

LONDON BOROUGH OF MERTON

INTERNAL AUDIT ANNUAL REPORT YEAR ENDING 31ST MARCH 2023

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, risk and governance 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 2022/23 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 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.

4. Internal Audit Assurances 2022/23

- 4.1. There were 42 audits undertaken during 2022/23 of these 29 provided an assurance opinion.
- 4.2 There were 23 Substantial Assurances or above (79%) and 6 limited assurances (21%). A full list of the assurances can be found in Appendix A. Action Plans for improvements are in place for all audits.

Financial systems

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

Table 1 Key Financial systems audit assurance for last 3 years

Financial System	Assurance 2020/21	Assurance 2021/22	Assurance 2022/23
Payroll (iTrent)	Substantial	Substantial	Substantial
Pension Administration	Substantial	Substantial	Substantial
Cash and Bank	Substantial	Substantial	Substantial
Accounts Payable	Substantial	Substantial	Substantial
General Ledger			Substantial
Business Rates			Substantial
Capital		Substantial	

4.4 The key financial systems audits found that the controls in place were effective. Some recommendations have been made to further enhance controls, these covered; regular reconciliations to the General Ledger, removing leavers access and completion of an annual review of direct debits. All recommended actions have been accepted and implemented.

Duplicate Payment matches

4.5 Internal Audit undertake quarterly Duplicate Payment matches on the Councils Accounts Payable system, by Internal Audit on a quarterly basis. The 2022/23 exercise covered 12 months from April 2022 to March 2023. Based on our results and comments from the Head of Transactional Services, a total value of £175,448 duplicate payments, made up of a total of 41 transactions were identified. A summary of the duplicates is detailed below.

Confirmed Duplicate Transactions 2022/23

Duplicate and actions taken	Number of Transactions	Duplicated identified April 2021 to March 2022.
Confirmed duplicate account credited	11	£ 127,586
Confirmed duplicate, refund received/correction entered on e5.	30	£ 47,862
Total Duplicates Payments	41	£ 175,448

4.6 The Internal team will continue to undertake quarterly duplicate payment matches in 2023/24.

School Audits

4.7 School audits are designed to assess their corporate governance, compliance with the Council's Scheme for Financing Schools, and financial management arrangements. During 2022/23 the following schools were audited

- Cramner Primary
- Haslemere Primary
- Hillcross Primary
- Ricards Lodge High School

- Ursuline High School
- Wimbledon College

4.8 All schools, except Haslemere received a Substantial Assurance opinion. Common findings from these reviews related to.

- Non-Adherence to Scheme of Finance for contracts (3 schools)
- Monthly monitoring meetings between the School Business Manager and the Headteacher to discuss budget and payroll reconciliations. (4 schools)
- Budget monitoring reports provided to Governors supported by system generated FMS reports for verification. (4 schools)
- The Debit Card Policy required review and approved by governors. (5 schools)
- Official order not raised and authorised prior to expenditure (3 schools)

4.9 All actions from the school reviews are sent to the Headteacher and Chair of Governors for approval and implementation. A newsletter is issued to all schools to highlights areas of control weaknesses identified on audit reviews during the year and areas of recommended good practice,

5. Key Areas for 2022/23

5.1 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 and meeting with key stakeholders prior to the start of the audit to agree the audit brief.

5.2 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.

5.3 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.

5.4 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.

Priority 1 actions

5.5 During 2022/23 Internal Audit made 260 recommended improvement actions, including 18 Priority 1 (P1s) actions. There were also 3 P1's carried over from previous years, giving a total of 21 P1's, of these 13 have been actioned. Management has responded to each of our recommendations stating the action they will take and when it will be implemented.

5.6 We currently have 6 Priority 1 actions outstanding, 2 P1's for audits completed prior to 2021/22 and 4 P1's for reports issued since April 2022.

Table 2: Limited Assurance/Priority 1 audits 2022/23

Audit	Number of Priority 1 recommendations	Actions outstanding
Children Placements Commissioning	5	1
Payroll -bank mandate changes	1	0
Financial Review – 14+ and Children in Care Teams	4	0
Haslemere Primary School	1	0
Payroll -shared (RBK/LBS/LBM)	1	0
Planning Enforcement	4	3
Direct Payments (adults)	2	0
Total P1's	18	4

Table 3 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	1
Transport Fleet Management		1	1
Total		4	2

Key issues from 2020/21 and 2021/22 (not yet implemented)

5.4 Building Control (final report issued 5/8/20) (1 P1 outstanding)

Issues: The building control surveyor undertakes, site inspections, reviewing the applications for approval, updating the M3 system and issuing the completion certificate, and agreeing invoices. A review on the role of the building control surveyors should be undertaken to ensure a separation of duties.

A full system reconciliation should be established and undertaken regularly to ensure that the requests for inspection fees have been recorded correctly on M3, submitted to finance for payment and payment subsequently received on E5.

Updated action: (June 2023) Specifically with regard to the BC52 procedures and separation of duties, we have looked into this and currently have temporary measures in place until we have fully recruited to the team. We no longer have the building surveyors dealing with the work and raising the invoice. The Interim BC Manager now runs a weekly report and identifies all applications that have started in the previous week. From that report he produces the instruction to

Admin to raise invoices for those projects. Any applicant that has not paid the plan charge strictly have not submitted a valid application so the inspection charge is adjusted to include the plan charge so that the application can be validated. This means in effect that whilst these are temporary measures, the Audit Recommendations have been complied with other than the last part of the process, which is checking on E5 for receipt. This is currently undertaken but not as regularly as required at the moment. This will be put in place within the next 6 months once we have fully recruited.

5.5 Transport Fleet Management (Substantial assurance – 1 P1 outstanding)

Issue: LBM does not currently have a formal Fleet Management Strategy. A formal Fleet Management Strategy should be developed to identify LBM's fleet requirements both currently and in the future. Once a formal strategy has been developed, management should monitor performance in delivering the actions contained within the strategy, and against agreed performance management standards.

Updated Action (June 2023): The service is currently drafting a strategy (project initiated) for the review of fleet and vehicle options with assistance of an external expertise, focusing on how to transition to and deliver fleet requirements and a decarbonised vehicle solution to meet service demands. Time scale for completion is December 2023.

Additionally, the current service and maintenance requirements shall continue to 2025, but the service has reviewed and drafted a comprehensive and new specification for the future service provider in the management of the Council's workshop, providing a range of solutions from regular maintenance to vehicle procurement. Implementation is April 2025.

Key Issues 2022/23

5.6 Children Placements Commissioning (1 audit action outstanding)

Issues: A review of all providers that are not part of the London Commissioning Alliance SLA should be undertaken to ensure that contracts are established. In line with Contract Standing Order the Resource Commissioning Team Manager must ensure that all contracts (including extensions) are signed by both the Councils representative and the service provider, at the time the agreement is entered into. Once contracts have been established, a protocol to establish the monitoring of the contract should also be agreed.

Action: Legal are in the process of updating the contracts to be ready for the DCS's signature

5.7 Payroll -bank mandate changes

Issue: Bank account details held in iTrent were amended directly by HR without carrying out any due diligence checks to ensure that the change request was genuine and that the change of bank details given were correct, resulting in a fraudulent payment being made, The process should further include the

requirement to notify IT services of any security incident and to fully complete a security incident form in the event of any future fraudulent change of bank account request being made

Action: Due diligent checks have now been put in place to ensure that any changes to bank details are confirmed

5.8 Financial Review – 14+ and Children in Care Teams

Issues: A number of control weaknesses have been identified in the use and administration of PFS team pre-paid cards, these will need to be considered going forwards to ensure that effective and robust controls are in place for the new Allpay pre-paid cards.

Action: A review of payments made by bank transfer from team pre-paid cards within the new Allpay system has been undertaken, to ensure a robust system control is in place.

5.9 Haslemere Primary School

Issues: The school must produce and have approved by Governors: - a 3 Year Budget, Recovery Plan and a 1 Year Budget Cash Flow, to supplement the currently 1-year deficit budget being submitted for 2022/23.

Action: This has been completed

5.10 Payroll -shared (RBK/LBS/LBM)

Issues: The lack of controls over changes to standing data regarding changes to payees' bank account numbers requested by payees, there is no clear verification process to ensure that the payees are genuine, and that management / independent review has taken place to reduce the risk of fraud. There is no current formal governance over the customer relationship with LBM and service level agreements have not been approved yet. Monitoring such as risk management, review of payroll access controls and data cleansing payroll information have not been actioned. Additional payment delegation of authority approval levels is not in place for emergency payments.

Action: We have a new control report that runs each month for every payroll that identifies changes to employee bank details performed by staff in the HR/Payroll community AND where that change has taken place outside of the initial set up of bank details by our recruitment team. Any instances are checked to ensure the appropriate instruction is in place.

5.11 Planning Enforcement (3 audit actions outstanding)

Issues: A Local Enforcement Plan is in draft even though the Sustainable Communities Overview and Scrutiny Panel on the 22/02/2022 confirmed the timescale of the 30/04/2022 for the Local Enforcement Plan to be finalised. (This is also an outstanding internal audit action from the Planning Permission and

Approval issued in 2020). The current targets set for logging and acknowledgement of complaints in not being achieved. Sample testing identified long delays. There are significant delays in the targets set for site visits for categories set for A, B and C (3, 10 or 20 days)

Action: A Sustainable Communities Overview and Scrutiny Panel meeting was held in March 2023. This outlined the motion passed in 2022 to reduce the backlog and make improvement to the system. A report compiled by the planning enforcement team leader and presentation and Q & A by the head of service. It is confirmed that the backlog was reduced by more than half and the councillors agreed that the enforcement team has been far more responsive. The new Director of Housing and Sustainable Development approved the draft Local Enforcement Plan (June 2023) which will be finalised and presented to the Cabinet at the first opportunity. A new computer system may be implemented come Summer 2024, where we'll either see improvements in M3 or a new planning software altogether which helps meet the aims highlighted in the enforcement plan.

5.12 **Direct Payments (adults)**

Issues: The access levels on the AllPay system require review. The DPSO's had access to make payments from cardholders 'accounts and the auditor access provided enabled the auditor the ability to order a card. A cardholder with active duplicate cards had balances on both cards (approximately £10k on each card) and no record on Mosaic. Mosaic does not accurately reflect the various ways in which service users receive and manage their direct payments. Various Spreadsheet records are maintained by the team which are not reconciled to the Mosaic system. Audit found four accounts on Mosaic not the Monitoring team's record of all current service use. Sample testing shows delays in returning surplus funds from AllPay. Complaints received not recorded or reviewed.

Actions Direct Payments will reconcile all current accounts at least twice per financial year with the team-based spreadsheets with that on mosaic & update as necessary, investigating any discrepancies. A review of cards on both portals will be undertaken to ensure there is no duplicate card created. This will be periodically reviewed. Any cards identified to be a duplicate will be closed, and the balance returned to the council. Staff will be reminded not to create more than one card for a cardholder. Personal records will be created for all cardholders on Mosaic. The record will highlight their relationship to the service user whose money they manage, where applicable. The team will check that money does not sit accounts that are not activated.

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 is due to be undertaken in June 2023. 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 2022/23, the internal audit service has achieved the following: -
- Delivery of 97% 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 and 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.
- 7.2 The Southwest 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.

Investigation caseloads

- 7.3 In total 141 cases have been opened in 2022/23 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:

Table 4 Investigation Caseloads

2022/23	Sanction target	Open cases b/fwd	New Cases in Year	Total Cases	Closed No Sanction	Closed with Sanction	Open Cases c/fwd
Tenancy Fraud	9	23	10	33	16	1	16
Right to Buy	5	0	2	2	1	1	0
Hsg App rejects	20	0	2	2	2	0	0
Permit fraud	0	1	8	9	2	4	3
Employee	0	5	6	11	4	4	3
CTR/SPD	0	4	19	23	12	8	3
Other	0	5	13	18	6	5	7
Total	34	38	60	98	43	23	32

- 7.4 **Tenancy Fraud-** Clarion Housing Association experienced a criminal cyber-attack in June 2022 with only access to their emails until October. SWLFP have been attending the Clarion Offices on a regular basis since November 2022 to encourage new referrals and progress cases. Referrals have now increased.

There was one property recovered in 2022/23, resulting from a referral received regarding a tenant subletting their property to various families. Investigations linked multiple individuals to the property and the tenant was residing abroad. The tenant failed to attend interview under caution and as a result notices were served. The property was recovered in February 2023 following an eviction. There are 16 cases with on-going investigations.

- 7.5 **Right to Buy-**Referral received regarding applicant had making a false application by failing to declare previous property ownership and discount. An appointment was arranged with the applicant to complete the SWLFP RTB review form and the tenant advised of the property ownership and withdrew their application.
- 7.6 **Housing Application rejects-** There were also 81 housing applications that were identified on the NFI data match matches of residents on the housing waiting list that have deceased, these have now been removed from the waiting list. (These are not included in the above figures)
- 7.7 **Permit fraud (4)** There were 2 prosecutions in 2022/23 as a result of misuse of blue badges, resulting in fines and £829 and £1,128 and two other cases where the badge was recovered and cancelled due to misuse.
- 7.8 **Corporate Fraud (internal). (4 with sanctions)** There are 11 corporate fraud cases involving employees, 5 cases were c/f from previous year and 6 new cases in 2022/23. Progress on these cases is: -

- 3 resignations (prior to disciplinary hearing)
- 1 disciplinary – dismissed.
- 4 no further action
- 3 investigations in progress

7.9 The corporate frauds related to misuse of position, misuse of council funds, theft and false qualifications. Where frauds are identified, fraud information is shared across the partnership and internal controls weaknesses reviewed.

National Fraud Initiative (NFI)

7.10 All data for the NFI 2022 exercise was provided by the deadline date and uploaded to NFI. Matches have been received and an action plan is being prepared for work on these matches in 2023/24.

7.11 The NFI matches are: - Creditors, Market Traders, Personal Alcohol Licences, Parking, Payroll, Pensions, Personal Budgets, Residential Care, Council Tax & Electoral Registration.

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