

# **Merton Council**

## **Standards and General Purposes Committee**

**9 November 2017**

### **Supplementary agenda**

6	Internal Audit Progress Report on Annual Audit Plan	1 - 16
7	Fraud Update	17 - 24

This page is intentionally left blank

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

**Date: 9 November 2017**

Wards:

### **Subject: Internal Audit Progress Report**

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Peter McCabe Chair of the standards/GP Committee

Contact officer: Margaret Culleton Head of Internal Audit

Tel. 020 8545 3149 [margaret.culleton@merton.gov.uk](mailto:margaret.culleton@merton.gov.uk)

### **Recommendation:**

---

**That Members note the report and comment upon matters arising from the Internal Audit Progress Report**

---

## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 This report summarises the work carried out by Internal Audit up to October 2017 and the key areas of activity planned for the remainder of the year.
- 1.2 Internal Audit seeks to ensure that Merton's financial and other systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.
- 1.3 Internal Audit is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole Council, including Members and all levels of management. It is not an extension of, nor a substitute for, good management. The Internal Audit Service is responsible for giving assurance on all control arrangements to the Standards and General Purposes Committee and the Director of Corporate Services (also known as the Section 151 Officer); it also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible.

## **2 DETAILS**

- 2.1 Since the last progress report in March 2017, we have finalised 31 audit reviews and have 4 reports at draft stage.
- 2.2 In order to contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance as follows:
  - a) Full Assurance
  - b) Substantial Assurance
  - c) Limited Assurance
  - d) No assurance

- 2.3 In addition each recommendation is given a high, medium or low risk priority. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

### 3 Progress against the Plan

- 3.1 Progress against the 2016/17 plan as at 31<sup>st</sup> September is as follows

	<b>Audits</b>	<b>Days</b>
Number of audits in the plan	53	
Audit Days delivered*		391
Number of audits finalised	31	
Number of audits at draft report stage	4	
Number of audits in progress	9	
Number of audits booked to start	9	

\* audit plan days is 908

- 3.2 At the time of this report, approximately 43% of the plan has been completed on the basis of number of days delivered. The plan is weighted to the last 2 quarters as this is when the outsourced audits are scheduled. The plan days are expected to be delivered by year end.

#### Planned Audit Reviews

- 3.3 Since the last progress report in March 2017, there have been 22 reports issued with a substantial assurance and 5 reports issued with a limited assurance. (There have also been 3 advisory reports and 1 grant claim).
- 3.4 A summary of the findings and agreed actions are detailed further in Appendix B for all those receiving a limited assurance report

**Table 1 – Audit Reviews with a limited assurance**

<b>Audit Title</b>	<b>Department</b>	<b>Actions implemented</b>
Cricket Green School	CSF	Yes
Corporate Review of DBS Checks f/u	CS	In progress
Holy Trinity school	CSF	In progress
Direct Payments	CH	In progress
E tendering	CS	In progress

- 3.5 The actions recommended are all either implemented or in progress to be implemented. Follow-up of audit actions are always undertaken to seek assurance that the weaknesses in controls have been strengthened.

### **Procurement/contract**

- 3.6 There are five procurement audits on the plan for this year, to date two audits have been finalised, (E Tendering and PFI). The PFI review received a substantial assurance.
- 3.7 The E Tendering audit has resulted in a limited assurance. A number of recommendations have been made and are in progress. An audit is due to start on Corporate Procurement which will reflect some of these changes.
- 3.8 The other audit reviews due to be undertaken are; Commissioning of Special Education Placements and Contract Monitoring of Commissioned Services.

### **IT systems**

- 3.9 There have been five IT audits completed to final report stage, these have all resulted in substantial assurance. These cover, cyber essentials, internet payments, mobile devices, and firewall & network infrastructure.
- 3.10 Internal Audit have also carried out a post implementation review of the main financial system E5, providing a substantial assurance on the data migration.
- 3.11 There are a further two IT audits on the plan, these are currently at draft report stage with a substantial assurance. These are Change Management and a post implementation review on the new social care system 'Mosaic', to provide assurance on the migration and integration with other systems.
- 3.12 The controls on both of the E5 and Mosaic systems are to be reviewed later this year.

### **Financial systems**

- 3.13 There are seven audits on the plan for the main financial systems, three have been finalised with a substantial assurance (Payroll, Housing Benefit overpayments, Car Parking on and off street) , One is in progress (NNDR) and three are due to start shortly (General Ledger, Creditors, fixed assets).
- 3.14 There are also three other financial areas at final report stage with a substantial assurance: itrent expenses, acquisition and disposal of land and building and highway network assets.

### **Establishments (Schools)**

- 3.15 The number of schools audited each year has reduced and is undertaken on a risk based approach. We currently have 48 schools on the audit plan and aim to complete audits in six schools each year. The schools selected for audit will be a mixture of those not audited for several years and those with potential budgetary or other concerns.
- 3.16 To date we have finalised seven school audit reports (3 related to 2016/17 plan), five have received a substantial assurance. Two reports have received a limited assurance report.

- 3.17 Where schools have received a limited assurance report, a copy is sent to the Chair of Governors and to the finance team supporting schools so that they can offer additional support. Internal Audit carry out a follow up audit six months later to review the effect of the changes.

### **Service Specific**

- 3.18 Other audits undertaken have been grouped into 'service specific' type audits. Nine reviews have been finalised, eight with a substantial assurance and one with a limited assurance (Direct Payments).

### **Governance**

- 3.19 There are three governance type audits on the plan, two have been finalised; DBS and Information Security and a review on declaration of interest is due to be undertaken. The DBS (Disclosure Barring Service) was a follow up review on a previous limited assurance. The review found that the actions had mainly been put in place, but a new issue was identified in relation to checking of volunteers, which resulted in a limited assurance.

### **Additional audit reviews**

- 3.20 Internal audit attends Department Management Teams a number of times throughout the year to discuss progress against the plan and to review the audits which are still to be undertaken to ensure they are still relevant and timely. Additional requests for work are also received from managers and reviews are undertaken in areas where fraud has occurred to ensure that controls are sufficient.
- 3.21 Internal Audit has undertaken three additional reviews this year; which means that some planned audits for 2017/18 will move to 2018/19. The additional work finalised this year covers the following areas:-
- Memorandum of Understanding
  - Housing Agreements
  - Concerns relating to recruitment processes
  - Review of procurement card usage

### **Whistleblowing**

- 3.22 Reported to GP committee in March 2017, there were six cases on-going, four cases are being prepared for prosecution, one has closed and one is awaiting comment.
- 3.23 There have been 3 Whistleblowing allegations received since March 2017. These have been passed to the fraud partnership. One has resulted in a recommendation for disciplinary action and the other two are ongoing,
- 3.24 The fraud partnership will be providing a progress report to this committee. This update will include corporate fraud and external fraud work on areas such as tenancy fraud and blue badge.

#### **4. Following up on the Implementation of Agreed Actions and responses to Draft Reports**

- 4.1. The agreed actions for audits completed in 2015/16 and 2016/17 have been followed up. At the time of this report 90% of audit actions had been implemented at the due date, 10% were due to be implemented.
- 4.2 Follow up reminders are sent out monthly to officers responsible for implementing the agreed actions when the due date is reached, to ascertain whether the actions have been implemented.
- 4.3 If the actions have not been implemented by the following month reminders are escalated to Heads of Service/ Assistant Director Level. Once they reach 3 months overdue a report is then sent to Directors for those actions.
- 4.4 As at the 24th October there were 6 audit actions overdue by more than 3 months. Responses to these actions are actively being sought.
- 4.5 Where there are overdue actions Internal Audit contacts the manager to seek explanations for the delays in implementing these recommendations. If an action remains outstanding, these audit areas are considered for a follow up audit review.

#### **5. ALTERNATIVE OPTIONS**

- 5.1 None for the purposes of this report.

#### **6 CONSULTATION UNDERTAKEN OR PROPOSED**

- 6.1 The Internal Audit Plan has been agreed with Chief Officers who have consulted with their Management Teams. Service Level Agreements are in place. The Head of Internal Audit has periodic meetings with the Directors to report upon progress against the Plan.
- 6.2 All audit reports are discussed with the relevant manager prior to issuing as a draft, further meetings are held if required and comments from the Manager and Head of Service/Assistant Directors are included in the final report.

#### **7 TIMETABLE**

- 7.1. None for the purposes of this report.

#### **8 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 8.1 The planned work and unplanned work is undertaken within the budget allocated.

## **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 2016/17. 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. The provision of an Internal Audit service is integral to the financial management at Merton and assists in the discharge of these statutory duties.

## **10. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 10.1 Effective and timely auditing and advice enables Departments, Voluntary Organisations and Schools to provide quality services to their clients. These client groups are often vulnerable members of the community, e.g. elderly people, disabled people, asylum seekers, members of staff and voluntary organisations. The audit service helps to identify weak financial management and sometimes reflects weaknesses in other operational systems such as quality and ethnic monitoring. Audit, therefore, has a crucial role in ensuring that Council resources are used to enable a fair access to quality services.

## **11 CRIME AND DISORDER IMPLICATIONS**

- 11.1 There are no specific crime and disorder implications arising from this report.
- 11.2 The report does however include brief details of potential fraud investigations in progress.

## **11 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 11.1. 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.
- 11.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Internal Audit Plan.
- 11.3. The audit brief at the beginning of the audit, and the internal audit reports at the end of the audit also identify risks. Audit Recommendations are categorised high, medium or low priority in relation to the level of risk involved.

### **APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

- Appendix A – Audit reports issued since March 2017
- Appendix B - Audit Report summary (limited assurance)

### **BACKGROUND PAPERS**

- i. Documents held in Internal Audit Files



## Audits since April 2017

## Appendix A

Audit Title	type of audit	Dept	Final Report Date	Assurance
Pelham Primary School	establishment	CS	05/04/2017	substantial
iTrent expense claims	financial	CS	27/04/2017	substantial
Aquisition and Disposal -land and building	financial	CS	04/04/2017	substantial
Highway Network Assets	financial	cs/er	27/04/2017	substantial
IT laptop and mobile devices	IT	CSF	27/04/2017	substantial
Bailiffs	service specific	CS	09/05/2017	substantial
Hatfield primary school	establishment	CSF	10/05/2017	substantial
Fostering (access to resources)	service specific	CSF	26/05/2017	substantial
Children's Centre Services	establishment	CSF	16/06/2017	substantial
Internet Payments	IT	CS	30/05/2017	substantial
Firewall and Network Infrastructure	IT	CS	05/06/2017	substantial
Housing agreements	Service specific	CH	08/06/2017	advisory
MSJCB	Grant	CS	15/07/2016	grant
Review Regulatory Shared Service Arrangements	Service specific	ER	22/07/2016	substantial
Merton Park Primary	establishment	CSF	22/07/2016	substantial
e tendering	procurement	CS	14/08/2017	<b>limited</b>
Corporate Review of DBS Checks f/u	governance	CS	18/10/2017	<b>limited</b>
E5- Post implementation	IT	CS	03/08/2017	substantial
Recruitment Investigation	Service specific	CS	17/08/2017	advisory
Schools PFI Contract	procurement	CSF	28/09/2017	substantial
Car Parking- Income On/Off St.	financial	ER	12/07/2017	substantial
Cricket Green School	establishment	CSF	26/07/2017	<b>limited</b>
Payroll	financial	CS	27/07/2017	substantial
Information Security	governance	CS	26/07/2017	substantial
Memorandum of Understanding	service specific	CS	16/08/2017	advisory
Holy Trinity Primary School	establishment	CSF	22/09/2017	<b>limited</b>

Direct Payments	service specific	CH	31/08/2017	<b>limited</b>
Housing Benefit Overpayments	financial	CS	28/07/2017	substantial
Cyber Essentials	IT	CS	06/09/2017	substantial
Links Primary School	establishment	CSF	10/10/2017	substantial
Blue Badges	service specific	CS	11/10/2017	substantial

## Internal Audit Report Summary- Limited Assurances

Service	<b>E Tendering</b>		
Date of Final Audit Report	14 <sup>th</sup> August 2017		
Audit Actions	8	Completed Audit Actions	0
Audit Objective	Review of the councils arrangements in place for tendering to ensure compliance with CSOs		
Summary of Audit Findings	<p>The Council uses the Due North Procontract E-Tendering Portal. The Contract Standing Orders require that any procurement valued at above £10,000 is run through this portal, and that three quotations are sought. Procurements valued at above £100,000 should be run using a formal tender process, and above-OJEU threshold procurements should be compliant with the Public Contract Regulations 2015.</p> <p>In one case, procurement documentation was not made available to bidders at the outset of the Invitation to Tender. However, bidders were made aware that a tender addendum would be issued. We were informed that legal advice has previously been sought on this matter previously and the Commercial Services team informed that if bidders are made aware of the documents to be uploaded, and are given time to respond, then this is sufficient to comply with the Public Contract Regulations 2015. We have not raised a recommendation as a result</p> <p>It was confirmed that sub-OJEU threshold procurements in our sample were not subject to a two-stage process. It was also confirmed that where an OJEU threshold procurement was undertaken using a two-stage process that a standard PQQ was used.</p> <p>There were some instances on the E-Tendering portal where an insufficiently competitive environment was created as either the correct number of quotes was not sought, or a tender process was not undertaken, and this was not compliant with the Contract Standing Orders. Although user permissions appeared to be adequate to the extent that users tested did not have administrative privileges, it was noted that no active users tested had financial restrictions on the procurements they could commence or become involved in. Further to this, instances were identified where individuals had not logged onto the portal for more than three months or ever, and one instance where an organisational leaver still had an active account</p> <p>Instances were identified where Contracts Finder advertisements or award notices were not issued in a timely manner or at all. (Testing of initial advertisements on Contracts Finder identified that in two out of fifteen cases a notice could not be located. Testing of award notices on Contracts Finder identified that in five out of fifteen cases an award notice could not be located). Further to this, an OJEU contract award notice could not be located for one contract</p>		

## Internal Audit Report Summary- Limited Assurances

Service	<b>E Tendering</b>
	<p>Non-commercial tender clarifications were not provided to all bidders at the same time in every case. However, where exceptions were identified these did not have a material impact on the outcome of the tender process, or they related to low value quote processes. An instance was identified where it appeared that bidders were informed of evaluation results prior to these being approved by Cabinet, despite bidders having been informed that this was not compliant.</p> <p>In some instances insufficient information was available on the E-Tendering portal in respect of the procurement process undertaken and the successful bidder. Where these instances occurred, recommendations have been raised to highlight non-compliances. A separate recommendation regarding insufficient information has not been raised as a result.</p> <p>Testing of the Contracts Register identified a number of instances where procurements had not been included on the Register, or where they had been included late. It is acknowledged that there is evidence on the tender portal of the Commercial Services Team identifying and adding entries onto the Register where this has been missed previously.</p> <p>It was confirmed that updates to the E-Tendering Portal are made by the Commercial Services team where non-compliances in respect of Contract Registers are identified. The notes section to individual procurements is updated in these cases. However, it was identified that a review of user permissions needs to be undertaken to confirm that only individuals employed by the Council with sufficient procurement training are able to commence procurements.</p>
Summary Response Managers	<p>Both Officers and Members are to be reminded of the protocol of liaising with bidders prior to all participating bidders being notified of the formal award of contract (post any standstill periods).</p> <p>Since the appointment of the permanent Head of Commercial Services in September 2016, a review of all procurement guidance / toolkits / templates etc. has commenced. Revised documentation can be expected to be rolled out across the Council during Q4 2017-18.</p> <p>A quarterly review of users of the portal will be undertaken and where users have not logged onto the system within the last three months, their account will be deactivated</p> <p>Staff will be reminded as part of the updated Procurement Toolkit and training that interims and consultants undertaking procurements on behalf of the Council must comply with both the Council's Contract Standing Orders</p>
Update	Audit actions are in progress and due to be fully implemented by March 2018

## Internal Audit Report Summary- Limited Assurances

Service	<b>Corporate Review of DBS Checks follow up</b>		
Date of Final Audit Report	27 <sup>th</sup> July 2017		
Audit actions	5	Completed Audit Actions	1
Audit Objectives	To ensure that the councils procedures are processes are in place for staff assigned to posts requiring DBS checks have been checked.		
Summary of Audit Findings	<p>This follow up review found that a previous recommendation in relation to the changes to procedure documents “DBS Guidelines and Code of Practice (2009)” remains outstanding despite assurances that the document was updated following the previous audit. There is a risk that if this document is read in isolation it could be misleading.</p> <p>To verify whether the recommendations in relation to processes and procedural changes had been implemented, a sample of 20 employees that started employment after the 2014/15 final report was issued, were tested to confirm compliance. Testing found that 17 out of the 20 employees had been registered on iTrent (the payroll system) as having a DBS disclosure in place.</p> <p>For the remaining 3 employees, 1 was employed through an agency and checks had been undertaken by the agency with the disclosure number recorded on Comensura (agency system). The 2 remaining employees were library volunteers and it was subsequently confirmed that the post did not require DBS clearance.</p> <p>The review noted DBS checks are somewhat disjointed in that Merton paid employees checked by the Discloser Team and their details entered on iTrent to allow DBS renewals to be undertaken, however details relating clearance of volunteers are kept locally by library managers and not added to iTrent.</p> <p>Volunteers are only added to iTrent when a claim for an expense is made, but even at this stage there is no verification by HR to confirm whether or not DBS clearance has been obtained. This increases the risk of volunteers being added to iTrent without confirmation that the necessary checks has been undertaken. To mitigate the risk, managers recruiting volunteers must be asked to complete a “Completion of Screening – Final Report” to confirm that the employee has been DBS checked as would be done with “normal” employees.</p> <p>Our review of the work undertaken by the Disclosure Team (with the assistance of departments) to identify posts requiring DBS checks in order to initiate a check for employees that have not been checked, found that the work has not been completed as some managers have not complied with the request.</p>		

## Internal Audit Report Summary- Limited Assurances

Service	<b>Corporate Review of DBS Checks follow up</b>
	<p>The Disclosure Team must follow up on their previous work to ensure that all post requiring DBS check have been identified by respective managers and that employees in posts that require DBS checks (currently without clearance) are asked to provide the required information for the check to be undertaken.</p> <p>The Disclosure Team must report managers and or employees who fail to provide the required information to enable appropriate action to be undertaken by senior management.</p>
Summary Response from Managers	<p>Additional measures have been put in place to ensure that information relating to DBS checks is more easily accessible to managers for quick checking</p> <p>Head of Organisational Development &amp; HR Strategy will liaise with Kingston who provide the service to ensure that a project plan is in place to follow up on all Managers that have failed to respond to their initial request asking them to verify whether DBS was required for the post under their remit.</p> <p>Guidance to be issued</p>

## Internal Audit Report Summary- Limited Assurances

Service	<b>Direct Payments</b>		
Date of Final Audit Report –	31.8.17		
Audit actions	6	Completed Audit Actions	3
Audit Objectives	To ensure that there are clear agreed procedures, accounts are set up correctly, monitored and action taken on misuse.		
Summary of Audit Findings	<p>Direct Payments is a process by which all or part of a personal budget is spent by its customers to meet their assessed, eligible needs, using a pre-paid card. The aim of Direct Payments is to allow the service user greater choice and control through the flexibility of purchasing their own care package. At the time of the audit there were approximately 666 Direct Payment customers, made up of 536 adults and 130 children.</p> <p>The Council has a dedicated external facing website that provides information on what the council offers and includes documents and links to the relevant legislation. It was found that some of the documents available on the website were out of date and require updating to ensure that the authority is providing the correct information. Our review found that the Direct Payment Policy was last updated in March 2016 and is currently in the process of being reviewed and updated.</p> <p>The councils use pre-paid card accounts for the purpose of receiving and managing Direct Payments. A review of the card database as at April 2017 found a total of 1,274 cards on the database of which 575 were active.</p> <p>Our review of service users account balances as at April 2017 identified 23 active accounts with balance of £10,000 or more including 1 with a balance of over £36,000 and 91 active accounts with a balance of £10 or less.</p> <p>Testing found that although signed "Personal Agreements" were in place, in some cases the agreements had not been dated or signed by the Direct Payment Officer.</p> <p>A review of a sample of service users accounts to verify whether surplus funds were adequate and in line with the DP Personal Agreements found that of the 20 service users tested, 8 service users had funds in excess of 8 weeks of their agreed weekly cost, including 1 service user with surplus funds equivalent to 140 weeks of the weekly agreed cost.</p> <p>The current Direct Payment agreement allows the Council to recover money from an individual with surplus funds in their direct payments account (which is not part of any agreed contingency fund) of 8 weeks or more. However, this is not being applied.</p> <p>Where service users have been assessed to make contributions towards their care they are required to make payments onto their pre-paid card. Our review of customer accounts over a four month period found that of sample tested, 40% were not meeting their required contributions.</p>		

## Internal Audit Report Summary- Limited Assurances

Service	Direct Payments
	<p>Our review also found examples of expenditure that were outside of the service users agreed service plan, including spend with retailers such as Gambling retailers, Grocery Stores, Fast Food Restaurants, Lawn and Garden Supplies etc. This is in breach of Section 7 of the “Personal Agreement” which states that customers must only use their personal budget to secure the support detailed in their support plan.</p> <p>In the absence of a Monitoring Officer appropriate steps need to be undertaken to ensure that a robust method of auditing/monitoring client’s expenditure is in place. The authority must be able to provide assurance that all clients are achieving the best possible outcome within their available funds, in line with their service plan.</p> <p>The auditor was informed that the existing pre-paid card provider has recently served notice of their intention to terminate the existing pre-paid card service contract with the Council. It is the view of the Procurement and Brokerage Manager that the specification for the new service (which is currently out to tender) will support the implementation of some of these issues identified in this report (notably supporting the council to monitor pre-paid card activity in a robust way with the reduced resources now in the team).</p>
<p>Summary Response Managers</p>	<p>from</p> <p>We will complete a full review of the direct payments webpages by the end of the financial year in line with the Care Act. However, we will ensure that out dated pages such as those detailing current rates are up-dated by end of October 2017 in line with the Care Act.</p> <p>We will also engage with our communications team to ensure they are satisfied with any amendments from the web pages prior to publications</p> <p>We are currently tendering for a new pre-paid card provider. A requirement of the new provider will be to produce reports demonstrating balances that are above 8 weeks. This will enable the Merton managed Accounts Officer (currently being permanently recruited to) to claw back surplus money on cards.</p> <p>As an interim measure a temporary member of staff is looking at balances above 8 weeks and we are looking to then claw this money back.</p>



## Internal Audit Report Summary- Limited Assurances

Service	<b>Cricket Green School</b>		
Date of Final Audit Report	24 <sup>th</sup> July 2017		
Audit actions	28	Completed Audit Actions	28
Audit Objectives	The school probity audit covers: - Governance, budget management, procurement, income and expenditure controls.		
Summary of Audit Findings	<p>The Internal Audit review has identified areas of concerns in relation to the school managing its budget. These include:</p> <p>Budget – although the budget has remained in surplus for 2016/17, the large overspends in staffing cost centres must be reviewed, as this may impact in the 3-year budget plan.</p> <p>Ordering and Payments – During 2015/16 it was found that all 88% of expenditure was uncommitted as orders were not raised at the time of purchase (83% non-order and 5% raised on receipt of invoice). Although this improved in 2016/17 with 45% of expenditure uncommitted (23% non-order and 22% raised on receipt of invoice) resulting in £601,848.99 uncommitted expenditure. Further improvement is required as this significantly impacts on effective budget monitoring and weakened controls, that ensure all expenditure is appropriate and authorised prior to purchase.</p> <p>Monthly monitoring, virements and petty cash –require improved controls. Evidence of non-adherence to the Scheme of financing for schools in relation to contracts.</p> <p>Recruitment and IR35– improvements required in relation to evidencing references and medical checks and probation sign off, employment status checks</p> <p>Although the school was found to have written procedures for IT security and Data management for the school and staff to follow, some further documents require implementing and adopting by the school to ensure compliance with GDPR.</p>		
Summary Response from Managers	<p>All actions accepted</p> <p>Closer monitoring of the budget expenditure will be undertaken to ensure original budget is achieved</p> <p>Monthly budget meetings will be arranged between the Headteacher and SBM to include the agreement of budget movement, Payroll reconciliation and iTrent overtime reports. Virements to adjust overspent cost centres will be undertaken</p> <p>One officer now responsible for personnel to ensure tighter control in recruitment procedures</p> <p>An E-Safety policy will be produced with an acceptable use policy agreement for all staff and Governors to complete</p> <p>All regular lets to be reviewed annually and indemnity certificates obtained</p> <p>Maintenance quotes will be obtained for comparison</p> <p>A spreadsheet will be introduced for the Breakfast club and reconciled to SMIS FMS</p>		

## Internal Audit Report Summary- Limited Assurances

Service	<b>Holy Trinity School</b>		
Date of Final Audit Report –	22 <sup>nd</sup> September 2017		
Actions	30	Completed Audit Actions	16
Audit Objectives	The school probity audit covers: - Governance, budget management, procurement, income and expenditure controls		
Summary of Audit Findings	<p>The Internal Audit review has identified areas of concerns in relation to the school managing its budget. These include:            During 2016/17 it was found that 43% of expenditure was uncommitted as orders were not raised at the time of purchase. This was found to have increased in 2017/18 with 74% of expenditure uncommitted. Improvements are required as this significantly impacts on effective budget monitoring and weakens controls.            Agreed procedures for the authorising of mismatches between orders raised and invoices paid must be established.            Contracts Adherence to the scheme for financing for schools in relation to contract. Signed and agreed copies of all contracts must be held in the school and available for inspection at all times.            Recruitment – evidence of references, medical checks and relevant qualification certificates, probation review must be retained. Temporary staff arrangements – the IR35 Employment Status must be checked for all temporary workers and where relevant tax/ NI contributions deducted at source.            Although the school was found to have written procedures for IT security and Data management for the school and staff to follow, some further documents require to ensure compliance with GDPR.</p>		
Summary Response from Managers	<p>All actions will be implemented.            Monthly budget meetings will be arranged between the Headteacher and SBM to include the agreement of budget movement, Payroll reconciliation and iTrent overtime reports            Governor's declaration of interest forms will be completed and school website update accordingly.            Training will be provided to ensure orders are raised for all goods and services to ensure commitment are held on SIMS FMS.            One officer now responsible for personnel to ensure tighter control in recruitment procedures            IT policies will be updated</p>		

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

**Date: 9<sup>th</sup> November 2017**

### **Subject: Fraud Update**

Lead officer: Caroline Holland – Director of Corporate Services  
Lead member: Chair Standards and General Purposes Committee  
Contact officer: Kevin Holland – Head of Shared Fraud Partnership  
Tel. 020 8871 6451 kholland@wandsworth.gov.uk

### **Recommendations:**

#### **A. That members note the Fraud Progress report and comment on the matters arising from it.**

##### **1. Introduction**

- 1.1 One of the responsibilities of the Committee is to monitor the Council's arrangements to protect the Council from fraud and corruption, including the Anti-Fraud & Anti-Corruption Policy and the Whistle Blowing Policy.
- 1.2 This report is provided to the Committee to provide assurance over the arrangements for protecting the Council against fraud and corruption. Merton Council entered into a shared fraud investigation service, known as the South West London Fraud Partnership (SWLFP), with Kingston, Richmond, Sutton & Wandsworth Councils from 1 April 2015 to ensure that an effective fraud investigation and prevention service would be maintained following the transfer of benefit fraud investigation to the Department for Work and Pensions (DWP).
- 1.3 The bringing together of retained knowledge and expertise under a single team strengthens resilience for individual authorities, enabling a collaborative approach to fraud investigations and introduces the ability to undertake regional proactive counter fraud exercises. Individual partner authorities retain responsibility for ensuring that its affairs are managed in accordance with proper standards of financial conduct and for preventing and detecting fraud and corruption.
- 1.4 For 2017/18 the SWLFP investigation team comprises 14.5 posts, with a mixture of expertise from both within and outside local government. 12 officers hold relevant Accredited Counter Fraud Specialist qualifications. The SWLFP has the ability to deploy flexible resources with knowledge and experience to provide coverage across a range of counter-fraud activities.

- 1.5 Priority areas of coverage for individual partner Councils are agreed through consultation with the Heads of Audit. The SWLFP continues to work closely with the Merton Priory Circle Housing Partnership (now part of the Clarion Group) in relation to concerns over tenancy fraud and abuse.
- 1.6 SWLFP also continues to work with all social landlords, hosting the Social Housing Investigation Partnership (SHIP), a forum that is accessible to social housing providers who have property within at least one of the fraud partnership authorities. Partnership working provides a sound framework to help identify and respond to tenancy fraud and abuse resulting in the recovery of misused tenancies which can be assigned to those in genuine eligible need thus reducing the call upon temporary housing provided by local authorities.

## 2. Summary of Fraud Investigations and Performance Results

- 2.1 The Tables below summarise the fraud work undertaken for Merton Council, with Table1 summarising progress to the end of September 2017 against the key fraud performance targets. In total, 168 fraud cases have been worked on (95 new cases, with 73 cases c/f from 2016/17) as a result of either referrals received or concerns highlighted through pro-active fraud drives since April 2017.

**Table 1: Performance against key objectives and targets 2017/18**

Activity	Performance Indicator	Target	Actual
Work with Housing Associations and Housing teams to establish and deliver a programme of proactive fraud checks including illegal subletting	Properties brought back into Housing Associations/ Council control following identification of fraud	8 properties	4 (a further 2 cases where possession order has been obtained and 7 cases are with legal for recovery action)
Develop joint working with Housing teams to proactively identify housing fraud	Housing applications withdrawn as a result of fraud work	10 applications withdrawn	14 (A further exercise involving data matching will be undertaken in early 2018)
Delivery of the Fraud Plan	100% of the Fraud Plan	100% of the Fraud Plan	59.5% to end Sept (On Target)

- 2.2 Tables 2 provides an estimate of how the funding resource will and has been used in terms of investigator days. Due to the volume of referrals resources have been directed from pro-active fraud drives towards accepted fraud cases.

**Table 2: Fraud Resourcing Plan (includes actuals for 2017/18)**

	<b>Estimated Days</b>	<b>%</b>	<b>Actual (to 30/9/17)</b>	<b>%</b>
Referral Review	34	8.6	15.3	6.5
Pro Active Fraud Drives	62	15.7	18.1	7.7
Fraud Investigation	268	67.9	195.1	83.1
Fraud Awareness/prevention	16	4.0	6.4	2.7
Contingency	15	3.8	0.0	0.0
<b>Total</b>	<b>395</b>	<b>100.0</b>	<b>234.9</b>	<b>100.0</b>

2.3 Tables 3 and 4 provide a breakdown of the fraud/abuse referrals that have been investigated and a summary of the value of fraud/overpayments and notional savings identified as a result of the fraud work undertaken.

**Table 3: Summary of fraud referrals**

	<b>2017/18 to Sept '17</b>	<b>2016/17</b>	<b>2015/16</b>
Referral accepted in period for investigation by type:			
- Tenancy fraud/abuse	56	187	103
- Housing Applications	19	Incl in above	
- Right to Buy	58	30	3
- Permit Fraud	15	7	1
- Corporate (Internal)	10	14	6
- Corporate (External) i.e. CTR & SPD	10	19	6
Total referrals in period	168	257	119
Closed in period			
- Closed no fraud	58	147	45
- Closed with sanction	30	38	11
Referrals still under investigation	80	73	63

2.4 The number of referrals received are a reflection of the effectiveness of the implementation of the Council's Anti-Fraud and Anti-Corruption Strategy. This indicates a reasonable level of general fraud awareness by officers across all the Council's departments.

2.5 A summary of closed investigations into fraud and financial irregularity in 2017/18, up to 30<sup>th</sup> September is attached at [Appendix A](#).

**Table 4: Summary of Overpayments and Notional savings**

(* notional savings figures as per Audit Commission estimates)	2017/18 (to Sept '17) £	2016/17 £	2015/16 £
Social Housing (notional @ £18k per property recovered* )	72,000 (4 prop)	216,000 (12 prop)	126,000 (7 prop)
Housing Applications Rejected (notional £6k per application cancelled)	84,000 (14 apps)	96,000 (16 apps)	n/a
Right to buy (notional @ £100k discount)	1,100,000 (11 apps)	100,000 (1 app)	200,000 (2 apps)
Blue Badges & Parking Permit (notional @ £500 per case*)	0	0	0
Council Tax (identified overpayments and administrative penalties)	151	132,782	10,753
Other	12,133	800	0
<b>Total actual and notional savings</b>	<b>1,268,284</b>	<b>545,582</b>	<b>336,753</b>

### 3. Local Government Transparency Code.

3.1 Under the code the Council is required to publish the following data regarding its Fraud Investigation activity. Listed below are 2017/18 figures to 30 September (with 2016/17 comparative figures shown within brackets)

- Accredited number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers

Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014 7 (18)

Council Tax Reductions Scheme (Detection of Fraud and Enforcement) (England) Regulations 2013 0 ( 5)

- Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud

	Absolute	FTE
Fraud Investigation - SWLFP #	15 (17)	14.5 (16.5)

- Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists

	Absolute	FTE
PINS trained Fraud Specialist	6 (10)	6.0 (10.0)
CIPFA Certificate in Investigative Practices	2 ( 2)	2.0 ( 1.8)
CIPFA Accredited Counter Fraud Specialist	4 ( 6)	4.0 ( 6.0)

- Total amount spent by the authority on the investigation and prosecution of fraud

	17/18	16/17
Other Fraud Investigation	£118.7k	£172.8k

- Total number of fraud cases investigated.

	17/18 (to 30/9/17)	16/17
Benefit Fraud Investigations	n/a	1
Housing/Tenancy related Investigations	75	187
Right to Buy	58	30
Permit Fraud Investigation	15	7
Other Investigations	20	33

3.2 On 1<sup>st</sup> November 2014, responsibility for housing benefit fraud investigation transferred to the DWP under the Single Fraud Investigation Service (SFIS) and the team of officers responsible for housing benefit fraud investigation transferred to the DWP.

3.3 To ensure that sufficient knowledge and capability for fraud investigation was maintained Merton entered into a partnership with four neighbouring boroughs, the SWLFP. The number of Fraud Investigation Officers and Officers with specialist fraud qualifications relates to the pool of officers within the SWLFP that can be called upon although Merton's funding contribution equates to 3 FTE investigators during 2016/17 and reduced to 2 FTE for 2017/18.

## 5. CONCLUSION

5.1 The increase in recorded fraud referrals since 2015 in is not an indication of any increase in the incidence fraud but more likely to be the result of improved reporting on areas of concern and irregularity. The majority of referrals are received from in-house teams, which is a good indication that a responsible level of fraud awareness exists across all Council staff supported by the Council's Anti-Fraud and Anti-Corruption Strategy and culture.

5.2 Although the fraud investigation resource has reduced, the use of technology and ongoing improvements to accessing key systems, intelligence sources and records, has meant that the fraud response capability has been able to manage and address the increase in the number of fraud referrals.

5.3 The Council has made suitable provision for the investigation and prevention of fraud and corruption.

## GLOSSARY

CIPFA	Chartered Institute of Public Finance and Accountancy
CTR	Council Tax Reduction
DWP	Department for Work and Pensions
FTE	Full Time Equivalent
PINS	Professionalism IN Security
SFIS	Single Fraud Investigation Service
SPD	Single Person Discount
SWLFP	South West London Fraud Partnership



## FRAUD, CORRUPTION AND FINANCIAL IRREGULARITIES – RESULTS OF CASES CLOSED 01/04/16 to 31/01/17

Offence/irregularity, sanctions and redress	Key outstanding actions
<p><b>Tenancy Fraud/Misuse</b></p> <p>1. <b>(2334) – Suspected Abandonment/not using as main or principal home:</b> Referral from MPCH that tenant is not living in the property and maybe subletting. Utility checks showed electricity usage was very high whilst gas usage was low. Earlier this year the Police raided the property for drug related concerns, tenant was arrested and bailed. Unannounced visit undertaken but with no response, recommendation made that notices be issued due to abandonment and anti social behaviour. Notices issued and following legal action possession awarded and property recovered.</p>	None
<p>2. <b>(2467) – Suspected Abandonment:</b> Anonymous referral of abandonment and potential subletting. The tenant was in receipt of housing benefit and has included her son as a dependant. Credit checks link tenant to another address in Sutton but this appears to be a family property. Visits to the property undertaken but with no response. Evidence appears to support allegation of abandonment. Tenant subsequently made contact stating that they had been staying with their parents with no plans to return. Tenant signed Notice and returned keys property recovered.</p>	None
<p>3. <b>(2863) – Suspected sub-letting:</b> Referral from MPCH following an interview with the tenant who admitted to living with his partner at another MPCH property, leaving his adult sons living at the property. Credit checks show both sons linked to the property and the tenant and sons are on the electoral register. Visits undertaken and tenant seen at partner's address. Tenant stated that he wanted to be included on his partner's mutual exchange. Recommendation made that notices be issued as tenant is not using the social housing as their main/principal residence. Notice served and tenant surrendered the property with vacant possession.</p>	None
<p>4. <b>(2914) – Suspected sub-letting:</b> Referral from MPCH of subletting as they have been unable to contact the tenant and cleaners believe a man lives at the property although the tenant is female. Unannounced visit to the property identified individual who claimed to be renting the property. They contacted the tenant who returned to the property, claiming the occupants had only stayed overnight with her and denied sub-letting. The evidence obtained so far appears to support the allegation so recommendation made that notices be served. The tenant subsequently contacted MPCH and surrendered the property with vacant possession.</p>	None
<p><b>False Housing Applications</b></p> <p>5. A total of 14 housing applications have been rejected following pro-active data matching and the investigation of referrals from housing officers. The fraud partnership had access to a tenancy fraud hub. 19 referrals were derived from participation in this pro-active data matching exercise. 2 referrals are still being reviewed. (Case references 2919, 2920, 2921, 2922, 2923, 2924, 2925, 2926, 2927, 2928, 2929, 2930, 2931, 2932) Another pro-active data matching exercise will be undertaken in May 2018.</p>	Finalise review of applications flagged by the data matching exercise.

Offence/irregularity, sanctions and redress	Key outstanding actions
<p><b><u>Right to Buy Applications</u></b></p> <p>6. 58 RTB applications are being reviewed with priority given to applications where the tenants are receiving Housing Benefit. Applicants details are cross-checked with other Council systems and credit records to ensure that the eligibility criteria are met, visits are undertaken where needed. Following intervention, including visits, 11 applications have been cancelled/withdrawn (Case references 2369, 2566, 2637, 2849, 2386, 2360, 2917, 2385, 2393, 2588, 2696) with 20 referrals still under review.</p>	<p>Continue to review referrals, cross-checking applicants' details with other Council systems and accessible credit data, visiting applicants where necessary.</p>
<p><b><u>Corporate Fraud</u></b></p> <p>7. <b>(1696) False SPD claim:</b> Referral via Merton's fraud hotline that a resident is falsely claiming SPD through failing to declare that their partner resides with them. System and credit checks completed were inconclusive so unannounced visits arranged. At the visit a male (later confirmed as the tenant's partner) was in the home, cooking. He explained that the tenant was out at work. At a further unannounced visit the tenant was seen but denied that her partner lived with her. Further system checks undertaken and an arranged visit undertaken. At this arranged visit the tenant confirmed that her partner was in fact living with her but claimed that initially she did not know whether this arrangement would continue which is why she had not notified the Council. SPD cancelled and incorrectly received discount repaid.</p>	<p>None</p>
<p>8. <b>(2657) Employee conduct, false RTB application:</b> Referral from LB Haringey who had concerns about a RTB application they had received which included an individual who they identified as a Merton Employee as a joint applicant. Their main concern was that the individual did not reside at their property so did not meet the RTB eligibility criteria. Information exchanged which showed that the officer had submitted information to support their North London residence but this conflicted with the declared local (Morden) residence as a Merton School employee. Individual invited for formal interview but did not attend. Investigation report prepared recommending disciplinary action as the individual has submitted false statements in order to obtain a £103,900 RTB discount that they were not entitled to. Prior to formal disciplinary hearing the employee resigned. The RTB application has been refused and LB Haringey are in the process of recovering possession.</p>	<p>None</p>

### Glossary

LB London Borough  
RTB Right to Buy

MPCH Merton Priory Circle Housing (now Clarion)  
SPD Single Person Discount