

LONDON BOROUGH OF MERTON

INTERNAL AUDIT ANNUAL REPORT YEAR ENDING 31ST MARCH 2021

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. 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.

2.3 For each audit carried out, Internal Audit provides an opinion as to the quality of the control environment in the following processes:

- Risks have been identified, evaluated and managed
- Internal controls reduce risks to acceptable levels
- Action is being taken to promptly remedy significant failings or weaknesses
- The current levels of monitoring are sufficient

2.4 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	
Full Assurance	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.
Substantial Assurance	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.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

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

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 2020/21 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.
- 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 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.
- 3.2 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. 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.
- 3.3 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.

Covid 19 - Internal Audit reviews

- 3.4 In August 2020, we completed an advisory high-level review on the Council's Covid 19 response, which looked at governance, decision making and the financial arrangements in place. The financial areas reviewed included completion of financial returns to the Ministry of Housing, Communities & Local Government (MHCLG), arrangements for grants received, debt repayments, and adjustments to the procurement process, including supplier relief.
- 3.5 The review has been carried out across the five-borough partnership (Merton, Sutton, Kingston, Richmond and Wandsworth) with comparisons and recommendations. This review forms part of the Annual Governance assurance work as well as highlighting areas requiring more detailed audit testing.
- 3.6 The review found the Council had responded effectively to Covid 19. The governance arrangements in all the Councils quickly adapted to online committees and engagement with Members was managed well. Decision-making arrangements were swiftly put into place with Gold and Silver daily group meetings set up as well as a regional South West London Group.
- 3.7 Comparative analysis showed much of what the Council did was similar to or the same as its neighbouring boroughs helped by the close working relationships

that officers have with their neighbouring colleagues.

- 3.8 During the emergency, decisions had to be made quickly by Councils and often these were made during Gold meetings or by individual officers. Some of these decisions were delegated decisions, some published as a key decision, or others approved by members. An area of good practice, is to keep a decision log, so that there is a clear record of when these decisions have been made, by who and when they need to be reviewed This will be helpful for the ongoing pandemic and future emergencies or changes in government advice or funding.
- 3.9 Following on from the main review, other Covid-related reviews were added to the Internal Audit Plan; -
- Procurement – Procurement Policy Notices (PPNs) (completed in August 2020)
 - Procurement PPNs (Completed in February 2021)
 - Community Testing grant – completed
 - Rough sleepers (commissioning) - in review
 - Infection Control grants- in review

4. Internal Audit Assurances 2020/21

- 4.1. There were 38 audits undertaken during 2020/21, of these 33 have provided an assurance opinion. There were 3 advisory reports and 2 accounts checked and signed off.
- 4.2 There were 25 Substantial Assurances or above (76%) and 8 limited assurances (24%).
- 4.3 A full list of the assurances can be found in Appendix A. Action Plans for improvements are in place for all audits.

Financial systems

- 4.4 There were four key financial systems reviewed this year, which all received a substantial assurance.

Table 2 Key Financial systems audit assurance for last 3 years

Financial System	Assurance 2018/19	Assurance 2019/20	Assurance 2020/21
Payroll (iTrent)	Substantial	Substantial	Substantial
Pension Administration	Substantial	Substantial	Substantial
Cash and Bank			Substantial
Accounts Payable	Substantial		Substantial
Treasury management/pension investment	Substantial	Substantial	
Council Tax		Substantial	
Accounts Receivable		Substantial	

Fixed Assets		Substantial	
Budget setting and monitoring	Substantial		
General Ledger	Substantial		

Key Areas for 2020/21

- 4.7 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.
- 4.8 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.
- 4.9 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.
- 4.10 However there are a number of areas where further improvements are required to strengthen the control environment and we have summarised the key issues below.

Table 3: Limited Assurance audits

Audit	Number of Priority 1 recommendations	Actions in progress
Cyber Security	0	0
Building Control	3	1
Covid 19 Procurement	3	0
Disclosure Barring Service checks	2	2
Prepaid Cards	5	0
No Recourse to Public funds (Community and Housing)	2	1
Direct Payments	4	0
Care Management System (CM2000)	4	4

Key issues

- 4.11 **Cyber Security.** Less than half of employees had completed information security training. A number of 'admin' accounts (30) were enabled that had not logged in for over 90 days. There were seven leaver accounts that were enabled

within the system, which included two accounts that had logged in after their respective leaving dates. Server Message Block (SMB) was enabled, which is noted as a vulnerable service. The maintenance weekend testing done over the Disaster Recovery (DR) functionality was not recorded and that the latest DR test had not been recorded. **Action taken:** The mandatory completion of the information security training will be addressed by the Corporate Management Team. A user access review will be performed as part of a wider cleansing programme of works - estimated closure December 2021. We will initially block accounts not logged in for 45 days with accounts that are no longer required being disabled or locked. SMB is now blocked at the firewall rule level. A fully recorded risk assessment will be completed on any testing done over functionality or DR testing carried out.

- 4.12 **Building Control.** This review found expenditure and income relating to chargeable building regulation services were not published each year. Separation of duties requirements were inadequate, reconciliations were not completed between the M3 system, and E5 on invoices raised, and income received. **Action taken:** The financial statements will be completed and signed by the Section 151 officer within 6 months of the end of the financial year. The duties undertaken by building control surveyors will be included in the review of the service to ensure there is adequate separate of duties. A reconciliation process will be introduced between the cheque book receipt, M3 and E5
- 4.13 **Covid 19 Procurement** Meetings were suspended, corporate oversight of decisions made, and an appropriate exit plan required agreement. The Covid-19 RAG risk rating register required review and update. Details of supplier relief granted were not held in a central record. **Action taken:** Meetings recommenced in July 2020 and will continue. A new process for supplier relief decisions was put in place in September 2020, to be overseen by Commercial services and the Operational Procurement Groups (OPGs). The authority will revert to normal payment methods going forward. The Covid-19 supplier risk rating spreadsheet will be made available to departmental OPG's and reviewed regularly.
- 4.14 **DBS** This review covered the arrangement between RBK and Merton on the Disclosure Barring Service checks. The SLA (2016) required a review and update to reflect the current requirement. Not all aspects of SLA between RBK and LB Merton were working as expected. Sample testing found evidence of new employees (requiring a DBS check), commencing employment prior to the DBS clearance without a risk assessment being completed. Significant delays in DBS renewals checks with a lack management oversight on expired DBS renewals. **Action taken:** Officers have been reminded of the need to ensure that either the checklist is signed off by the Manager or they are in receipt of an e-mail from the Manager demonstrating that the risk assessment has been completed. Kingston to report quarterly on the number of DBS checks carried out by the team. Kingston to seek customer satisfaction levels and report. Kingston to report on the time taken to get DBS checks back quarterly.
- 4.24 **Prepaid Cards.** This review found that guidance document previously recommended by Internal Audit in 2016 had been drafted by the service but had not been finalised. It was found that there were 14 active accounts open on the

system for employees that had left the employment of the council. Sample testing found that service agreements were not in place for all transactions. Receipts were not available for all expenditure. **Action taken:** A Prepaid Card Policy stipulating the use and management of the card has been agreed. A review of employee's access levels to the PFS systems will be carried out. Processes to be put in place to manage team cards to prevent misuse of card. Additional controls to be introduced for all petty cash accounts including reconciliations. Expenditure to be accompanied by receipt/invoice where it practically possible.

- 4.25 **No Recourse to Public Funds-** As part of the assessment process it is a requirement for the Council to check the immigration status of clients requesting assistance. It was found that three adults and two families were not registered on the NRPf connect database. Reviews carried out by social workers were not always consistent and evidence of immigration checks not undertaken. **Action taken:** Guidance, associated process and pathways will be relaunched and training for all staff to be undertaken. Information Project Manager will lead on update of the Mosaic system to ensure the system captures NRPf so that we can actively monitor immigration status and we shall have a regular report on this. Additional checks will be built into mosaic so that we can cross reference cases with the Home Office.
- 4.26 **Direct Payments** -The service user agreements were found to be under review as they did not fully comply with the most current legislation. A review of a sample of client agreements were missing, undated or unsigned. Evidence of regular monitoring was unavailable at the time of audit. **Action taken:** we now have a revised agreement which has been approved by legal services for compliance to relevant legislation and is now in use for all direct payment customers (both new and existing). All direct payment literature and documentation has been revised in line with this. As part of the ASC new restructure, we shall review our monitoring arrangements for these services.
- 4.27 **CM2000** Contracts have not been awarded under seal. Contract variations for the provider contracts were not documented. Despite the requirement for the main providers to use the care monitoring system (CM2000), compliance was not as required by the contract. System reports require updating to a usable format. **Action:** Legal services will be contacted for advice regarding, sealing of contracts, correcting the errors identified in the provider contracts, contract variation. The contractual arrangements with spot purchase providers will be reviewed. The use of Code-confirm will be considered where care providers consistently fail to ensure that care workers record aura compliant visits for opted in clients. The use of smart phones and RFID devices or similar technology will be investigated with a view to increasing aura compliance calls. Timesheets will be randomly requested from providers and incorporated into the contract monitoring and management arrangements. A review of available system monitoring reports will be carried out and a decision made regarding the reports required going forward as part of the contract monitoring and management process. Key Performance Indicators as stated in the contract will be reviewed to confirm current relevance to the service provision. A review of domiciliary care providers not using CM2000 has been agreed by C&H DMT and a project plan is in place.

5. Implementation of recommendations

- 5.1 During 2020/21 Internal Audit made a total of 216 recommended improvement actions, including 25 Priority 1 (P1s) actions. Management has responded to each of our recommendations stating the action they will take and when it will be implemented.
- 5.2 At the time of this report 194 actions (90%) were fully implemented, of these 17 P1's has been implemented and 8 are still in progress.
- 5.3 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 and General Purposes Committee.

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 2020/21, 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 Anti-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 2020 and by the Council's Code of Conduct. The Internal Audit function 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.
- 7.2 The South West London Fraud Partnership (SWLFP) 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.

Update from the SWLFP

- 7.3 **Business Rates:** As part of the Covid-19 response, a grant has been made available to qualifying businesses with a rateable value under £51,000. As part of the post payment checks, Merton have provided a data file which SWLFP has formatted and arranged to be matched via CIFAS. This returned 10 accounts which have required enhanced checks into the validity of the claim and subsequent payment.
- 7.4 **Discretionary Grant:** As part of the pre-payment checks Merton have provided several data files for cases that have been identified as potentially eligible. SWLFP have formatted these into the required specification and arranged to be matched via CIFAS. 175 Discretionary Grant payments were uploaded and 1 was returned as a potential issue, this was passed back to the Discretionary Grants team for them to make further checks on the applicant.
- 7.5 **Second Round (LRSG):** Prior to Grant payments for the second national lockdown being made, visits were undertaken to approximately 586 businesses to ensure that they were closed in line with government guidance.
- 7.6 **Prosecution/Court Action:** Due to the fast-moving Covid-19 situation Court action was delayed, hearings are now going ahead although priority is being given to cases where defendants are on remand. There is a large backlog of cases in both the Criminal and Civil Court systems and we are in contact with Clarion and legal services in order to monitor tenancy fraud cases and ensure they are still being progressed.
- 7.7 During 2020/21, 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
 - Housing tenancy fraud/abuse

Investigation caseloads

- 7.8 In total 46 cases have been opened in 2020/21 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:

2020/21	Open cases b/f	New	Total	Closed no sanction	Closed sanction	Open c/f
Tenancy	34	14	48	18	3	27
Right to buy	2	1	3	3	0	0
Housing apps rejected	1	1	2	0	1	1
Permit Fraud	3	1	4	2	1	1
Employee	3	8	11	8	1	2
CTR/SPD/HB	1	5	6	5	0	1
Other	7	16	23	11	1	11

- 7.9 **Tenancy Fraud-** Three properties were recovered in 2020/21. This allows for those on the Councils waiting list to be provided with the opportunity for a housing tenancy. Work is ongoing, including three cases with legal for consideration of legal action.

Corporate Fraud (internal)

- 7.10 The corporate fraud cases involving employees for 2020/21, resulted in: -
- 1 disciplinary recommendation
 - 2 Prosecutions in progress (from previous years)
 - 6 No Further action
 - 2 Improvement recommendations

National Fraud Initiative (NFI)

- 7.11 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.

NFI	Total Referrals	Processed (closed)	In Progress	Fraud / Error	To Review
NFI 2018/19 – Main NFI	6661	406	1542	2/0	4713
NFI 2020/21 – Main NFI	6089	18	31	0/0	6040
Re-Check - Ctax to ER – 2020	1984	0	0	0/0	1984
Re-Check - Ctax to ER – 2021	2072	0	0	0/0	2072
	16806	424	1573	2/0	14809

7.12 As at 1st April 2021 for the main NFI (2018/19);

- 2 cases have 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.

8. LOCAL GOVERNMENT TRANSPARENCY CODE

- 8.1 Under the code the Council is required to publish the following data regarding its Fraud Investigation activity. Listed below are 2020/21 figures (with 2019/20 comparative figures shown within brackets).

Accredited number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers		
	20/21	(19/20)
Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014	3	12
The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013	0	3
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud		
	Absolute	FTE
Fraud Investigation - SWLFP #	15 (15)	15 (15)
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists		
PINS trained Fraud Specialist	7 (6)	7 (6)
CIPFA Certificate in Investigative Practices	1 (2)	1 (2)
CIPFA Accredited Counter Fraud Specialist	4 (4)	4 (4)
Total amount spent by the authority on investigation and fraud prevention		
	20/21	(19/20)
Fraud Partnership	£xx	£123.2k
Total number of fraud cases investigated.		
SPD/Council tax reduction/ Housing/Tenancy related Investigations	0	3
Right to Buy	21	125
Permit Fraud Investigation	3	12
Other Investigations	3	4
	<u>26</u>	<u>21</u>
TOTAL	53	165

- 8.2 To ensure that sufficient knowledge and capability for fraud investigation was maintained Merton entered into a partnership with four neighbouring boroughs, the SWLFP. For 2020/21, the number of Fraud investigation officers and officers with specialist fraud qualifications relates to the pool of officers within the SWLFP team that can be called upon, Merton's funding contribution equates to 2 FTE investigators.

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