

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

**Date: 11 March 2021**

Wards: All Wards

### **Subject: Internal Audit Progress report 2020/21**

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Chair of Standards and General Purposes Committee

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#### **Recommendation:**

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To consider and comment on the Internal Audit Plan 2020/21 progress

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

- 1.1 In March 2020, the Standards and General Purposes Committee agreed to an Annual Audit Plan comprising a total of 765 chargeable days. This report summarises Internal Audit's progress in delivering the Annual Audit Plan up to February 2021.

#### **2 Details**

- 2.1 The Accounts and Audit Regulations 2015 require an adequate and effective internal audit of accounting records and the system of internal control in accordance with proper practices. This task has been delegated to the responsible finance officer under Section 151 of the Local Government Act 1972. At Merton, the role of the responsible finance officer is fulfilled by the Director of Corporate Services and the internal audit requirement is met through the South West London Audit Partnership (SWLAP), which Merton joined in October 2015.
- 2.2 Internal Audit follows the Public Sector Internal Audit Standards (PSIAS). These standards comprise the public sector interpretation of existing standards set by the Chartered Institute of Internal Auditors. As supplementary guidance, specific to the local government sector, an application note has been issued by CIPFA/IIA; this guidance establishes the requirement for interim reporting [of Internal Audit activity] during the year and the report is designed to meet that requirement.

#### **3 Issues**

- 3.1 The Audit Plan agreed in March 2020 included a contingency for advice and support to other services. Due to the pandemic we increased our contingency days to be able to respond to the situation, offering responsive advice and support to other services as it was needed. It also became clear that

engagement with audits in some areas would become difficult due to services prioritising their work on the Covid 19 response.

- 3.2 During the first quarter of the year (April - June) Internal Audit responded to ad hoc requests for advice and redeployed staff to essential services in Adult Social Services, as well as where possible, completing the previous year's audits. During the second quarter (July – September) we undertook a review of the Council's response to Covid 19, and for the remainder of the year we have recommenced an adjusted audit plan, as detailed below.

### **Covid 19 - Internal Audit reviews**

- 3.3 In August 2020, we completed an advisory high-level review on the Council's Covid 19 response, which looked at governance, decision making and the financial arrangements in place. The financial areas reviewed included completion of financial returns to the Ministry of Housing, Communities & Local Government (MHCLG), arrangements for grants received, debt repayments, and adjustments to the procurement process, including supplier relief.
- 3.4 The review has been carried out across the five-borough partnership (Merton, Sutton, Kingston, Richmond and Wandsworth) with comparisons and recommendations. This review forms part of the Annual Governance assurance work as well as highlighting areas requiring more detailed audit testing.
- 3.5 The review found the Council had responded effectively to Covid 19. The governance arrangements in all the Councils quickly adapted to online committees and engagement with Members was managed well. Decision-making arrangements were swiftly put into place with Gold and Silver daily group meetings set up as well as a regional South West London Group.
- 3.6 Comparative analysis showed much of what the Council did was similar to or the same as its neighbouring boroughs helped by the close working relationships that officers have with their neighbouring colleagues.
- 3.7 During the emergency, decisions had to be made quickly by Councils and often these were made during Gold meetings or by individual officers. Some of these decisions were delegated decisions, some published as a key decision, or others approved by members. An area of good practice, is to keep a decision log, so that there is a clear record of when these decisions have been made, by who and when they need to be reviewed This will be helpful for the ongoing pandemic and future emergencies or changes in government advice or funding.
- 3.8 Following on from the main review, other Covid-related reviews were added to the Internal Audit Plan; -
- Procurement – Procurement Policy Notices (PPNs) (completed in August 2020)
  - Procurement PPNs (Completed in February 2021)
  - Rough sleepers (commissioning) - in progress
  - Infection Control grants - in progress
  - PPE equipment (commissioning) - in progress

- Community Testing grant – in progress

### **Other additional reviews added**

We commissioned the audit firm Mazars to complete an IT Needs Assessment to identify the main IT risks for the Council, for inclusion in the Internal Audit Plan. This review included discussions with senior officers in IT. This has now been completed and the following audit was identified for this year’s audit plan:

- IT Cloud Services and Cyber Security - in progress

## **4 Internal Audit Progress**

4.1 The table shown below summarises the planned and actual audit activity during the period in question.

<b>2020/21 Audit Plan</b>	<b>Audits</b>
Number of audits at final stage	23
Number of audits at draft stage	5
Number of audits in progress	13

4.2 Twenty audit assurance opinions have been issued since April 2020, categorised as follows:

- 1 (5%) **Full Assurance** audit opinion
- 14 (70%) **Substantial Assurance** audit opinions
- 5 (25 %) **Limited Assurance** audit opinions
- 0 (0%) **No Assurance** audit opinions.

147 audit recommendations were issued to management, of which:

- 19 (13%) were Priority 1
- 124 (85%) were Priority 2
- 4 (2%) were Priority 3

4.3 Appendix A includes details of the results of all individual audit assignments that were initiated during the period up to March 2021, including the draft audits and recommendations, which may be subject to change.

4.4 Each audit is given an opinion based on 4 levels of assurance depending on the conclusions reached and the evidence to support those conclusions. Members and management should note that the assurance level is an opinion of controls in operation at the time of the audit.

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.

4.5 In addition, each recommendation emanating from the audit review is given a priority rating of 1, 2 or 3 for implementation, with priority 1 being a high risk requiring immediate attention. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

4.6 The year-end position on all work undertaken during 2020/21, including any third-party assurances, will be evaluated, and reported in June 2021 and used to determine the Head of Audit's annual opinion on the Council's internal control environment.

### **Limited Assurances**

4.7 Since April 2020, there have been 5 limited assurance final reports. A summary of the main issues is detailed below.

### **Building Control** (previously reported to committee)

### **Direct Payments**

4.8 In order to receive a Direct Payment, service users need to enter into an agreement with the Council. The Direct Payment agreement is the contract between the Council and the service user and it lays out the terms and conditions of the direct payment, setting out the responsibilities that the Council and the service user have agreed to meet in order for the service user to receive

a direct payment. The Auditor was informed that the current agreement document (2010), required revision and was currently awaiting sign-off from Legal Services.

- 4.9 Sample audit testing of service user expenditure found that in Adult Services 60% of contracts were subject to financial monitoring but in Children Schools and Families there was no evidence of such monitoring
- 4.10 Sample testing of 20 (adult) service users required to make a contribution towards their care found that 5 made the correct contribution, but the remaining 15 had not made the required contribution.

#### **No Recourse to Public Funds (NRPF) (C&H)**

- 4.11 No Recourse to Public Funds applies to people who are 'subject to immigration control' and, as a result of this, have no entitlement to certain welfare benefits, homelessness assistance and an allocation of social housing through the council register. Local authorities have a duty to provide support to some categories of people who are subject to immigration controls and generally provide assistance under Section 21 of the Care Act 2014. This category includes people presenting as destitute, who is seeking provision of accommodation and support.
- 4.12 Our review established that senior management has acknowledged the increasing level of support for clients/families with NRPF as a key strategic risk.
- 4.13 The NRPF Connect database is a mechanism through which information about NRPF clients can be securely exchanged with the Home Office and updates can be obtained on pending immigration applications etc. When new clients present themselves, as part of the assessment process it is expected that the immigration status of the client is confirmed (either through documents provided or by creating a new case on the NRPF Connect database). A review of the NRPF Connect database established that immigration status updates had not been carried out as required.

#### **Prepaid cards CSF**

- 4.14 Prepaid cards operate in a similar way to normal credit and debit cards except that the cards are preloaded with funds by the Council, in line with the service users' care package/service agreement. In the Children's Social Care and Youth Inclusion division, in addition to service users being provided with prepaid cards, a number of teams also have "team" prepaid cards (either in the name of the team or a named officer). These cards are generally used as a means of dispensing cash payments (similar to petty cash) or making emergency payments.
- 4.15 Some teams have established localised guidance notes for the use of prepaid cards; however, no evidence was found of an overarching departmental policy on the use and management of prepaid cards. An internal audit review of prepaid cards undertaken in 2016 recommended the establishment of an overarching Departmental policy and procedure document to ensure that there

was a consistent approach across the Department for the use and management of prepaid cards. Although a draft document was shown to Internal Audit at the time of the 2016 audit, it appears that this document was never completed and approved.

- 4.16 A review of the IT system used to manage prepaid cards, found that a review of the access/permission logs of 70-current users, 14 were no longer employees of the Council. This included one leaver with a leaver's date on the Payroll System of 30 April 2018. There was also a lack of separation of duties within some of the processes. Several users were found to be able to order and register cards and upload funds to the cards without secondary checking.
- 4.17 Some of the cards had been assigned or registered in the name of the team rather than a named individual, or were in the name of a team manager but used by other team members, without a process in place to record the staff member tasked with responsibility of the card at any one time. These cards are used to withdraw petty cash from ATM machines, make emergency payments to client's bank accounts, and make online purchases for expenditure such as train tickets, birth certificates, contact activities, passports, and phone payments. Testing a sample of 40 clients found that 9 did not have a service agreement and receipts were only available for 15 of 26 of transactions where receipts should have been obtained.

#### **Covid 19 procurement** - Procurement Policy Notices (PPNs)

- 4.18 A audit review was carried out in August 2020 and received a Limited assurance. A follow up review was undertaken, in January 2021, on progress of the previous actions and any considered any subsequent updated guidance from government. The follow up audit received a Substantial assurance.
- 4.19 The Government issued Procurement Policy Notices (PPNs) to provide guidance to local authorities on their procurement arrangements in place during the pandemic. The Internal Audit review considered the Council's approach against the following guidance issued: -
- PPN01/20 – Allows for direct awards of contract for emergency situations and extensions to contacts
  - PPN02/20 - Supplier relief due to coronavirus (COVID 19) – covers up to June 2020. Any Contract Variation need to be included in a contract variation or change note and include a review or time-limit, which is the authority's decision when things return to normal.
  - PPN04/20 – Recovery and Transition from Covid-19 published in June 2020 is effective from 1<sup>st</sup> July to 31<sup>st</sup> October 2020 - this covers reviewing the supplier relief and continuing if appropriate (awarded in PPN02), paying suppliers as quickly as possible, and looks at transition plans to exit from supplier relief.
- 4.20 During the pandemic, the Procurement Board did not meet formally between April and June 2020, with documentation being considered by email communication. Consequently, minutes of Procurement Board meetings were not available for this period. **The follow up review found that since July 2020**

**virtual meetings have been held, so this action has been closed.**

- 4.21 Arrangements for Contract supplier relief (PPN02 and PPN04) were managed in the departments. Internal Audit were provided with information from some of the department but and there was no overall oversight of the total value of supplier relief awarded. **The follow up review in January 2021, found that a new process had been put in place in September 2020 to ensure there was oversight of supplier relief awarded. At the time of the follow up this process had not yet been completed.**
- 4.22 A template was provided by Legal Service, to the departments to use for contract variations, but it was found that variations provided by ASC for Domiciliary Care providers were made by email from the Contracts and Market Management Manager. **The follow up review found that this process has now been formalised.**
- 4.23 Recovery and transition plans (PPN04) were being considered but were not available. **The follow up review in January 2021, found that this action is in progress.**

Follow - up on Priority 1 actions

- 4.24 At the time of this report, there were 12 P1's due to be implemented. See Appendix B for details. The table below shows the audits where actions are outstanding or have not yet due to be implemented. These actions are in the process of being followed up.

<b>Audit</b>	<b>P1's outstanding/still due</b>
Service Tenancies	1
PCI compliance	3
Building Control	3
Prepaid cards	3
NRPF (C&H)	1
Contract Compliance	1
<b>Total</b>	<b>12</b>

**Counter-Fraud and Investigations**

- 4.25 The responsibility for managing the risk of fraud and its prevention and detection lies with management. However, Internal Audit's planned work includes evaluating controls for their effectiveness in mitigating the risk of fraud.

- 4.26 Counter-fraud work has been undertaken by the South West London Fraud Partnership (SWLFP) since April 2015. This falls across three categories, namely:
- Reactive investigations arising from external intelligence, management referrals or whistleblowing disclosures
  - Co-ordination and investigation work in line with the requirements of the National Fraud Initiative data matching exercise
  - Proactive counter-fraud work which includes data matching and online fraud awareness training.
- 4.27 A separate report is provided twice yearly by the SWLFP detailing the cases referred and the outcome of any investigations. During 2020/21 the SWLFP have provided support to the Business Rate team administering Covid 19 support applications for the Small Business Grant and the Retail, Hospitality and Leisure Grant schemes.
- 4.28 Any allegations of corporate fraud or corruption are brought to the attention of the Head of Internal Audit in the first instance. Whistleblowing concerns are also recorded by Internal Audit and the outcome reported annually to the Committee.
- 4.29 Any areas of potential internal control weaknesses identified during fraud investigations are considered for inclusion in the internal audit plan.

## **5 Alternative options**

- 5.1 None for the purposes of this report.

## **5 Consultation undertaken or proposed**

- 6.1 n/a

## **7 Timetable**

- 7.1. None for the purposes of this report.

## **8 Financial, resource and property implications**

- 8.1 The Council's budget includes provision for the audit plan.

## **9 Legal and statutory implications**

- 9.1 This report sets out a framework for Internal Audit to provide a summary of internal audit work for 2020/2021. The Local Government Act 1972 and subsequent legislation sets out a duty for Merton and other Councils to make arrangements for the proper administration of their financial affairs. This report also complies with the requirement of the following:

- Local Government Act 1972



- Accounts and Audit Regulations 2015
- CIPFA/IIA: Public Sector Internal Audit Standards (PSIAS)
- CIPFA/IIA: Local Government Application Note for the UK PSIAS

The provision of an Internal Audit service is integral to the financial management at Merton and assists in the discharge of the Council's duties.

**10. Human rights, equalities and community cohesion implications**

10.1 n/a

**11 Crime and disorder implications**

11.1 n/a

**12 Risk management and health and safety implications**

12.1 n/a

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

Appendix A – Audit Assurances since April 2020

Appendix B - Summary of Priority One Recommendations

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