

# **LONDON BOROUGH OF MERTON**

## **INTERNAL AUDIT ANNUAL REPORT YEAR ENDING 31<sup>ST</sup> MARCH 2018**

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## **1. Head of Audit Assurance Opinion**

- 1.1 Internal Audit has reviewed the effectiveness of the Council's systems of internal control for 2017/18 and has taken into account appropriate assurances obtained from other relevant internal and external sources. The opinion, based on this work, is that the Council's systems of internal control are generally sound and effective although the expected high standards of control have not been achieved in a limited number of council activities (detailed below). There is therefore a requirement to improve in these areas.
- 1.2 Appropriate action plans are in place in response to internal audit actions where necessary. 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. Internal Audit seeks to ensure that Merton's systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.
- 2.3 Overall, whilst issues have been identified and resolved, the systems of control within the Council are such that reliance can be placed upon them.
- 2.4. 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 Council Tax, cash and bank and Housing Benefits.
- 2.5 Audit assurance opinions issued by Internal Audit fall into one of the four categories:-
  - a) Full Assurance
  - b) Substantial Assurance
  - c) Limited Assurance
  - d) No Assurance
- 2.6. In addition, each recommendation emanating from the audit review is given a high, medium or low risk priority for implementation. All recommendations are followed up by Internal Audit to ensure that they have been implemented.
- 2.7. The audit plan for 2017/18 covered those area of high fraud risk, as identified through the councils own assessments and through information from CIPFA, and other sources, where fraud risks are highlighted. Examples of these are procurement cards, business rates, direct payments.

- 2.8 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.
- 2.9 In addition to the agreed audit plan, additional audits and reviews at the request of Management have been completed. These have ranged from full audits to focused audit investigations. Examples of these additional pieces of work included:
- Procurement card/season ticket
  - Recruitment
  - memorandum of understanding
  - Planning review
- 2.10 Internal Audit has also undertaken substantial testing on the new financial E5 system as well as ongoing advice on the new social care system, Corelogic..
- 2.11 These referrals to Internal Audit help to demonstrate the continued good engagement from departments and their awareness of the role of Internal Audit and the work that they can undertake to support their service. The Council’s risk profile is constantly changing. Therefore, Internal Audit and the internal audit plan needs to be flexible to be able to respond to these changing and emerging risks.
- 2.12 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.

### 3. Internal Audit Assurances 2017/18

- 3.1. During 2017/18 there were 41 Internal Audit reviews completed providing an assurance rating. (5 areas were reviewed as either advisory or signing off accounts).
- 3.2 A full list of the assurances can be found in Appendix A.. Action Plans for improvements are in place for all audits. Discussions are being held with Departments and action plans are still to be finalised in some instances.
- 3.3 The following tables summarise the results by audit type:

**Table 1 Internal Audit Assurances by Audit Type 2017/18**

| <b>Assurance</b>         | <b>assurance</b> | <b>Limited</b> | <b>Totals</b> |
|--------------------------|------------------|----------------|---------------|
| <b>Procurement</b>       | 4                | 2              | 6             |
| <b>Establishments</b>    | 9                | 2              | 11            |
| <b>Financial Systems</b> | 6                | 1              | 7             |
| <b>IT</b>                | 4                | 1              | 5             |
| <b>Service Specific</b>  | 7                | 3              | 10            |
| <b>Corp Gov/grants</b>   | 2                | 0              | 2             |
| <b>Totals</b>            | <b>32</b>        | <b>9</b>       | <b>41</b>     |

- 3.4 Table 2 summarises results for the last three financial years in the form of number of reviews and % for satisfactory and limited assurance.

**Table 2 Internal Audit Assurances 2015/16- 2017/18**

|                   | Full/ Substantial |         |                 | Limited Assurance |         |                |
|-------------------|-------------------|---------|-----------------|-------------------|---------|----------------|
|                   | 2015/16           | 2016/17 | 2017/18         | 2015/16           | 2016/17 | 2017/18        |
| <b>C&amp;H</b>    | 5 (56%)           | 2 (67%) | <b>4 (57%)</b>  | 4 (44%)           | 1 (33%) | <b>3 (43%)</b> |
| <b>CS</b>         | 21 (81%)          | 19(76%) | <b>14 (93%)</b> | 5 (19%)           | 6 (24%) | <b>1 (7%)</b>  |
| <b>E&amp;R</b>    | 4 (57%)           | 3 (60%) | <b>2 (50%)</b>  | 4 43%             | 2 (40%) | <b>2 (50%)</b> |
| <b>CSF</b>        | 9 69%             | 9 (69%) | <b>11 (79%)</b> | 4 31%             | 4 (31%) | <b>3 (21%)</b> |
| <b>All depts.</b> | 0                 | 1       | <b>1</b>        |                   | 0       | <b>0</b>       |
| <b>Total</b>      | 41(71%)           | 34(72%) | <b>32 (78%)</b> | 17(29%)           | 13(28%) | <b>9 (22%)</b> |

- 3.5. The percentage of audit assurances achieving a satisfactory/substantial or above rating has increased slightly since year. In all cases action plans are in place for agreed areas of improvement. Management summaries for each limited report were regularly submitted to the Standards and General Purposes Committee.
- 3.6. When analysing these statistics between years the following factors need to be taken into account:
- The same areas are not audited every year hence a like for like comparison cannot be made. Individual audits differ considerably in terms of scope and objectives.
  - The numbers of audits carried out in the year (small numbers in an area can give misleading results in % terms.)
  - There have been changes in the departmental responsibilities over the three-year period.

### **Key Areas for 2017/18**

- 3.7 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, meeting with key stakeholders prior to the start of the audit to agree the audit brief.
- 3.8 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.
- 3.9 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 as set out below.

3.10 However there are a number of areas where further improvements are required to strengthen the control environment and we have summarised the key themes identified below.

**Procurement**

3.11 A sample of seven areas reviewed found that 2 areas received a limited assurance as their procurement arrangements needed improvement, CRM2000 and School Meals where recommendations for improvement are currently in progress. A Corporate Procurement audit is due to be undertaken in 2018/19.

CRM2000 This contract has run for 11 years and the required extensions and compliance with CSO not followed. The intention of the service is to relook at this in 2019.

School Meals Contract Weak monitoring of the contract resulting in unpaid fees by the provider.

**Financial systems**

3.12 Of the 7 main financial systems reviewed this year, they all received a satisfactory/substantial assurance. The Pension Investment limited assurance, received a limited assurance..

**Table 3 Financial systems audit assurance for last 3 years**

| Financial System                       | Assurance 2015/16 | Assurance 2016/17 | Assurance 2017/18 |
|--|-------------------|-------------------|-------------------|
| Cash and bank                          | satisfactory      | satisfactory      | Not audited       |
| Payroll (iTrent)                       | satisfactory      | satisfactory      | Satisfactory      |
| Accounts Payable                       | Not audited       | Not audited       | Satisfactory      |
| Fixed Assets                           | Not audited       | Not audited       | Satisfactory      |
| Debtors                                | Not audited       | satisfactory      | Not audited       |
| Housing benefits                       | Limited           | satisfactory      | Satisfactory      |
| Treasury management/pension investment | Limited           | Not audited       | Limited           |
| Council Tax                            | Not audited       | Satisfactory      | Not audited       |
| National Non-Domestic Rates (NNDR)     | satisfactory      | Not audited       | Satisfactory      |
| General Ledger                         | satisfactory      | satisfactory      | satisfactory      |

3.13 The Payroll (iTrent) audit has been carried out as part of a joint review for London Borough's:-Sutton, Merton, and Kingston undertaken by Mazars.

Pension Investment (follow up) evidence of the completeness of the recovery of recoverable tax has not been provided and evidence of independent valuation of assets held with fund managers has not been provided

## IT audits

- 3.14 There were 5 Information Technology audits this year, one received a limited assurance - Mayrise (environmental system) post implementation. The other 4 audits received a substantial assurance:- Cyber essentials. Change Management, Mosiac (social care) post implementation, E5 (financial) post implementation.

Mayrise (environmental system) post implementation –this identified the following concerns:- Second level system password settings not fully in line with the Council's IT Security Policy; Generic accounts created and used by multiple users which reduces accountability; leavers access not disabled, Lack of segregation of duties in Mayrise System with System Administrators having business process user profiles, cleansing and migration issues resulted to duplication of some records in the Mayrise System; The interface with E5 system was not working efficiently and effectively

## Service Specific

- 3.15 There were 10 service specific audits carried out, of these 3 received a limited assurance where staff did not follow a proper process in financial arrangements leading to weak controls. These limited reviews were in a range of service reviews, Direct Payment, Court of Protection and Service Tenancies follow up. A full follow up audit on the Court of Protection service has also been carried out and provided a substantial assurance. The actions on the other two limited assurance reports will be followed up to ensure implementation. follow up.

Direct Payment – 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. service users had funds in excess of 8 weeks of their agreed weekly cost examples of expenditure that were outside of the service users agreed service plan

Court of Protection -issues relating to bank reconciliations and provide enhanced support and oversight for asset management. (A follow up audit in March 2018, provided a substantial assurance with previous high level concerns implemented)

### Service Tenancies follow up

Formal signing off the contractual status of each property, proposed policy changes are authorised , completeness of record keeping, compliance with Contract Standing Orders, key reconciliations, rent due is recorded and annual review of rents and discounts or formal exemption from doing so effective and complete management of the risk of granting service tenancies unintentionally.

## Schools

- 3.16 There were eight full school audits carried out this year, 2 of which have resulted in a limited assurance (Cricket Green and Holy Trinity) and three follow up audits on previous limited assurance schools resulting in a substantial assurance. A follow up audit is undertaken on limited assurance rated schools to ensure that

the recommendations have been implemented. At the year end a follow up audit was undertaken at Cricket Green School moving it to substantial assurance.

- 3.17 Internal Audit work closely with finance throughout the year to be aware of any concerns at schools in relation to budget deficits and late returns. Where concerns are raised, these are taken into account in the audit planning for each year.

#### **4. Follow up's**

- 4.1 During 2017/18 Internal Audit made 427 recommended improvement actions, at the time of this report 388 actions (91%) were fully implemented. 39 actions have yet to be implemented, of these 2 actions are overdue.
- 4.2 For those outstanding actions, an expected implementation date is provided by the manager. Monthly reports are sent out to all managers for actions due, where these are over two months overdue, the Head of Service also receives a copy. If an action is more than 3 months overdue, then the appropriate Director is informed. Any overdue outstanding audit actions are then reported to Standards /General Purposes committee.
- 4.3 Where reports are given a limited assurance and therefore have a number of recommendations a full follow up audit is usually carried out in the subsequent year to gain assurance that these recommendations have been actioned.

#### **5 Anti-Fraud**

- 5.1 The council Anti-Fraud and Corruption strategy, to sets out the council's approach to detecting, preventing and investigating fraud and corruption This strategy is supported by the councils whistleblowing policy, which was reviewed and updated in 2018 (at committee for approval) and by the council's 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.

##### Single Person Discount

- 5.2 The Council Tax section engaged a company to carry out Single Person Discount data matching checks. In 2017/18, the SPD values that ceased totalled £41,044.

#### **6 Fraud Partnership**

- 6.1 The South West London Fraud Partnership covers five councils, the cases for Merton are: -



## South West London Fraud Partnership – Merton cases 2017/18

| 2017/18               | Sanction Target | Open Cases b/fwd | New Cases in Year | Total Cases | Closed No Sanction | <b>Closed With Sanction</b> | Open Cases c/fwd |
|-----------------------|-----------------|------------------|-------------------|-------------|--------------------|-----------------------------|------------------|
| Tenancy Fraud         | 8               | 34               | 45                | 79          | 40                 | <b>8</b>                    | 31               |
| Right to Buy          | 5               | 18               | 54                | 72          | 39                 | <b>18</b>                   | 15               |
| Housing Apps Rejected | 10              | 5                | 15                | 20          | 5                  | <b>14</b>                   | 1                |
| Permit Fraud          | n/a             | 2                | 16                | 18          | 8                  | <b>5</b>                    | 5                |
| Corporate – Internal  | n/a             | 6*               | 10                | 16          | 5                  | <b>5</b>                    | 6                |
| Corporate – External  | n/a             | 8                | 17                | 25          | 9                  | <b>3</b>                    | 13               |
| Totals                | n/a             | 73               | 157               | 230         | 106                | <b>53</b>                   | 71               |

### Housing Fraud

- 6.2 Eight properties were recovered in 2017/18. This allows for those on the councils waiting list to be provided with the opportunity for a housing tenancy. Work is ongoing, including 3 cases with legal for consideration of legal action.
- 6.3 Right to buy applicants are passed to the Fraud partnership and the application checked to Housing Benefit, 18 applications have been cancelled as a result of incorrect information provided.

### Housing Applications Rejected

- 6.4 A pro-active fraud drive identified 14 housing applicants that were no longer eligible to be on the waiting list and a recommendation was made to Housing to cancel their applications. As a result all 14 were cancelled. A further 159 applications have been identified for removal following a review of NFI data matching.

### Blue Badge Investigations

This resulted in:-

- 1 Prosecution pleaded guilty to all offences. (12 months conditional discharge, £250 charges and £40 surcharge).
- 4 Cases closed non RIPA set up and surveillance undertaken by no further action to be taken..

- 6 cases are on-going (1 case is currently being prepared for prosecution)

#### Corporate Fraud (internal)

- 6.5 The corporate fraud cases involved employees for 2017/18, resulted in: -
- 2 resignations (1 of which may have further action taken),
  - 3 disciplinary hearing- (1 dismissed, 1 final warning and 1 written warning)
  - 5 No Further action - recommended improved controls
  - 6 in progress (1 preparing for prosecution)

#### Corporate External

- 6.6 There are 3 Council Tax Reduction cases ongoing investigation..

#### National Fraud Initiative (NFI)

- 6.7 The council takes part in a National Fraud Initiative, whereby data in the following areas are matches against data from other councils and public bodies and also matches are done between different areas of Merton data.

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

- 6.8 On the 2016/17 NFI data match, the council received 6,166 matches for review. The results as the 31<sup>st</sup> March 2018 were;
- 279 matches have been completed and closed;
  - 270 matches are in progress (had some action taken on them)
  - 1 matches had been closed as fraud;
  - 1 matches identified as error.

This has so far resulted in £1,701.76 identified as overpaid/incorrectly paid.

### **7. Review of the Effectiveness of the System of Internal Audit**

- 7.1 The Annual Audit Plan for 2017/18 was agreed by Standard and General Purposes Committee Members at the start of the year. At the year-end 100% of the audit planned days were achieved and 91% of audit actions implemented by the agreed date.
- 7.2 Internal audit has contributed to the overall corporate governance of the council's activities by:
- Completion of the audit plan
  - Member of the corporate risk strategy group.

- Chair of AGS working group
- Providing advice/training on corporate policies and procedures and control issues

7.3 The Public Sector Internal Audit Standards defines the level of effective audit service expected for all public sector audit services. There is a requirement to undertake an annual internal review of compliance to the standard, an internal review of the standard to confirm conformity has been carried out in 2017/18. Based upon our ongoing assignment and review processes, together with the results of our Customer Surveys, we believe that we are substantially compliant with those Performance Standards

7.4 The standard also requires an independent external assessment to be carried out every 5 years, this was previously carried out in 2014 with compliance achieved and has been undertaken again in May 2018 (results expected shortly).

#### Quality assurance

7.5 Internal Audit operates a Quality Assurance system for its internal audits. This includes; -

- Preparation of a detailed audit plan submitted to the Standards and General Purposes Committee for approval;
- Regular review of progress against the plan to ensure we are delivering the work we have promised. Progress reports to Standards and General Purposes Committee, including details of limited assurance and outstanding audit actions. Quarterly reports on days and number of audits completed are also reported to the Shared Service Board
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to a review protocol;
- The use of qualified, highly trained and experienced staff;
- Monitoring of performance against targets.
- The review of all reports by the Head of Audit.

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