

Committee: Standards and General Purposes Committee

Date: 28 November 2022

Wards: All Wards

Subject: Internal Audit Progress report 2022/23

Lead officer: Roger Kershaw – Interim Executive Director of Finance and Digital

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 2022/23

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 In March 2022, 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 October 2022.

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 Interim Executive Director of Finance and Digital 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.

Internal Audit Progress

- 2.3 The agreed deliverable audit days is 765 days, based upon the original audit plan agreed at committee 10 March 2022, which included 43 pieces of work. The table shown below summarises the progress of audit activity since April 2022.

2022/23 Audit Plan	Audits
Number of final audits	19
Number of audits at draft stage	4
Number of audits in progress	15
Due to start	9*
Total	47

* Some of these audits may be completed in 2023/24

3.2 Eighteen audit assurance opinions have been issued since April 2022, categorised as follows:

- 0 (0%) **Full Assurance** audit opinion
- 14 (78%) **Substantial Assurance** audit opinions
- 4 (22%) **Limited Assurance** audit opinions
- 0 (0%) **No Assurance** audit opinions.

126 audit recommendations were issued to management, of which:

- 11 (9%) were Priority 1
- 106 (84%) were Priority 2
- 9 (7%) 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 October 2022, 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 2022/23, including any third-party assurances, will be evaluated, and reported in July 2023 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
- Protect and Vaccinate Grant
- Contained Outbreak Grant
- Test and Trace Support Grant
- Universal Drug Grant

3.9 The work currently undertaken as advisory reviews are: -

- 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 Assistant 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.

Financial Systems

3.10 The Audit Plan includes the following key financial systems in 2022/23. The current status of these reviews are as follows: -

System	Progress
General Ledger	Final -Substantial Assurance
Accounts Payable Supplier Creation and Amendments Duplicate payment checks	Final - Substantial On-going
Accounts Receivable	In progress
Payroll- full system review -Bank mandate changes	In progress Final -Limited
Cash & Bank Adelante Cash Receipting system Cash Office	In progress Final – Substantial
Pension Administration	In progress
Business Rates	In progress

Data Analytic Work

3.11 The way we audit has adapted as we are required to audit remotely, and this has included the increased use of data analytics in audit reviews. We have one area of continuous audit that we undertake on duplicate payments.

- Accounts Payable - Duplicate Payments - since April 2022 we have undertaken 2 quarterly duplicate payment checks covering the period up to 30/9/22, to identify possible duplicate payment matches. There were confirmed duplicates totalling £900 found in quarter 1 (April-June) and

£35,705.99 found for quarter 2. Payments of £35,519.88 have since been recovered and payments totalling £186.11 are due to be recovered shortly. We will continue to run quarterly duplicate payment checks going forward.

School Audits

3.12 School audits are designed to assess their corporate governance, compliance with the Council's Scheme for Financing Schools, and financial management arrangements. The current status of the reviews undertaken or planned are as follows:-

- Rutlish High School -Final Report -Substantial assurance
- Hillcross Primary School -Final Substantial assurance
- Ricards Lodge High School- Final Substantial assurance
- Wimbledon College - Draft Substantial assurance
- Ursuline High School- in progress
- Haslemere Primary School- booked
- Cranmer Primary School- booked

Limited Assurance reviews

3.13 Since April 2022, we have issued 2 final limited assurance reports: Payroll bank changes and Children Placement Commissioning. We have 2 draft limited assurance reports, where we are waiting for management comment.

3.14 Payroll bank changes

Issues: Clear, documented procedures were not in place where employees request bank account changes, to their pay. Changes to bank accounts should be made by the employee on the Itrent system. Where changes are required to be made by HR, appropriate due diligence checks should be undertaken. HR staff should be provided with training on this process.

Action: We have started to prepare documented procedures and have sent out an email to all HR staff to inform them of the due diligence checks to be undertaken.

3.15 Children Placements Commissioning (1 audit actions outstanding)

Issues: There are no contracts in place with providers that have been commissioned and procured outside of the London Commissioning Alliance (LCA) Procurement approved the use of the Light Touch Regime to set up a pseudo-framework agreement for the delivery of semi-independent accommodation and key-work support, this framework is still in the consultation stage. Audit testing and confirmation from the Service Manager concluded that the procurement of providers of Supporting Housing and Lodging (Semi-Independent Accommodation) have not been established. Individual Placement Agreement to agree the individual child's terms and cost of the contract have not been completed and agreed with the providers on placements, since December 2020.

Actions: Management are liaising with the LCA to start a new contract or to introduce a 1 year SLA Contract for all semi-independent accommodation and those providers outside of the framework. This is with legal with a target date of

the end of November to approve and sign off Individual Placement Agreements are being issued and the backlog has been assigned to relevant officers to work through. All providers that are being used for supporting housing and lodging (including Semi-independent accommodation) have been contacted and all details and key information has been provided (in order to establish a contract).

Progress of Priority 1 audit actions

- 3.16 We currently have 11 Priority 1 actions outstanding on limited assurance audits, 10 actions are for audits completed prior to 2022/23 and 1 action for a final report issued since April 2022. An update on progress of all outstanding Priority 1 actions is included in Appendix B.

Final Limited Assurance reports issued in 2022/23, with outstanding Priority 1 audit actions.

Audit	Final Report Date	Number of Priority 1 recommendations	Actions outstanding
Children Placements Commissioning	19/5/22	5	1
iTrent bank changes	6/9/22	1	0
Total P1's		6	1

Limited Assurance reports issued prior to 2022/23, 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	2
PCI compliance	20/12/19	3	3
Care Management System (CM2000)	16/6/21	4	1
Transport Fleet Management (Substantial)	20/12/21	1	1
Parking Enforcement	9/2/22	12	3
Total P1's		23	10

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.
- 4.4 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.
- 4.5 Any areas of potential internal control weaknesses identified during fraud investigations are considered for inclusion in the internal audit plan.

Alternative options

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 2022/2023. 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 2022

Appendix B- Update on all outstanding Priority 1 actions