

LONDON BOROUGH OF MERTON

INTERNAL AUDIT ANNUAL REPORT YEAR ENDING 31ST MARCH 2024

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 2023/24 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 2023/24

- 4.1. There were 38 audits undertaken during 2023/24 of these 32 providing a reasonable assurance (84%) or above.
- 4.2 There were 6 limited assurances (16%). 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 Reasonable assurance, except for pension/payroll uplifts.

Table 1 Key Financial systems audit assurance for last 3 years

Financial System	Assurance 2021/22	Assurance 2022/23	2023/24*
Accounts Payable	Substantial	Substantial	Reasonable
Cash and Bank	Substantial	Substantial	Reasonable
Pension Administration	Substantial		Reasonable
Business Rates			Reasonable
Accounts Receivable			Reasonable
Pension/Payroll uplift controls			Limited
Payroll (iTrent)	Substantial	Substantial	
General Ledger		Substantial	
Capital	Substantial		

*Assurance ratings changed in 2023/24- 'substantial' is now called 'reasonable'.

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.

4.5 A review was undertaken on the controls in place for the shared pension service and payroll service in relation to reconciliations and checks in place, to ensure correct payments are made in relation to pension set up and annual uplifts. The audit received a limited assurance, and a number of actions were recommended to improve these controls.

Duplicate Payment matches

4.6 Internal Audit undertake quarterly Duplicate Payment matches on the Councils Accounts Payable system, by Internal Audit on a quarterly basis.

4.7 The 2023/24 exercise covered 12 months from April 2023 to March 2024. Based on our results and comments from the Head of Transactional Services, a total value of £11,470.36 duplicate payments, made up of a total of 9 transactions were identified. A summary of the duplicates is detailed below.

Confirmed Duplicate Transactions 2023/24

Duplicate and actions taken	Number of Transactions	Duplicated identified April 2021 to March 2022.
Confirmed duplicate account credited	4	£ 6,623.57
Confirmed duplicate, refund Waiting confirmation of refund/ to be recovered	5	£ 4,846.79
Total Duplicates Payments	9	£ 11,470.36

4.8 The Internal team will continue to undertake quarterly duplicate payment matches in 2024/25.

School Audits

4.9 School audits are designed to assess their corporate governance, compliance with the Council's Scheme for Financing Schools, and financial management arrangements. During 2023/24 the following schools were audited:

- St Matthews Primary and Nursery School
- Joseph Hood Primary school
- Poplar Primary School
- Hatfeild Primary school
- Priory School
- St Thomas of Canterbury School

4.10 All schools, except St Matthews, received a Reasonable Assurance opinion. Common findings from these reviews related to.

- Non-Adherence to Scheme of Finance for contracts
- Monthly monitoring meetings between the School Business Manager and the Headteacher to discuss budget and payroll reconciliations.
- Budget monitoring reports provided to Governors supported by system generated FMS reports for verification.
- Official order not raised and authorised prior to expenditure.

4.11 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 highlight areas of control weaknesses identified on audit reviews during the year and areas of recommended good practice,

5. Key Areas for 2023/24

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 2023/24 Internal Audit made 238 recommended improvement actions, including 22 Priority 1 (P1s) actions. There were also 2 P1's carried over from previous years, giving a total of 24 P1's, of these 12 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 12 Priority 1 actions outstanding, 2 P1's for audits completed prior to 2023/24 and 10 P1's for reports issued since April 2023.

Table 2: Limited Assurance/Priority 1 audits 2023/24

Audit	Number of Priority 1 recommendations	Actions outstanding
Regulatory Services	2	2
Financial Assessment	3	3
Homes for Ukraine	1	1
School Budget monitoring	5	1
Direct Payments - Adults	2	0
St Matthews primary school	3	0
Retention set up O365	2	1
Poplar Primary School	1	0
St Thomas of Canterbury	1	0
Pension/payroll controls	2	2
Total P1's	22	10

Table 3 Limited 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		4	2

Key issues from previous years (actions not yet implemented)

5.4 Planning Enforcement- 1 P1 outstanding

Issue: The Local Enforcement Plan should be finalised and approved by Head of Development Management & Building Control as soon as possible and thereafter approved by Cabinet.

Update: The draft Local Enforcement Plan is now ready. It will be shared with the national Planning Advisory Service (under the Local Government Association) during a peer challenge of the service in September 2024 to see if any further amendments and improvements are recommended. It will then be placed on the forward plan for the next available meetings of the LSG, Cabinet and Council to approve this for Development Management purposes.

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: The service is currently drafting a strategy (project initiated) for the review of fleet and vehicle options with assistance of an external expert, focusing on how to transition to and deliver fleet requirements and a decarbonised vehicle solution to meet service demands.

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 2023/24

5.6 **Regulatory Services (2 P1's outstanding)**

Issues: The RSP Scheme of Management should be reviewed and updated to include the tri-borough borough management arrangements. As the Scheme of Management works alongside the Collaboration Agreement, the review of the scheme should be undertaken and agreed in line with the RSP Collaboration Agreement. The Collaboration Agreement should be finalised and agreed with the final version reflecting the current practices and processes in place for the tri-borough Shared Regulatory Service

Update The Scheme of Management has now been updated, referencing the updated IAA, and sent to legal for comments. The Collaboration Agreement has been updated and changes agreed between RSP, SLLP and the RSP Board. Arrangements are currently being made to have this signed off by the various committees across the three councils.

5.7 **Financial Assessment (3 P1's outstanding)**

Issues: The charges to clients for care provided at home should be reviewed and updated to reflect the actual costs to the authority, as soon as possible. Where permissible, any costs included in administering the service should also be added. A comparison between the FC2A and the on-line form should be

carried out as soon as possible to ensure consistency between the two documents. The Deferred Charge Mosaic report should be reviewed as soon as possible with appropriate action taken. The team should ensure that going forward, a deferred charge is correctly recorded on Mosaic.

Update: The review of charges needs to go to DMT and CMT before going to Cabinet, no decision on dates for this yet. The team are currently testing the on-line platform with IT to update the on-line form. Currently there is a working group for finance related Mosaic improvements and other Mosaic changes. This group is currently looking at the deferred payment workflow and expects this to be a 3-to-6-month project.

5.8 Homes for Ukraine (1 P1 outstanding)

Issue: A review of all current sponsors must be undertaken to ensure relevant DBS checks have been carried out and The HfU team must ensure all DBS checks are being completed and followed up promptly. Consideration should be given to checking the children's and adults' barred lists as a minimum whilst waiting for a DBS check updated correctly on Foundry.

Update: A full check of all sponsors has been carried out (April 2024) and a plan is underway to confirm the status of DBS checks for each household. One team member has been focusing on this with support from the Team Leader. The Foundry database is being updated as some checks had been completed but the database had not been altered to show this. The team is using a member of staff from another service on a temporary basis to help with outstanding visits. It should be noted that Foundry has restrictions on access which can affect changing information, and when a separate report is made via the JIRA system it can take weeks before a reply is received.

5.9 School Budget monitoring (1 P1 outstanding)

Issue: The LBM Scheme for Financing Schools requires updating in line with the DfE guidance and updates provided since 2018. The 'Guidance on setting a Deficit budget' requires updating to remove Section C, as cashflow loans are not permitted under the DFE guidelines.

Update: The Scheme for Financing Schools is now a priority after the completion of year end. We are looking to have a draft available for review in the near future.

5.10 Retention set up O365: (1 Priority 1 outstanding)

Issue: The possibility of enabling site owners and team members to view the details of the owner's members and visitors within SharePoint should be investigated. This will enable site owners to keep the access up to date. IT should investigate the possibility of removing access from previously shared documents. It is acknowledged that the current starters movers and leavers forms detail the information required to enable access to be removed or changed. However, these forms are very often not fully completed for employees and often not completed for agency workers, appointments via the LGRP

contract. or individual contract awards for consultants. This places a significant security risk on the authority due to the possibility of systems remaining available once employment has ceased. The requirement to fully complete the starters, movers and leavers forms for all employees including agency staff and contractors must be made clear, with compliance monitored and remedial action taken where this is not happening.

Action update: We are planning to do a joint piece of work to refresh our information governance arrangements on SharePoint once the rewiring work that is happening now (remapping SharePoint and Active Directory to the new Directorate structures) is complete We will include all the outstanding IA actions in that work.

5.14 **Pension/payroll controls (2 P1 actions outstanding)**

Issue: To ensure all pensioners are being paid their correct benefits, the Pension Service should carry out a full reconciliation between iTrent and Altair to confirm that the benefits values held on both systems are accurate. Following the initial reconciliation, periodic (every other year) checks must be introduced. Consideration must be given to having a process in place that ensures that audit trail data is available following any future system database resets.

Update: Initial reconciliation to be undertaken, to concentrate on identifying and rectifying those pensions with a 5% difference (or more than £100 if the percentage difference is less than 5%) between payroll and pensions dataset. Conclusion by 31 August 2024.

5.15 **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 school sent in an approved (by Governors) 3-Year Budget, Recovery Plan, 1-Year Budget Cash Flow, and 1-year deficit budget for 2023/24. A Statement of Roles and Responsibilities, Financial Terms of Reference and Scheme of Delegation taken to Governors for approval. 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.

5.12 **Poplar Primary School –(All actions implemented).**

Issues: The school carried forward a £63,622.00 surplus balance from the 2022/23 financial year, with a 2023/24 budget predicting an in-year deficit of

£313,102.00 on the delegated funds, resulting in a year-end predicted deficit of £249,480.00 for 2023/24. At the time of the audit, it was found that the Local Authority did not licence the deficit budget for 2023/24, although it was confirmed by the School Business Manager and the School's Finance Support Officer that at least two budget meetings had been held with the Local authority to discuss the school's financial position.

Update: The school have produced and approved by Governors a Recovery Plan and a 1 Year Budget Cash Flow, to supplement the currently 1-year deficit budget submitted for 2023/24.

5.13 **St Thomas of Canterbury -All actions implemented.**

Issues: It was established that records were not held securely in a locked cabinet. A HR file was missing at the time of the review. The school must put in controls that restrict access to the Admin/SBM office. School should notify their Data Protection Officer immediately of the potential data breach of the missing leaver's folder.

Update: This has been actioned and the Data Protection Officer notified of the potential breach.

5.15 **Direct Payments (adults)- (All actions implemented).**

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 has been undertaken to ensure there is no duplicate card created. This will be periodically reviewed. Staff have been reminded not to create more than one card for a cardholder. Personal records have been created for all cardholders on Mosaic and highlights their relationship to the service user whose money they manage, where applicable. The team periodically 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 must 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 2023/24, 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 52 cases have been opened in 2023/24 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

2023/24	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	16	20	36	11	5	20
Right to Buy	5	0	0	0	0	0	0
Hsg App rejects	20	0	2	6	1	0	1
Permit fraud	0	3	4	7	3	2	2
Employee	0	3	5	8	5	2	1
CTR/SPD	0	3	11	14	8	5	1
Other	0	7	6	13	7	1	5
Total	34	32	52	84	35	15	30

7.4 **Tenancy Fraud-** 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.

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 **Corporate Fraud (internal). (2 with sanctions)** In 2023/24, there were 5 new cases of alleged staff fraud or irregularity under investigation, and 3 cases carried over from 2022/23. Seven cases have been closed, resulting in 1 employee and 1 agency worker being dismissed and 5 cases closed with no further action. None of these cases had a significant financial impact on the Council.

7.7 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)

7.8 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.

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