

INTERNAL AUDIT ANNUAL REPORT & OPINION 2017/2018



1. Internal control and the role of Internal Audit

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

1.3 Annually the Orbis Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

2. Delivery of the Internal Audit Plan

2.1 The Council's Internal Audit Strategy and Plan is updated each year based on a combination of management's assessment of risk (including that set out within the directorate and leadership risk registers) and our own risk assessment of the Council's major systems and other auditable areas. The process of producing the plan involves extensive consultation with a range of stakeholders to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered.

2.2 In accordance with the audit plan for 2017/18, a programme of audits was carried out covering all Council directorates and, in accordance with best practice, this programme was reviewed during the year and revised to reflect changes in risk and priority.

2.3 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to the Audit and Governance Committee as part of our periodic internal audit progress reports.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable assurance¹ that Surrey County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2017 to 31 March 2018. Audit activity has confirmed that the majority of key controls examined are working in practice, with some specific exceptions.

3.2 Whilst we have been able to provide this opinion, it is important to highlight that there remains a need to strengthen governance and internal control arrangements within Children's, Families and Learning as highlighted in the recent Ofsted inspection and our own internal audit activity (see below). This is something senior management clearly recognise

¹ The use of term 'reasonable assurance' reflects that the opinion has been reached based on the work set out in paragraph 4 below and that it is not possible or practicable to audit all activities of the County Council within a single year.

and are taking appropriate action to address. During the year ahead, we will continue to work with the organisation to support this improvement agenda and provide assurance wherever possible that sufficient progress is being made.

3.3 In all other cases, where improvements in controls are required, we have agreed appropriate remedial action with management.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

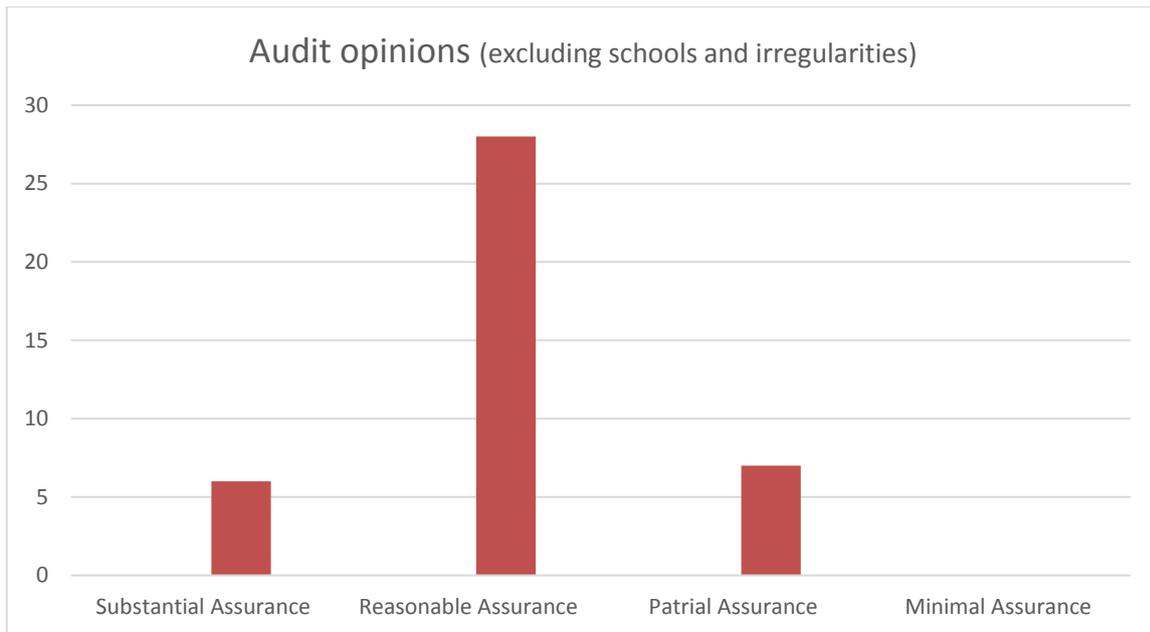
- All audit work completed during 2017/18, both planned and unplanned;
- Follow-up of actions from previous audits;
- Management's response to the findings and recommendations;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor and Audit Managers at organisational meetings relating to risk, governance and internal control matters;
- Effects of significant changes in the council's systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service's performance.

4.2 No limitations have been placed on the scope of Internal Audit during 2017/18.

5. Key Issues for 2017/18

5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the council's Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and ad hoc advice. The following graph provides a summary of the outcomes from all audits finalised during 2017/18 with standard audit opinions:



5.3 A full listing of all completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels. Significantly, it is pleasing to report that none of the audits completed in the period have resulted in 'minimal assurance' opinions.

5.4 Included within the graph above are a total of five reviews where we have revisited areas which had previously received lower levels of assurance. For four of these (Health and Safety, Nursery Education, Premises Security and Gifts & Hospitality), we have been able to issue a revised opinion of Reasonable Assurance. For the other audit (Youth Services – Governance and Business Management Arrangements), the original audit opinion of Partial Assurance remains unchanged.

5.5 Where necessary we have agreed revised action plans with management who have committed to ensuring the necessary control improvements are made. The Youth Services audit is subject to ongoing scrutiny by the Children and Education Select Committee, which will be supported by Internal Audit as necessary.

5.6 As well as conducting formal follow up reviews, we have in place arrangements to track the implementation of all high risk agreed actions issued during the year. As at 31 March 2018, of the 27 high risk agreed actions made and due by the end of the 2017/18, it is pleasing to report that all except one had been successfully implemented within the agreed timescales. The outstanding area, that of the timely completion of Initial Health Assessments within systems for Unaccompanied Asylum Seeking Children, is being examined further through a separate audit currently underway in Children's Services.

5.6 At the time of producing this report, a total of 6 planned reviews remained in progress, all of which were on target to be completed by the end of the second quarter of 2018/19. Five other audits carried over from the 2017/18 plan were completed by the end of quarter one. The finalisation of all of these reports will result in 100% completion of the 2017/18 internal audit plan.

5.7 Notable audit work completed within 2017/18 and which helps us to form our overall opinion for the year includes:

GDPR

5.8 The General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) is a regulation by which the European Parliament, the European Council and the European Commission intend to strengthen and unify data protection for individuals within the European Union (EU). It also addresses export of personal data outside the EU. It has some similarities with, but supersedes, the existing provisions of the Data Protection Act 1998 (DPA). The GDPR applies in the UK from 25 May 2018.

5.9 This review focussed on examining the organisation's preparedness for GDPR and, as a result of the overall project plan continuing to show actions outstanding in a number of key areas (data portability, updating policies/procedures, the Subject Access Request process, legal basis for processing data, children's information), we were able to provide an overall opinion of Partial Assurance.

5.10 The findings of the review were discussed with management and a range of actions were agreed to address the issues, together with appropriate timescales for implementation. Our assurance work in the area of GDPR compliance will continue in 2018/19.

Employee Expenses Compliance Issues

5.11 Audits in areas such as employee expenses and other benefits claimed by staff have identified an apparent diminution in the control environment in which such claims are made and authorised.

5.12 We found that in a number of instances the checking and validation of claims by managers was insufficiently robust to reduce the risk of fraud and/or error in the amounts subsequently paid. We have also identified claims being made by employees that are not compliant with Financial Regulations in terms of receipts not being provided to support expenditure incurred; in terms of not being detailed enough to allow for effective scrutiny to take place (e.g. over mileage claimed); and/or in terms of claims being made in a timely manner.

5.13 Improvements to the control environment have been agreed with management, including a tightening of the Financial Regulations and the introduction of measures through the appraisal system to ensure throughout the hierarchy of staff the importance of compliance to core policies is understood and followed.

5.14 To follow-up on the effectiveness of revised arrangements, our 2018/19 plan includes specific 'cultural compliance' reviews to be undertaken in teams across all directorates to ensure managers and staff are compliant with stated procedures and processes.

Children's Improvement Programme (SEND2020)

5.15 Our overarching conclusion from following up actions taken by the service against previous audit findings and recommendations was that progress had been slow in some areas, and weaknesses that existed at the time of the original audit work have still not been fully addressed. Some areas within the wider Improvement Programme were still subject to ongoing programme and project workstreams a year or more after first being under review, and other areas have not been progressed since 2016/17 audit work was completed.

5.16 We reported on the following findings in August, some of which have subsequently been identified by the recent Ofsted inspection:

- A Quality Assurance Framework for SEND2020 had still not been formally agreed, signed-off and embedded within the service;
- Around 600 live children's cases had not been allocated to a current member of staff, which was a reduction in performance from the 2016/17 audit; and
- Efforts to rectify known discrepancies in data between key systems had not progressed sufficiently, and no assurance could be given over ongoing efforts to manage the situation.

In response to these ongoing issues we have agreed a range of actions with management which are clearly of a priority. Consequently we will continue to work with Children's Services to support them in securing the necessary improvement and will undertake a formal follow-up review during the course of 2018-19.

Non-Maintained Independent School Placement Management

5.17 Most children from Surrey who are assessed as needing an Education Health and Care Plan (EHCP) are placed in state-funded mainstream schools, special schools, or specialist units in Surrey. Where there is not enough Special Educational Needs & Disability (SEND) provision in state-funded schools, or in complex cases, or following a tribunal, then children are placed in non-maintained independent schools (NMIs). In such cases, Surrey County Council (SCC) pays the agreed fees.

5.18 In 2017, 11.9% of Surrey pupils with an EHCP are placed in an NMI compared to 5.2% nationally. As a consequence, NMI costs within Surrey are high. At the time of audit there was a forecast overspend for 2017/18 year with a predicted outturn of £47.7m against a budget of £39.7m.

5.19 The audit made recommendations to move toward a comprehensive documented process for recording and demonstrating the path to NMI selection and placement, together with improving contract and supplier relationship management to manage and reduce costs more effectively.

Key Financial Systems

5.20 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council's key financial systems, both corporate and departmental. This includes systems in place for risk management and for ethical governance. Of those completed during 2017/18, all of these have resulted in either full or substantial assurance being provided over the control environment.

Anti-Fraud and Corruption

5.21 During 2017/18, we logged 24 allegations under the Council's Anti-Fraud and Corruption Strategy, in all cases identified through the Council's confidential reporting hotline or notifications from departments. As a result of the allegations, 20 investigations were undertaken by Internal Audit, with the remainder being referred to local management, another local authority or assessed as requiring no further action.

The following is a summary of some of the investigation activity undertaken by Internal Audit in the last 12 months:

- An investigation into the misuse of prepaid credit cards in one service, which led to £68,800 being misspent by an officer. Following our review the officer was dismissed, and the matter is currently being investigated by the police. Follow-up work to ensure effective controls are in place for this type of card has been commissioned.
- Two separate investigations were undertaken where officers had falsified signatures of colleagues on official documents. In both cases the officers resigned before their scheduled disciplinary hearing had taken place.
- One investigation was undertaken into the actions of a Chair of Governors at a maintained school, who had claimed expenses that were not compliant with the school's policy. Of a total of £2,487 claimed in year, a repayment of £1,650 was made to the school. The individual is no longer in this role.
- We investigated a data breach by a teacher at a maintained school, where personal information about pupils had been part of data uploaded to an unencrypted memory stick. There was no evidence of any attempt to misuse this data, more it had been a poor decision made to complete work from home. We worked with the Information Commissioners Office, to whom the breach was reported, to bring the matter to an appropriate resolution.
- We supported the investigation of an officer signed off sick from their service but using this as a means to go on holiday with their family during term time (the employee was on a term-time only contract). Following investigation, the officer offered their resignation before a disciplinary hearing could be convened.
- A number of smaller investigations were undertaken in matters including theft of money from a safe on council premises; the apparent misuse of a SCC car club vehicle; the false application for a blue badge; and a case of false representation by a council employee during the schools applications process. After each case, controls were improved within the service areas.
- Three further cases remain open at the time of writing this report.

5.22 Any internal control weaknesses identified during our investigation work are reported to management along with appropriate recommendations for improvement. This work is also used to inform future internal audit activity.

5.23 As part of the Cabinet Office's National Fraud Initiative (NFI), the Council is required to provide a range of data in order to carry out a data matching exercise. Data matching involves comparing computer records held by one body against other computer records held by the same or another body for the purpose of identifying potential cases of error or fraud.

5.24 Internal Audit have co-ordinated the production and submission of this data on behalf of SCC, covering a range of areas including payroll, pensions, creditors, residential care clients, concessionary travel passes, and clients in receipt of direct payments. The results of this cycle of NFI became available in February 2017 and are currently being investigated by the relevant services within the Council. We have requested that these are completed by September 2018 and we will report the results in due course.

5.25 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff. During 2017/18, this has included data analysis activities along with the delivery of both targeted and general counter fraud training to teams across the Council.

5.26 Whilst it is our opinion that the control environment in relation to fraud and corruption is satisfactory and the incidence of fraud is considered low for an organisation of this size and diversity, we continue to be alert to the risk of fraud. This includes working with local fraud hubs, the aim of which is to deliver a strong and co-ordinated approach to preventing, detecting and responding to fraud.

5.27 Looking forward, the new structure for Orbis Internal Audit has created a dedicated Counter Fraud team across all three partner authorities. This team will deliver the counter fraud and investigative work as required for 2018/19.

6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2017/18, including the results of our first independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme, and the year end results against our agreed targets.

PSIAS

6.2 The new Standards cover the following aspects of internal audit, all of which have been externally assessed during 2017/18 by South West Audit Partnership (SWAP):

- Purpose, authority and responsibility;
- Independence and objectivity;

- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;
- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.3 The results of this work found a high level of conformance with the Standards. Detailed findings are contained within a separate report on the agenda for this meeting.

Key Service Targets

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post audit questionnaires, discussions with key stakeholders throughout the year and annual consultation meetings with Chief Officers.

6.5 We have completed 85.7% of the 2017/18 audit plan, slightly below our target of 90%. As reported in 5.6 above, some outstanding reviews were nearing completion at year end, with all reports due to be finalised by the end of Quarter 2 of 2018/19. Other factors affecting our performance included transitional arrangements under the Orbis project leading to a new in the way we undertook and reported our work, and the having two members of the team unexpectedly leave us in Quarter 4 of 2017/18.

6.6 In addition to this annual summary, both CLT and the Audit & Governance Committee will continue to receive performance information on internal audit throughout the year as part of our newly implemented quarterly progress reports.

Internal Audit Performance Indicators 2017/18

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit and Governance Committee on 12 April 2018
	Annual Audit Report and Opinion	By end July	G	2017/18 annual report approved by Audit and Governance Committee on 13 June 2017
	Customer Satisfaction Levels	90% satisfied	G	100% satisfied
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	A	85.7%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	External assessment by the South West Audit Partnership gave an opinion of 'Generally Conforms' – the highest of three possible rankings
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	A	76%
Our staff	Professionally Qualified/Accredited	80%	G	83%

Summary of Opinions for Internal Audit Reports Issued During 2017/18

Substantial Assurance:

(Explanation of assurance levels provided at the bottom of this document)

Audit Title	Department
Overseas Pensioner Life Certification	Finance
Capital Expenditure Monitoring	Finance
Review of Carbon Reduction Credits/Green House Gas Emissions	E&I
Pupil Premium	CSF
Grass Cutting Contract	E&I
Risk Management	Finance

Reasonable Assurance:

Audit Title	Department
Accounts Payable	Finance
CSF Improvement Plan	CSF
Better Care Fund	ASC
Stop Smoking	ASC (PH)
SEND expenditure within schools	CSF
ASC Quality Assurance	ASC
Highways (Commissioning and Delivery Model)	E&I
CRSA of Governance Policies and Processes	All
Members' Allowances and Expenses	LD&CS
Social Media	DCEO
Revenue Budget Monitoring	Finance
Public Consultation	LD&CS
Order to Cash (16-17)	Finance
Unaccompanied Asylum Seeking Children	CSF
Performance Appraisals	DCEO
Payroll	Finance
Contract Management	ASC/CSF
Community Transport	E&I
Premises Security (follow-up)	DCEO
Health & Safety (follow-up)	DCEO
Financial Assessments & Benefits (FABS)	ASC
Gifts & Hospitalitys (follow-up)	DCEO
Nursery Education (follow-up)	CSF
Efficiency Savings	Finance
Order to Cash (17-18)	Finance
Pavement Horizon	E&I
Organisational Ethics	DCEO

Partial Assurance:

Audit Title	Department
Youth Services (Governance & Business Management Arrangements) (follow-up)	CSF
SEND2020	CSF
Non-Maintained Independent Schools Placement Management	CSF
Deprivation of Liberty Safeguards (DOLS)	ASC
Surrey Choices	ASC/Finance
Compliance with Procurement Standing Orders	Finance
General Data Protection Regulations (GDPR)	All

Other Audit Activity Undertaken during 2017/18 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
Annual Governance Framework	DCEO
Surrey Counter Fraud Partnership	Finance
National Fraud Initiative – various investigations	All
Direct Payments – supporting new ways of working	ASC
Supported the implementation of Mobisoft in the TCC	E&I
Support work to facilitate an external assessment in Property Services by the London Energy Partnership	DCEO
Robotics Process Automation for Deferred Pension process	Finance
Supporting Early Help in analysis of nursery setting data	CSF
Bus Subsidy grant certification	E&I
Active Surrey Sports grant certification	CSF
Broadband annual grant return to BDUK	DCEO
Troubled Families grant certification	CSF

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.