

Committee: Standards and General Purposes Committee

Date: 10 March 2022

Wards: All Wards

Subject: Internal Audit Progress Report 2021/22

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Chair of Standards and General Purposes Committee

Contact officer: Margaret Culleton - Head of Internal Audit
Auditmargaret.culleton@merton.gov.uk

Recommendation:

To consider and comment on the Internal Audit Plan 2021/22 progress

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 In March 2021, 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 March 2022.

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 this report is designed to meet that requirement.

3 Internal Audit Progress

- 3.1 The table shown below summarises progress of the audit plan.

2021/22 Audit Plan	Audits
Number of Final (completed) audits	30
Number of audits at draft stage	3
Number of audits in progress	12

3.2 Thirty-two audit assurance opinions have been issued since April 2021, categorised as follows:

- 1 (3%) **Full Assurance** audit opinion
- 24 (75%) **Substantial Assurance** audit opinions
- 7 (22 %) **Limited Assurance** audit opinions
- 0 (0%) **No Assurance** audit opinions.

195 audit recommendations were issued to management, of which:

- 13 (7%) were Priority 1
- 159 (81%) were Priority 2
- 23 (12%) were Priority 3

3.3 Appendix A includes details of the results of all individual audit assignments that were initiated during the period up to March 2022, including the draft audits and recommendations, which may be subject to change.

3.4 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	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

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

3.5 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.

3.6 The year-end position on all work undertaken during 2021/22, including any third-party assurances, will be evaluated, and reported in July 2022 and used to determine the Head of Audit's annual opinion on the Council's internal control environment.

Advisory reviews

3.7 Internal Audit undertake advisory reviews as well as signing off grant claims and accounts. To date the following accounts and grant returns have been reviewed and signed off by the Head of Internal Audit.

- Merton and Sutton Joint Cemetery account
- Mayor's accounts
- Compliance and Enforcement grant

3.8 The work currently undertaken as advisory reviews are: -

- Departmental schemes of management – advisory report issued

- Financial Procedures and Financial Regulations – advisory work and input for an on-going review
- Co-ordination of the Council’s Annual Governance Statement (input from all areas of the Council, self-assessments from Directors and Assistant Directors on the Internal Controls and Governance arrangements in place in their areas of responsibility)
- Attendance at the Corporate Risk Management Group
- Lead on the Whistleblowing Monitoring group (Head of Audit, Monitoring Officer, Head of HR and Legal). Co-ordinator of whistleblowing register
- Other ad-hoc advice

Limited Assurances

3.9 Since April 2021, there have been 7 limited assurance final reports. Three limited assurance reports have previously been reported to Committee. There have been 3 limited assurance final reports issued since the last Committee report in November 2021. A summary of the issues and management response is provided below. The actions from these reviews will be followed up.

Special Guardianship/Adoption and Fostering Payments (final report November 2021)

3.10 Summary of findings Council Policy and Procedural Guidance for Fostering, Adoption, Special Guardianship Order (SGO) and Child Arrangement Order (CAO) Allowances, had not been reviewed within the required timescales. Annual reviews of means-tested allowances, not carried out in a timely manner. Overpayments of Adoption, Special Guardianship Order or Child Arrangement Order, not being calculated or reclaimed. Referrals forms not used to authorise the changes to Adoption, Special Guardianship Order or Child Arrangement Orders leading to an incomplete audit trail of the decision-making process. A formal budget-monitoring process has not been established for the Adoption, SGO and CAO income and expenditure.

3.11 Management response ‘The policies and procedures for Fostering, Adoption and SGO have now all been reviewed and updated to reflect current practice and payments. We have created a master spreadsheet to monitor and review all payments that are being made so that they can be easily reviewed in the same place.

There is now a clear agreed process of how the means tests will be reviewed / quality assured to ensure their accuracy. We have agreed a process whereby letters will be sent to carers to request the updated information for the financial reviews. If after a certain period of time the information is not received, we will freeze payments. With regards to the current backlog of payments, we are working to clear the outstanding reviews and formally contact the carers to request the information in line with our new policy. When we have all the necessary information the longest outstanding assessments will be prioritised and completed and updated on the new master spreadsheet with a new annual review cycle being established.

We will establish clear packages on Mosaic so that the allocation of monies ties in with the financial reviews. We will be seeking to recoup the overspend from last financial year of £8,337.93 We will also recoup any overpayments from this financial year. The Finance manager will train officers to recoup any overpayments on a 2 weekly basis in line with payment runs.

We have now established the codes for where the Adoption Support Funds (ASF) are received. The monies in and out regarding the ASF will be recorded in the master financial spreadsheet. We are currently working on identifying and reconciling previous payments and interventions that took place historically'.

Merton Abbey Primary School_(final report November 2021)

- 3.12 Summary of findings The school produced a predicted deficit budget for 2021/22 financial year of £99,460. The 1-year budget plan was approved by Governors on the 06/06/2021 and submitted to the Local Authority. At the time of audit (October 2021), the LA had not approved the deficit budget.

Budget monitoring – lack of evidence of monthly monitoring. Supporting evidence of financial reports to be made available to Governors. In 2021/22 (April 2021 to September 2021) 89% of total invoiced expenditure had not been committed to before expenditure had occurred.

- 3.13 Management response 'The School is awaiting indicative 3-year budget figures from LBM and a date for a deficit budget meeting. Consequently, the school has not submitted a 3-year budget, or a recovery plan. We are doing everything we can to ensure good financial management moving forward. The most recent budget-monitoring report shows a projected deficit of £38k at the end of this financial year – significantly better than the £98k we were predicting when we set the budget.

The Head Teacher and Finance Officer have regular discussions on budget monitoring so will ensure that all signed records are kept as evidence. The Finance Officer will include an FMS report as supporting back up for the 'line by line' figures contained in the excel report for reports to Governors'.

Gorrington Park Primary School (final report February 2022)

- 3.14 Summary of findings The approved budget must be fixed on SIMS FMS to aid effective budget monitoring. Lack of evidence of monthly monitoring. Supporting evidence of financial reports to be made available to Governors, included extended school and closing journals Official orders not always raised and authorised prior to purchase. Adherence to the Scheme for Financing Schools (Annex E) not demonstrated and signed contracts not in place.

- 3.15 Management response Original budget for 21/22 as approved by Governors re-loaded and fixed on FMS on 30/11/21. Regular budget monitoring meetings and financial information provided to governors. *Review all on-going contracts to ensure value for money is achieved*

Parking Enforcement Services - (final report February 2022)

- 3.16 Summary of findings. Where services are provided there is no one overall agreement in place and no overall management oversight. The Council would benefit from a more joined-up approach to providing commissioned services.

Charges made for services provided do not reflect the actual cost to the Council, for example, the invoices only cover overtime paid, tow truck hire, traffic charges and vehicle hire, but have missed other costs and do not include overheads as well as failing to re-charge VAT. A full reconciliation should be undertaken of all costs incurred and a review of additional overheads included.

The arrangements for claiming overtime are currently inadequate as there is insufficient separation of duties and the rates paid are inconsistent with agreed rates.

- 3.17 Management Response 'We will set up agreements and new procedures to ensure all costs are included We will review the overtime claim process. We will ensure full reconciliations are carried out and clear management oversight'.

Progress of all Priority 1 audit actions

- 3.18 We currently have 28 Priority 1 actions outstanding on limited assurance audits, 9 actions are for audits completed prior to 2021/22 and 19 actions for reports issued since April 2021. An update on progress of all outstanding Priority 1 actions is detailed below and in Appendix B.

Limited Assurance reports issued prior to 2021/22 with outstanding Priority 1 audit actions.

Audit	Final report date	Number of Priority 1 recommendations	No of P1's outstanding
Building Control	5/8/20	3	3
PCI compliance	20/12/19	3	3
Prepaid Cards	8/2/21	5	3
Total			9

Limited Assurance reports issued in 2021/22, with outstanding Priority 1 audit actions.

Audit	Final Report Date	No of P1 recommendations	No of P1's outstanding
Disclosure Barring Service checks	28/5/21	2	1
Care Management System (CM2000)	16/6/21	4	4
Merton Abbey Primary school	26/11/21	1	1
Parking Enforcement services*	8/2/22	12	12
Gorrige Park Primary School*	23/2/22	1	1
Total			19

*actions not yet followed up

3.19 All audit actions are followed up monthly when the target date is reached. If a response is not received by the 2nd follow up, these are escalated to the Heads of Service or Assistant Director. Outstanding actions are also reported regularly to DMT's. At the time of this report, we had not received an update for actions due on the prepaid cards.

Counter-Fraud and Investigations

3.20 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.

3.21 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

3.22 A separate report is provided twice yearly by the SWLFP detailing the cases referred and the outcome of any investigations. During 2021/22 the SWLFP have provided support to the Business Rates team administering Covid 19 support applications for the Small Business Grant and the Retail, Hospitality and Leisure Grant schemes.

3.23 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.

3.24 Any areas of potential internal control weaknesses identified during fraud investigations are considered for inclusion in the Internal Audit plan.

4 Alternative options

4.1 None for the purposes of this report.

5 Consultation undertaken or proposed

5.1 n/a

6 Timetable

6.1. None for the purposes of this report.

7 Financial, resource and property implications

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

8 Legal and statutory implications

8.1 This report sets out a framework for Internal Audit to provide a summary of internal audit work for 2021/2022. 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

8.2 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.

9. Human rights, equalities and community cohesion implications

9.1 n/a

10 Crime and disorder implications

10.1 n/a

11 Risk management and health and safety implications

11.1 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 2021

Appendix B - Progress on Outstanding Priority 1 actions.