

## **Committee: Standards and General Purposes Committee**

**Date: 5 March 2024**

Wards: All Wards

### **Subject: Internal Audit Progress report 2023/24**

Lead officer: Asad Mushtaq Executive Director of Finance and Digital

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

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#### **Recommendations:**

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A To note the Internal Audit progress report.

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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 February 2024.

### **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 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. The table shown below summarises the progress of audit activity since April 2023.

| 2023/24 Audit Plan              | Audits    |
|---------------------------------|-----------|
| Number of final audits          | 25        |
| Number of audits at draft stage | 5         |
| Number of audits in progress    | 7         |
| <b>Total</b>                    | <b>37</b> |

2.4 Thirty audit assurance opinions have been issued since April 2023, categorised as follows:

- 1 (3%) **Substantial Assurance** audit opinion
- 23 (77%) **Reasonable Assurance** audit opinions
- 6 (20%) **Limited Assurance** audit opinions
- 0 (0%) **No Assurance** audit opinions.

222 audit recommendations were issued to management, of which:

23 (10%) were Priority 1

172 (78%) were Priority 2

27 (12%) 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 February 2024, 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.

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                            | Final -Reasonable                |
| Accounts Receivable                         | Final - Reasonable               |
| Payroll                                     | booked April 2024                |
| Cash & Bank<br>-Direct Debits<br>-E returns | Final- Reasonable<br>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)- £1,111.80 duplicate payments
- Quarter 3 (October to December)-£4,119.57 duplicate payments

2.14 The duplicates amounts will be recovered.

### **School Audits**

2.15 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- Final- Reasonable
- Poplar Primary School- Final– Reasonable
- Hatfeild – Draft Reasonable
- St Thomas of Canterbury- Draft Reasonable
- Priory – Draft Reasonable

### **Limited Assurance reviews**

2.16 Since April 2023, we have issued 5 final limited assurance reports: Direct Payments (adults), St Matthews Primary and Nursery School, Sharepoint permissions, School budget monitoring and Financial Assessments.

2.17 **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 Mosiac 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.

#### 2.18 **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 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 detailed in the document.

#### 2.19 **SharePoint permissions (priority 1 action complete)**

**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 reminded managers of their responsibility to complete a starter, mover, leaver form for all leavers, including agency workers. The sensitive documents saved in public folders have been removed.

#### 2.20 **School budget monitoring (1 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:** Scheme scheduled to be updated in March 2024 with review of narrative in section C re the cash advances to schools to ensure it's written in line with regulation. 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. Schools in deficit have now received a licensed deficit. The scale of the issues this year necessitated a review of the existing processes. New more formalised quarterly monitoring will provide further formal evidence.

## 2.21 **Financial Assessments (3 P1 actions in progress)**

**Issues:** There was a backlog of financial assessments waiting to be reviewed and processed, with no targets set for turnaround times. The charges passed on to customers were found to be out of date and had not been reviewed since 2012. Clients who have entered into a deferred payment agreement with the authority are not receiving regular statements advising of the level of debt as required by the Care Act. Customer concerns raised locally are not recorded and therefore not used to assist with service improvements, or lessons learned reviews. Although reports are available from Mosaic, IT have informed internal audit that the system could be better used to assist with reporting and completion of work, such as Deferred Payment statements.

**Management Action:** The charges to clients for care provided at home will be reviewed and updated to reflect the actual costs to the authority. The Deferred Charge Mosaic report will be reviewed with appropriate action taken. The team will ensure that going forward, a deferred charge is correctly recorded on Mosaic. Reassessments requiring a review will be carried out as soon as possible. A process will be put in place locally to ensure that informal complaints received direct by the service area are addressed appropriately and quickly resolved. Consideration will be given to recording informal complaints received, together with the time taken to both respond and resolve as well as detailing the outcome of the concern raised.

### **Progress of Priority 1 audit actions**

- 2.22 We currently have 9 Priority 1 actions outstanding; 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                                    | 0                   |
| Regulatory Service Governance (reasonable assurance) | 29/8/23           | 2                                    | 2                   |
| School budget monitoring                             | 6/9/23            | 5                                    | 1                   |
| Financial Assessments                                | 18/11/23          | 3                                    | 3                   |
| Poplar Primary (reasonable assurance)                | 30/10/23          | 1                                    | 1                   |
| <b>Total P1's</b>                                    |                   | <b>18</b>                            | <b>7</b>            |

**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                      |
| <b>Total P1's</b>          |                   | <b>5</b>                             | <b>2</b>               |

#### **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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