | 312 | 54 | 180 | 75 |

Housing Fraud

- 7.5 Nine properties were recovered in 2018/19. This allows for those on the Councils waiting list to be provided with the opportunity for a housing tenancy. Work is ongoing, including 3 cases with legal for consideration of legal action.
- 7.6 Right to buy applicants are passed to the Fraud partnership and the application checked to Housing Benefit: eight RTB applications have been withdrawn following intervention by the SWLFP.

Housing Applications (waiting list)

- 7.7 To date, 156 applications have been cancelled because of NFI matches, which found that LBM housing waiting list included deceased persons.

Corporate Fraud (internal)

- 7.8 The corporate fraud cases involving employees for 2018/19, resulted in: -
- 1 disciplinary hearing (dismissed)
 - 1 Prosecution in progress
 - 5 No Further action
 - 7 in progress

National Fraud Initiative (NFI)

- 7.9 The NFI matches are: - Creditors, Market Traders, Personal Alcohol Licences, Parking, Payroll, Pensions, Personal Budgets, Residential Care, Council Tax & Electoral Registration. This data is matched between councils and within Merton.
- 7.10 NFI 2018 – Reports have been released; with additional matches having been released on 31st May 2019. SWLFP are currently reviewing the reports to determine and agree with service the programme of work.

| | | | | | |
|-----|-------|--------|-------------|-------|-------------|
| NFI | TOTAL | Closed | In progress | fraud | To review w |
|-----|-------|--------|-------------|-------|-------------|

| | | | | | |
|-----------------------------|--------------|------------|------------|----------|--------------|
| NFI 2018/19 – Main NFI | 4,491 | 142 | 417 | 1 | 3,931 |
| Re-Check - Ctax to ER –2018 | 1,657 | 0 | 0 | 0 | 1,657 |
| Re-Check - Ctax to ER –2019 | 1,629 | 0 | 0 | 0 | 1,629 |
| | 7,777 | 142 | 417 | 1 | 7,217 |

7.11 At the 1st April 2019 for the main NFI;

- 1 case has been identified as fraud.
- **£3,240.00** has been identified as a saving due to 1 Waiting List application which has been cancelled as a result of the NFI match.