

Committee: Standards and General Purposes Committee

Date: 4 November 2021

Wards: All Wards

Subject: Internal Audit Progress report 2021/22

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
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Recommendation:

To consider and comment on progress of the Internal Audit Plan 2021/22

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 In March 2021, 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 2021.

2 Details

- 2.1 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.
- 2.2 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.

3 Internal Audit Progress

- 3.1 The agreed deliverable audit days is 765 days, based upon the original audit plan which included 42 pieces of work. The table shown below summarises the progress of audit activity since April 2021.

2021/22 Audit Plan	Audits
Number of final audits	20
Number of audits at draft stage	5
Number of audits in progress	9
Audits - quarter 3	5
Audits– quarter 4	3
Total	42

3.2 Twenty-one audit assurance opinions have been issued since April 2021, categorised as follows:

- 1 (5%) **Full Assurance** audit opinion
- 17 (81%) **Substantial Assurance** audit opinions
- 3 (14%) **Limited Assurance** audit opinions
- 0 (0%) **No Assurance** audit opinions.

106 audit recommendations were issued to management, of which:

- 7 (7%) were Priority 1
- 82 (77%) were Priority 2
- 17 (16%) were Priority 3

3.3 The originally agreed audit plan may change as areas of higher risk are identified, or requirements to complete an investigation on an area of concern. Scheduled audit may then be moved to next year's audit plan.

3.4 Appendix A includes details of the results of all individual audit assignments that were initiated during the period up to September 2021, including the draft audits and recommendations, which may be subject to change.

3.5 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.

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 risk.
3	Minor issues where the risk is low. Action is advised to enhance control or improve operational efficiency.

3.6 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.

3.7 The year-end position on all work undertaken during 2021/22, including any third-party assurances, will be evaluated, and reported in July 2022 and used to determine the Head of Audit's annual opinion on the Council's internal control environment.

Advisory reviews

3.8 Internal Audit undertake advisory reviews as well as signing off grant claims and accounts. To date the following accounts and grant returns have been reviewed and signed off by the Head of Internal Audit.

- Merton and Sutton Joint Cemetery account
- Mayors accounts
- Compliance and Enforcement grant

3.9 The work currently undertaken as advisory reviews are: -

- Departmental schemes of managements – advisory report issued.

- Financial procedures and Financial Regulations – advisory work and input for an on-going review, being undertaken by Finance.
- Co-ordinate the Councils Annual Governance Statement (input from all areas of the Council, self-assessments from Directors and Assistance Directors on the Internal Control's and Governance arrangements in place in their areas of responsibility)
- Attendance at the Corporate Risk Management Group
- Lead on the Whistleblowing Monitoring group (Head of Audit, Monitoring Officer, Head of HR and Legal). Co-ordinator of whistleblowing register.
- Other ad-hoc advice on all potential fraud concerns and weaknesses in internal control. Anti-fraud policies review and update.

Limited Assurance reviews

3.10 Since April 2021, we have issued three Limited assurance report, which were reported to the July 2021 Standards and General Purposes Committee. There have been no Limited audit assurance reports finalised since we last reported, and no audits completed where a Priority 1 recommendation was raised.

An update is provided below on progress of outstanding Priority 1 audit actions, on previously issued limited assurance reports.

Progress of Priority 1 audit actions

3.11 We currently have thirteen Priority 1 actions outstanding, with seven actions for audits completed prior to 2021/22 and six actions for reports issued since April 2021. An update on progress of all outstanding Priority 1 actions is detailed below.

Limited Assurance reports issued prior to 2021/2, with outstanding Priority 1 audit actions.

Audit	Final report date	Number of Priority 1 recommendations	No of P1's outstanding
Building Control	5/8/20	3	3
No Recourse to Public funds (Community and Housing)	23/10/20	2	1
PCI compliance	20/12/19	3	3

Limited Assurance reports issued in 2021/22, with outstanding Priority 1 audit actions.

Audit	Final Report Date	No of P1 recommendations	No of P1's outstanding
Disclosure Barring Service checks	28/5/21	2	2
Care Management System (CM2000)	16/6/21	4	4

Update on the outstanding Priority 1 audit actions

3.12 Building Control (previously reported to September 2020 and July 2021 Committee).

Agreed Action	Management Response (Oct 21)	Target date
The building control surveyor should not be the same officer involved in agreeing the invoices, undertaking site inspections, reviewing the applications for approval, updating the M3 system and issuing the completion certificate. The lack of separation of duties in the work undertaken by building control surveyors should be reviewed and an appropriate separation in approval processes or a peer review process introduced.	A review of the Building Control team was undertaken by LABC earlier in the year. This contains a significant number of recommendations which need to be reviewed and where possible implemented. Currently, the BC Team Leader post is vacant, although temporarily covered on a casual basis. Until this post is filled and the structure of the team reviewed and strengthened, it will not be possible to comply with this recommendation.	31/3/22
The Charges Regulation require local authorities to publish a financial statement relating to the Building Regulations Chargeable and non-chargeable Accounts not more than six months after the end of the financial year to which the statement relates. This statement must be approved by the section 151 Officer. It is expected that the charging system will provide a more accurate and fairer charge based on the actual cost of providing the service, reducing the potential overcharge and large surpluses. Also, lead to greater and more effective completion between Councils and private sectors competitors. The Building Control Service have not completed or published Building Control financial statements.	This has not been complied with due to staff turnover. Meetings are to be held with the new Service Financial Adviser for Corporate Services and Environment & Regeneration and the interim B&DC Manager to resolve this as soon as possible	31/12/21

As instructed in the Charges Regulations, the financial statements should be completed and signed by the Section 151 officer within 6 months of the end of the financial year		
<p>A full review of the processes and procedures relating to the BC52: Request for inspection fee form should be undertaken in order to ensure that this is effective and robust.</p> <p>The possibility of running a report from M3 of all BC52 forms printed, and all outstanding fees held in M3 should be investigated in order to aid the reconciliation of income.</p> <p>A full system reconciliation should be established and undertaken regularly to ensure that the BC52 requests for inspection fees have been recorded correctly on M3, submitted to finance for payment and payment subsequently received on E5.</p>	<p>This has been partially complied with and outstanding fees recovered. However, to fully undertake all of this requirement, it is necessary to ensure that the Team Leader post is filled and the team reviewed and strengthened, in line with the outcomes of the LABC report.</p>	31/3/22

3.13 No Recourse to Public funds (Community and Housing) (reported to March and July 2021 committee)

Agreed Action	Management Response	Target Date
<p>Social Workers must be reminded of the need to create a new case on the NRPF Connect database and to obtain updates from the Home Office on client's immigration status whilst the client remains in receipt of NRPF support. A review of the NRPF Connect database must also be carried out to ensure that all clients in receipt of support are registered on the NRPF Connect database.</p>	<p>Information Project Manager will lead on update of the Mosaic system to ensure the system captures NRPF so that we can actively monitor this, and we shall have a regular report on this.</p> <p>Additional checks will be built into mosaic so that we can cross reference cases with the home office</p> <p>Delays in government guidance</p>	1/12/21

3.14 PCI compliance

Agreed Actions	Management Response (Oct 21)	Target date
An approve charter for the PCI DSS compliance programme should be put in place by management to include a	Adelante has replaced Civica ICON. Adelante is PCI compliant to level1, this is	31/12/21

<p>communication structure that ensures executive / senior managements are accountable for and aware of any compliance impacting risks on an ongoing basis.</p> <p>This should also include sets of metrics that summarises the performance of implemented security controls and compliance programme that can be reported to Senior Management monthly.</p>	<p>attested by Barclaycard and Adelante as a host. The PRISM scan for the LBM network is due to complete in late October 2021, PRISM are tied up with LBMIT. The target date for the Adelante SCAN is November/December 2021.</p>	
<p>Management should review the findings within the report produced by Prism Infosec and instigate a remediation project immediately.</p> <p>Following that, a second security review should be undertaken to assess the effectiveness of any controls that have been implemented.</p>	<p>Adelante is PCI compliant to level1, this is attested by Barclaycard and Adelante as a host. The PRISM scan for the LBM network is due to complete in late October 2021, PRISM are tied up with LBMIT. The target date for the Adelante SCAN is November/December 2021.</p>	31/12/21
<p>Quarterly PCI scanning should be conducted by an Approved Scanning Vendor (ASV) to ensure that internal and external vulnerabilities are timely identified, and remedial actions are timely taken.</p>	<p>Adelante is PCI compliant to level1, this is attested by Barclaycard and Adelante as a host.</p> <p>The PRISM scan for the LBM network is due to complete in late October 2021, PRISM are tied up with LBMIT.</p> <p>The target date for the Adelante SCAN is November/December 2021.</p>	31/12/21

3.15 DBS (previously reported to July 2021 Committee)

Agreed Action	Management Response	Target date
<p>The following escalation process must be considered: -</p> <ul style="list-style-type: none"> • Email reminder must be sent to employees, their managers and ID checker three months before their DBS is due to expire if a renewal application has not been submitted (as per the current procedure). • Two months before the expiry date if the employee has still not submitted a renewal DBS application, the case must be escalated to their line manager. • One month before the expiry date if the employee has still not submitted a DBS 	<p>Joint response from Kingston and Merton:</p> <ul style="list-style-type: none"> • Kingston to automate process to e-mail line managers and staff member requiring the renewal check. Renewal reminder sent straight from iTrent at 90, 60 and 30 days before expiration. • Merton to go through School structures to ensure reporting lines are correct. • Kingston to update iTrent with a list of Schools Business 	1/12/21

<p>renewal application, the case must be escalated to the relevant Head or Service or Assistant Director</p> <p>Management information should be prepared showing the number of renewals outstanding and the age of these renewals; this report should be included with the HR regular reports to DMT.</p> <p>The agreed escalation process and the requirement to obtain a DBS renewal every three years should be documented.</p>	<p>Support Managers so the report goes directly to the applicant and the BSM rather than the line Manager.</p> <p><u>Updated comments Oct 2021.</u> The automation of renewal reminders has not been completed and will require a revised timeline of December 2021. We have amended the reporting lines for Schools so that the Schools Business Manager is the point of contact. Kingston have updated iTrent accordingly</p>	
<p>The Service Level Agreement in place since May 2016 should be reviewed in order to ensure that the DBS service provided to LB Merton is accurately reflected in the agreement.</p> <p>Where discrepancies are found, the agreement should be varied in accordance with the terms. (paragraph 15.1.1)</p> <p>A process must be put in place to ensure management information, as stipulated in the shared service agreement, is provided.</p>	<p><u>Updated Comments October 2021:</u></p> <p>Reports for DBS checks carried out for Merton can be run by Merton HR on the Action HR portal. Kingston has arranged access for the key individuals and gave an overview of how this is done.</p> <p>Training with a member of the Kingston Payroll team is yet to be arranged by Merton as the person who can deliver training is currently on Jury Service until 15 November (revised timeline Dec 21).</p> <p>Kingston have provided a report on the number of DBS checks carried out by the team</p> <p>Due to sickness Kingston have not yet managed to speak to Action HR regarding Customer satisfaction levels, new providers for Schools annually but this is likely to done annually in April each year so it won't be until April 22 that these will be produced.</p> <p>It has been decided to delay a report to CMT on Options for DBS in order to provide Kingston time to rectify issues and improve their service</p>	1/4/22

	offering (revised timeline of April 22)	
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3.15 CM2000 Home Care Monitoring (previously reported to July 2021 Committee)

Agreed Action	Management Response	Target date
Legal services should be contacted as soon as possible, with a view to correcting the error identified in the contract documentation.	Agreed and will be completed as part of work to ensure contracts are signed and sealed.	31/10/21
<p>The LBM guidance on sealing contracts advises that for services relating to vulnerable adults, consideration should be given to having a deed, even if the value of the contract is lower than £250,000.</p> <p>Legal services should be contacted for advice regarding the signing and sealing of the contracts.</p>	Agreed.	31/10/21
Whilst it is acknowledged that the use of CM may not be financially viable for all domiciliary care providers a review of current providers not using CM should be carried out as soon as possible. The review should consider the viability of each provider being required to use CM to record and monitor the care provided for LBM clients. Where the use of CM is found to be viable, the use of the system should be introduced as soon as possible.	Agreed and in progress. C&H DMT have agreed the methodology for identifying which providers CM should be rolled out to and a project plan is in place.	31/12/21
<p>Whilst it is acknowledged that there may be occasions when a care worker may not be able to use an opted in clients landline phone, the contract states: -</p> <p>“All and part-manually entered visit duration on opted-in customers will be subject to a 5% recharge of the total cost of those visits submitted.”</p> <p>To ensure compliance with the contract, the penalties for noncompliance as stated in the contract should be invoked.</p> <p>The possibility of the authority achieving significant savings in the event of contract compliance should also be considered.</p>	Partially agreed, as we need to balance our approach to invoking the 5% recharge with our wider market sustainability responsibilities, particularly in the context of the Pandemic. As part of the work to implement the new version of Finance Manager, and to roll out the CM solution to a wider group of Lot 4 & 5 providers we will document a clear set of business rules relating to the recharge and the steps to be taken prior to invoking this requirement.	31/12/21

4 Counter-Fraud and Investigations

- 4.1 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.
- 4.2 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 includes data matching and online fraud awareness training.
- 4.3 A separate report is provided twice yearly by the SWLFP detailing the cases referred and the outcome of any investigations. The current caseload of the fraud partnership is detailed below.

Investigation Caseloads

- 4.4 Since April 2021, there have been 62 investigation cases closed with an action, as detailed below.
- **Tenancy fraud (4)** Three properties recovered due to subletting and one due to a false succession.
 - **Housing Applications Rejected: (55)** housing applications identified from the National Fraud Initiative, as no longer requiring housing have been removed from the waiting list..
 - **Permit fraud (1)** Investigation into the misuse of a child's blue badge, resulted in a warning and case has been closed
 - **Employee Fraud (1)** Agency employee dismissed as duplicate employment.
 - **Other (1)** Schools application denied as applicant gave an incorrect address to try and secure a school placement. Checks conducted showed that applicant was linked to an alternative address. Application dismissed.
- 4.5 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.
- 4.6 Any areas of potential internal control weaknesses identified during fraud investigations are considered for inclusion in 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 2021/2022. 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 2021

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