

# Agenda Item 5

<b>Name of decision-maker</b> Standards and General Purposes Committee	<b>DATE: 7 November 2024</b>
<b>REPORT/DECISION TITLE</b> Internal Audit Progress Report	<b>WARD(S): All</b>
<b>CHIEF OFFICER</b> Asad Mushtaq Executive Director of Finance and Digital  Signed: Asad Mushtaq Date: 11/10/24	<b>CABINET/LEAD MEMBER</b> Councillor Billy Christie  Signed: Councillor Christie Date: 31/10/24
<b>DECISION CLASSIFICATION</b> Non-exempt report Non-exempt appendices	<b>IS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING?</b>  Yes

## 1. **Recommendations:**

- 1.1 To note the Internal Audit progress report
- 1.2 To note the update on the new Global Internal Audit Standards that will come into effect on the 1 April 2025

## 2. **Purpose of Report and Executive Summary**

- 2.1 The Accounts and Audit Regulations 2015 Regulation 5 requires an effective internal audit to evaluate the effectiveness of its risk management, control, and governance processes, and taking into account public sector internal auditing standards or guidance. 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 function reports directly to this role.
- 2.2 In April 2024, 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 2024.

## 3 **Links to the Merton Priorities**

- 3.1 This report relates to all the Council's Strategic priorities:

- Nurturing Civic Pride
- Building a Sustainable Future
- Borough of Sport

3.2 The Council recognises the benefits of strong internal control, governance and risk gives us an ability to achieve all our strategic priorities, with: -

- Better decision making as we are more aware of control risks.
- Better governance and the ability to demonstrate it to our stakeholders.
- Reduction in failure, error, and fraud risks
- Improvement in our corporate governance
- Compliance with statutory and regulatory requirements

#### 4. Introduction and Background

4.1 The agreed deliverable audit days is 765 days as at mid-October we had booked 351 days (46%), we expect to complete 35 reviews.

4.2 The table shown below summarises the progress of audit activity since April 2024.

2024/25 Audit Plan	Audits
Number of final audits	19
Number of audits at draft stage	2
Number of audits in progress	8
Due to start	6
<b>Total</b>	<b>35</b>

4.3 Nineteen audit assurance opinions have been issued since April 2024, categorised as follows:

- 1 (5%) **Substantial Assurance** audit opinion
- 15 (79%) **Reasonable Assurance** audit opinions
- 3 (16%) **Limited Assurance** audit opinions
- 0 (0%) **No Assurance** audit opinions.

120 audit recommendations were issued to management, of which:

8 (7%) were Priority 1

90 (75%) were Priority 2

22 (18%) were Priority 3

4.4 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.

4.5 Appendix A includes details of the results of all individual audit assignments that were initiated during the period up to October 2024, including the draft audits and recommendations, which may be subject to change.

- 4.6 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	
<b>Full Assurance</b>	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.
<b>Substantial Assurance</b>	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.
<b>Limited Assurance</b>	There are significant weaknesses in key control areas, which put the system objectives at risk.
<b>No Assurance</b>	Control is weak, leaving the system open to material error or abuse.

PRIORITY OF RECOMMENDATIONS	
<b>1</b>	Major issues that we consider need to be brought to the attention of senior management.
<b>2</b>	Important issues which should be addressed by management in their areas of responsibility to avoid exposure to risk.
<b>3</b>	Minor issues where the risk is low. Action is advised to enhance control or improve operational efficiency.

- 4.7 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.
- 4.8 The year-end position on all work undertaken during 2024/25, including any third-party assurances, will be evaluated, and reported in July 2025 and used to determine the Head of Audit's annual opinion on the Council's internal control environment.

### Advisory reviews

- 4.9 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
  - Waste Contract
- 4.10 The work currently undertaken as advisory reviews are: -

- 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
- 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**

- 4.11 The Audit Plan includes the following key financial systems in 2024/25. The status of these reviews are as follows: -

<b>System</b>	<b>Progress</b>
Pension Administration	Final- Reasonable
Payroll	Draft- Reasonable
Cash & Bank	Booked- November 2024

### Data Analytic Work

- 4.12 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. Results from these reviews will be reported later in the year.

### **School Audits**

- 4.13 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 Teresa's Primary – Final Reasonable Assurance
  - SS Peter and Paul- Final- Reasonable
  - Raynes Park High School-Final – Reasonable
  - Merton Park Primary- Final – Reasonable
  - Links Primary Draft- Reasonable
  - Liberty Primary – in progress
  - Morden Primary – booked
  - Pelham Primary - booked

## Progress of Priority 1 audit actions

- 4.14 We currently have 14 Priority 1 actions outstanding on limited assurance audits. Of these, 9 actions are carried forward from previous years. An update on progress of all outstanding Priority 1 actions is included below.

### Outstanding Priority 1 audit actions.

Audit	Final Report Date	Number of Priority 1 recommendations	Actions outstanding
Agency Staff	11/10/24	3	3
Procurement cards	8/10/24	2	2
Homes for Ukraine	26/4/24	1	0
Financial Assessments	18/1/24	3	3
Sharepoint permissions	25/7/23	2	1
Regulatory Service Governance	29/8/23	2	2
School budget monitoring	6/9/23	5	1
Planning Enforcement	23/3/23	4	1
Transport Fleet Management	20/12/21	4	1
<b>Total P1's</b>		<b>26</b>	<b>14</b>

## Key issues

### Control and Monitoring of Agency and Interim Staff (3 P1's-due 3/12/24)

- 4.15 **issues:** - Regular reports are submitted to CMT on the contract spend for agency workers, however we found that spend for off contract agency workers employed outside of main contracts, are not included in these reports. Agency request forms and CMT approval have not been sought in a sample of cases. DBS checks had not been completed for each agency worker in the sample tested. Declaration of Interest forms are also not completed in each case examined. Leavers forms had not been completed for agency workers by all line managers. Mandatory training has not been completed for some cases examined by Audit.

**Management response:** If Managers go off contract, it is their responsibility to check DBS, send information to CMT and complete RAF's. HR are not made aware of off contract workers. Comms Communication will be sent out reminding managers of the recruitment processes. Emails will be sent out to the managers of the agency workers via Comensura and the LGRP that they have not completed the mandatory training. Reminders will be sent to Managers to complete the leavers forms for agency workers.

## **Procurement cards (2 P1's - 31/12/24)**

- 4.16 **Issues:** Procurement Card Policy document lack details and requires further review to ensure that it covers all aspects of the procurement card usage. The review found continued use of excluded suppliers. This was also a finding in the previous audit review in 2022. Evidence of a Lloyds Purchase Card request form NewFIS found that 7 out of 12 tested, were missing. Receipts were not available to support expenditure where VAT had been claimed in 12 out of 25 tested. Testing on the appropriate use of the cards, found expenditure for IT licences and stationery that should be purchased through the IT department and stationery contract.

**Management comments (October 2024) :** The procurement card policy is being reviewed alongside the Chief Accountant. We will check for the missing request forms. We now insist that all requests are sent to NewFis. We will remind the authorisers of their responsibilities regarding excluded suppliers. We will remind officers of the need to have VAT receipts and will issue coding reminders to cardholders and add codes as requested and required.

## **Homes for Ukraine (1 priority 1 completed)**

- 4.17 **Issue:** A review of all current sponsors must be undertaken to ensure relevant DBS checks have been carried out and updated correctly on Foundry. 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 Action October 2025** A full check of all sponsors has been carried out and the status of DBS checks for each household has been confirmed.

## **Financial Assessment (3 P1's outstanding) Implementation date 31/3/25**

- 4.18 **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.

**Updated comment (October 2024):** The draft charges have been revised, will be discussed with LSG prior to consultation and then to Cabinet by April 2025. IT are building and testing the on-line platform 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 completed Dec 2024.

- 4.19 **Retention set up O365: (1 Priority 1 outstanding) implementation date 31/12/2024**

**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 (October 2024) :** The rewiring project is now complete, and the end-to-end review of the Starter/Leaver/Mover process has made good progress. We remain on track to have completed the Information Governance refresh by the end of December 2024. 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.

#### 4.20 **Regulatory Services (2 P1's outstanding) -Target dates 30/11/24**

**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 October 2024** 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.

#### 4.21 **School Budget monitoring (1 P1 outstanding) target date 31/3/25**

**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 October 2024:** The revised Scheme for Financing Schools will be completed in the end of the 2024/25 financial year. A draft is being worked on and will be circulated for schools to comment prior to going to Schools Forum.

#### 4.22 **Planning Enforcement- 1 P1 outstanding -Target date 31/1/25**

**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:** We have just completed a peer challenge by the Local Government Association Planning Advisory Service and now the Local Enforcement Plan will be presented to Cabinet and Council in January 2025.

#### 4.23 **Transport Fleet Management (Substantial assurance – 1 P1 outstanding) target date 31/3/25**

**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 (October 2024):** The options first phase of the fleet decarbonisation strategy is now complete and can be shared over the coming weeks. However, the substantive report should be ready during the first quarter of next year. .

### 5. **GLOBAL INTERNAL AUDIT STANDARDS**

5.1 The Global Institute of Internal Auditors (the IIA) published the new Global Internal Audit Standards on 9th January 2024, following an extensive consultation in 2023. This replaces the Public Sector Internal Audit Standards (PSIAS).

5.2 The new Standards provide a new structure with their arrangement under five domains. There is more emphasis on the working relationship of internal audit, the audit committee (referred to as the Board) and senior management. The Standards become effective from 9<sup>th</sup> January 2025 with a delayed start for Local Authorities of **1<sup>st</sup> April 2025** to enable time for CIPFA to produce sector specific implementation guidance. [Global Internal Audit Standards](#)

5.3 CIPFA is currently consulting on the Code of Practice for the Governance of Internal Audit in UK Local Government (the Code) to support authorities in establishing their internal audit arrangements and providing oversight and support for internal audit. The Code is designed to work alongside new internal audit standards and replaces the organisational responsibilities set out in the Statement on the role of the head of internal audit (CIPFA, 2019). It is aimed at those responsible for ensuring effective governance arrangements for internal audit:

- the body or individual charged with governance
- the audit committee



- senior management of the authority, including the statutory officers, head of paid service, monitoring officer and section 151 officer.

5.4 The Standards and General Purposes Committee members play a vital role in ensuring that the Internal Audit function adheres to the Standards and fulfils its mandate effectively and efficiently. Standards and General Purposes Committee members and Senior Management should be familiar with the new Standards and their implications. These covers such as:

- The frequency with which the Committee wants to receive communications from the Head of Internal Audit.
- The criteria for determining which issues should be escalated to the Committee, such as significant risks that exceed the committee's risk tolerance.
- The process for escalating matters of importance to the committee.
- Discuss with the Head of Internal Audit disagreements with senior management or other stakeholders and provide support as necessary to enable the Head of Internal Audit to perform the responsibilities outlined in the Internal Audit mandate.
- Review and approve the Head of Internal Audit's plan for the performance of an external quality assessment. Such approval should cover, at a minimum:
  - The competencies and independence of the external assessor or assessment team.
- Review and approve the Head of Internal Audit's action plans to address identified deficiencies and opportunities for improvement, if applicable.

5.5 As part of the Internal Audit service's quality assurance and improvement programme, work will take place to review processes, templates and strategies to align with the latest Standards. Further updates will be provided to committee during this year and next year.

## **6 Counter-Fraud and Investigations**

6.1 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.

6.2 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.

- 6.3 A separate report is provided twice yearly by the SWLFP detailing the cases referred and the outcome of any investigations.
- 6.4 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.
- 6.5 Any areas of potential internal control weaknesses identified during fraud investigations are considered for inclusion in the internal audit plan.

7. **Available Options & Preferred Option**

- 7.1 There are no alternative options as the annual report is a key component of the Annual Governance Statement, which is a statutory requirement.

7. **Reasons for Recommendations**

- 7.1 The recommendations are required by Accounts and Audit Regulations.

8. **Consultation Results**

- 8.1 n/a

9. **Report Appendices**

- 9.1 The following documents are to be published with and form part of the report:  
Appendix A Audit Assurance Opinions 2024/25

10. **Background Papers**

- 10.1 Contained as appendices.

11. **Cross-Cutting Issues and Implications and Sign-Off**

Issue	Implications	Sign-off
<p><b>Legal</b> including Human Rights Act</p>	<p>The Local Government Act 1972 and subsequent legislation sets out a duty for the Council to make arrangements for the proper administration of its financial affairs.</p> <p>The provision of an Internal Audit service is integral to the financial management of the Council and assists in the discharge of these statutory duties.</p> <p>This report is designed to meet the requirements of the Accounts and Audit</p>	<p>Fabiola Hickson, Head of Law, Procurement and Information Governance 14/10/24</p>

	Regulations 2015 as stated above in this report.	
<b>Finance</b> and other resources	The internal audit work for 2024/25 is within the revenue budget allocated to the service.	Ellis Kelly, Head of Accountancy, 09/10/24
<b>Risk Management</b>	The Audit Plan has a risk assessment formula built into the process. This takes such aspects as expenditure, income, and previous audit findings into account and calculates priorities and the frequency of the audit	<i>Margaret Culleton Head of Internal Audit</i>  30/9/24
<b>Executive Director</b>	<i>Clearance/Approval of Report</i>	Asad Mushtaq 11/10/24
<b>Cabinet Member/s</b>	<i>Clearance/Approval of Report</i>	<i>Councillor Christie</i> 31/10/24
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