

Committee: Standards and General Purposes Committee

Date: 9 November 2023

Wards: All Wards

Subject: Internal Audit Progress report 2023/24

Lead officer: Polly Cziok –Executive Director of Innovation and Change

Lead member: Martin Whelton Chair of Standards and General Purposes Committee

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Recommendations:

- A To note the Internal Audit progress report.
 - B To note the External Quality Assessment (EQA) results.
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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 In April 2023, 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 2023.

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 27 April 2023, which included 34 pieces of work. As at the 13 October we had booked 321 days (42%). The table shown below summarises the progress of audit activity since April 2023.

2023/24 Audit Plan	Audits
Number of final audits	20
Number of audits at draft stage	2
Number of audits in progress	9
Due to start	3
Total	34

2.4 Twenty-two audit assurance opinions have been issued since April 2023, categorised as follows:

- 1 (4%) **Substantial Assurance** audit opinion
- 16 (73%) **Reasonable Assurance** audit opinions
- 5 (23%) **Limited Assurance** audit opinions
- 0 (0%) **No Assurance** audit opinions.

133 audit recommendations were issued to management, of which:

16 (12%) were Priority 1

102 (77%) were Priority 2

15 (11%) were Priority 3

2.5 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.

2.6 Appendix A includes details of the results of all individual audit assignments that were initiated during the period up to October 2023, including the draft audits and recommendations, which may be subject to change.

2.7 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.

2.8 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.

2.9 The year-end position on all work undertaken during 2023/24, including any third-party assurances, will be evaluated, and reported in July 2024 and used to determine the Head of Audit's annual opinion on the Council's internal control environment.

Advisory reviews

2.10 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
- Adult Weigh Management grant

2.11 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

2.12 The Audit Plan includes the following key financial systems in 2023/24. The status of these reviews are as follows: -

System	Progress
Accounts Payable	In progress
Accounts Receivable	Final - Substantial
Payroll	Not started
Cash & Bank -Direct Debits -E returns	Draft- Reasonable In progress
Pension Administration	Final- Reasonable
Business Rates	Final- Reasonable
Council Tax	Final- Reasonable

Data Analytic Work

2.13 Internal Audit undertake quarterly reviews of payments through our Accounts Payable system, to identify any potential duplicate payments. There are controls built into the E5 system to reduce the risk of duplicates, but these may still occur where for instance duplicate purchase orders are raised. Our data analysis results identify all potential duplicates, based on the value of the invoice and invoice numbers. The results are all then passed to the Accounts Payable team to check whether they are duplicates and to seek recovery. The results of the duplicate amounts confirmed for each quarter are provided below. We will continue to run quarterly duplicate payment checks going forward.

- Quarter 1-(April-June) -No duplicates
- Quarter 2- (July to September)- In progress

School Audits

2.14 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: -

- St Matthews Primary and Nursery School – Final Limited Assurance
- Joseph Hood Primary school- Draft - Reasonable
- Poplar Primary School- Draft - Limited

Limited Assurance reviews

2.15 Since April 2023, we have issued 4 final limited assurance reports: Direct Payments (adults), St Matthews Primary and Nursery School, Sharepoint permissions, School budget monitoring.

2.16 Direct Payments (adults)- All actions implemented.

Issues: Access levels on the All pay system require review. 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 on 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.

Management Actions: The recommendations have all been completed: Regarding the recommendation for balances to be recouped to the Council, to close an account, the funds must be recouped back to the council leaving the account with a nil balance. The ASC Team is responsible for ensuring the profile for the relative who is managing the direct payment on behalf of the customer is set up on Mosaic and where this does not occur, the DP Team ask the social worker retrospectively to add the relative's profile. Card Status Report detailing actions to be taken for 4 inactive accounts. The running of the inactivated reports was reviewed and will be run on a Quarterly basis, if cards that are not required are identified, funds to be recouped to the Council and the account closed.

2.17 St Matthews Primary and Nursery School (all actions implemented)

Issues: The school produced a predicted deficit budget for the 2022/23 financial year of £59,811. The 1-year budget plan was submitted to the Local Authority on 11/05/2022; however, this was not a signed version as approved by the Governors. The Local Authority did not licence the 2022/23 deficit budget. The school does not have a Statement of Roles and Responsibilities, Financial Terms of Reference, and Scheme of Delegation in place. A review of a sample of high-value purchases carried out by the school found, no quotes obtained and no contract in place.

Management Action: Meetings have been held with LBM and the school will produce and have approved by Governors: - a 3-Year Budget, Recovery Plan and a 1-Year Budget Cash Flow, in addition to a 1-year deficit budget for 2023/24. A Statement of Roles and Responsibilities, Financial Terms of

Reference and Scheme of Delegation will be taken to the Governors for approval and regularly reviewed. Contract will be put in place and a review of all ongoing contracts undertaken to ensure value for money is achieved. A BACS process and procedures manual including approved BACS signatories and payment limits will be detailed in the document.

2.18 **SharePoint permissions (1 outstanding priority 1 action)**

Issues: Sensitive files had been saved in Public Folders (Internal staff only – not external). SharePoint records were found to be out of date. Membership of each group/team site is not currently visible on the site. Audit testing found sites with staff access recorded as still in place for leavers and movers. The role of the Business Champion should be clarified, with responsibilities made clear. Local SharePoint User Policy/procedure guidance relating to the sharing of documents is not available. SharePoint training should be reviewed, to ensure it meets the needs of the organisation and is fit for purpose.

Management Action: HR will remind managers of their responsibility to complete a starter, mover, leaver form for all leavers, including agency workers. The sensitive documents saved in public folders will be removed as soon as possible. The organisational re-structure taking place will impact greatly on this piece of work, it is therefore intended that this work will be carried out once the current re-structure is complete.

2.19 **School budget monitoring (4 P1 actions outstanding)**

Issues: The LBM Scheme for Financing Schools has not been updated since 2018. 30% of LA maintained schools were found to have been closed on an unlicensed deficit balance. Deficit meetings and recovery plan meetings are not being held on a timely basis and minutes are not retained to evidence discussions and meeting outcomes. The monitoring and escalation of non-submission of financial returns was not evident. The requirement for schools in deficit to provide additional monthly monitoring returns is not evident. No formal process has been established of the administration of cash advances, and no repayment plan enforced. Audit testing identified some schools have not fixed their approved budgets on their finance system (FMS)

Management Action: A draft Scheme for Financing Schools has been discussed with School Forum earlier this year (late June) covering all of the DfE updates – this is currently being reviewed and will be implemented later this financial year. (Exact date still to be confirmed). The volume of schools with a deficit budget is roughly twice that of previous years and the process has resultingly been slightly slower than usual. All schools with a deficit budget have been contacted, meetings with finance and the AD of Education and mitigation measures discussed. The date of the end of June has been missed however licensed deficit e-mails have been issued to about half of the schools with deficits with mitigations agreed. These are the ones with sub £100k deficits. The remainder are still subject to ongoing work to agree 3-year recovery plans which will then be agreed with both relevant Executive Directors and signed off by the Governing Bodies, implemented and monitored through enhanced activity. The scale of the issues this year has necessitated a review

of the existing processes. The revised Scheme for Financing Schools will outline this process in more detail. New more formalised quarterly monitoring will provide some further formal evidence. licensed budgets to be agreed as soon as possible.

Progress of Priority 1 audit actions

- 2.20 We currently have 9 Priority 1 actions outstanding on limited assurance audits, 2 actions are for audits completed prior to 2023/24 and 7 actions for final reports issued since April 2023. An update on progress of all outstanding Priority 1 actions is included in Appendix B.

Final Assurance reports issued in 2023/24, with outstanding Priority 1 audit actions.

Audit	Final Report Date	Number of Priority 1 recommendations	Actions outstanding
Direct Payments	23/5/23	2	0
St Matthews School	4/7/23	3	0
Sharepoint permissions	25/7/23	2	1
Regulatory Service Governance (substantial assurance)	29/8/23	2	2
School budget monitoring	6/9/23	5	4
Total P1's		14	7

Final Assurance reports issued prior to 2023/24, with outstanding Priority 1 audit actions.

Audit	Final report date	Number of Priority 1 recommendations	No of P1's outstanding
Transport Fleet Management	20/12/21	1	1
Planning Enforcement	23/3/23	4	1
Total P1's		5	2

3. External Quality Assessment (EQA)

- 3.1 The Public Sector Internal Audit Standards (PSIAS) require the Audit Service to undertake an External Quality Assessment (EQA) every five years. The purpose of the EQA is to review compliance with the Standards whilst also considering the effectiveness of the service as a whole. The EQA was completed in May 2023.
- 3.2 The EQA process was carried out during May 2023, using an external assessor. Summary extracts from the report are:

'The process involved a combination of a review of the evidence provided by SWLAP; a review of a sample of completed internal audit engagements for each council; and virtual interviews with the four Section 151 Officers and Chairs of the Audit Committees and sending a survey to all Assistant Directors and Directors. The interviews focussed on determining the strengths and weaknesses of the SWLAP and assessed the Partnership against the four broad themes of purpose and positioning within the organisation(s); their structure and resources; audit execution; and impact on the respective organisations.

Overall, the feedback from the interviewees and the survey was positive with clients valuing the professional and objective way SWLAP fulfilled their roles.

3.3 The conclusion of the assessment is:

It is our opinion that the South West London Audit Partnership's self-assessment is accurate and as such we conclude that they GENERALLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

3.4 The assessor identified two actions that would enhance the audit service conformance to the standards. There were also a further nine advisory 'operational' observations. These have all been accepted.

External Assessors Actions

Issues for management action	Priority	Response
Add the definition for 'consulting assignments' used in the PSIAS to the respective audit charters.	Medium	Agreed, minor update required
Expand the opinion in the annual report so it is clear that the opinion applies to risk management and governance as well as controls.	Medium	Agreed, minor update required
Include a statement in each annual report to confirm that there have not been any impairments to the independence and objectivity of either the Interim Head of SWLAP or the Deputy Head of SWLAP, or the partnership, during the year just ended. If there have been any impairments, these should be set out in the respective annual report, together with the action that was taken to rectify the issue.	Advisory	Agreed, minor update required
Ensure that the Galileo audit management system is used in a consistent manner across the SWLAP.	Advisory	Agreed, The QA process was being developed at the time of the assessment. This item is in our service plan.

Ensure that a consistent approach and architecture is applied to the SWLAP's shared data storage drives.	Advisory	Agreed, an exercise has commenced to identify what data is held across partner sites. This item is in our service plan.
When audits are being carried out by trainee auditors, management needs to ensure that the supervising officers control the amount of time being used to complete the audits to minimise the number of significant budget overruns.	Advisory	Agreed, Supervisors are now required to share a 1:1 meeting note with Line Managers to demonstrate that action is taken to address budget overruns. A budget variation request has been introduced.
Consider arranging training for the SWLAP's team members on operating in a commercial environment and becoming more commercially aware.	Advisory	Agreed – commercial awareness will be discussed at one of our monthly team meetings
We suggest that the Interim Head of the SWLAP reviews the structure of the Partnership with the view to rationalising the number of posts with staff management / supervisory responsibilities.	Advisory	Agreed – a review of structure was planned for when the Head of Service role became permanent – process started
We suggest consideration is given to producing a succession plan strategy for the SWLAP.	Advisory	Agreed, a succession plan will be documented and is included in our service plan
We believe there is scope to expand the use of data analytics, particularly for the core financial systems and other systems that have large volumes of data as using analytical tools will enable the SWLAP to audit the entire population of a database, providing an increased level of assurance to management.	Advisory	Agreed – a draft data analytics strategy has been completed by the Deputy Head of Service

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.

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 2023/2024. 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 2023

Appendix B- Update on all outstanding Priority 1 actions

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