

# INTERNAL AUDIT ANNUAL REPORT & OPINION 2018/2019



## **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 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 departmental and strategic 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 2018/19, a programme of audits was carried out covering all Council departments and, in accordance with best practice, this programme was reviewed during the year and revised to reflect changes in risk and priority. This has included responding to, and investigating, allegations of fraud and other irregularities.

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 partial assurance<sup>1</sup> that Surrey County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.

---

<sup>1</sup> This opinion is based on the activities set out in paragraph 4 below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the council within a single year.

3.2 Further information on the basis of this opinion is provided below but in summary, the results of internal audit activities during the year have resulted in a number of partial or minimal audit opinions being issued, some of which are potentially significant. Where the need for improvements in control have been identified, we have not always seen sufficient evidence that historically, management have taken appropriate remedial action in a timely manner. It is, however, apparent that significant effort is now being made by the organisation to strengthen governance, risk management and internal control, with major transformational programmes commenced during the year. Whilst these are still in development, with the impacts likely to begin materialising during 2019/20, there is evidence of a clear commitment from management and Members to secure improvement. The direction of travel is therefore positive and something which Internal Audit will monitor over the year ahead.

#### 4. Basis of Opinion

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

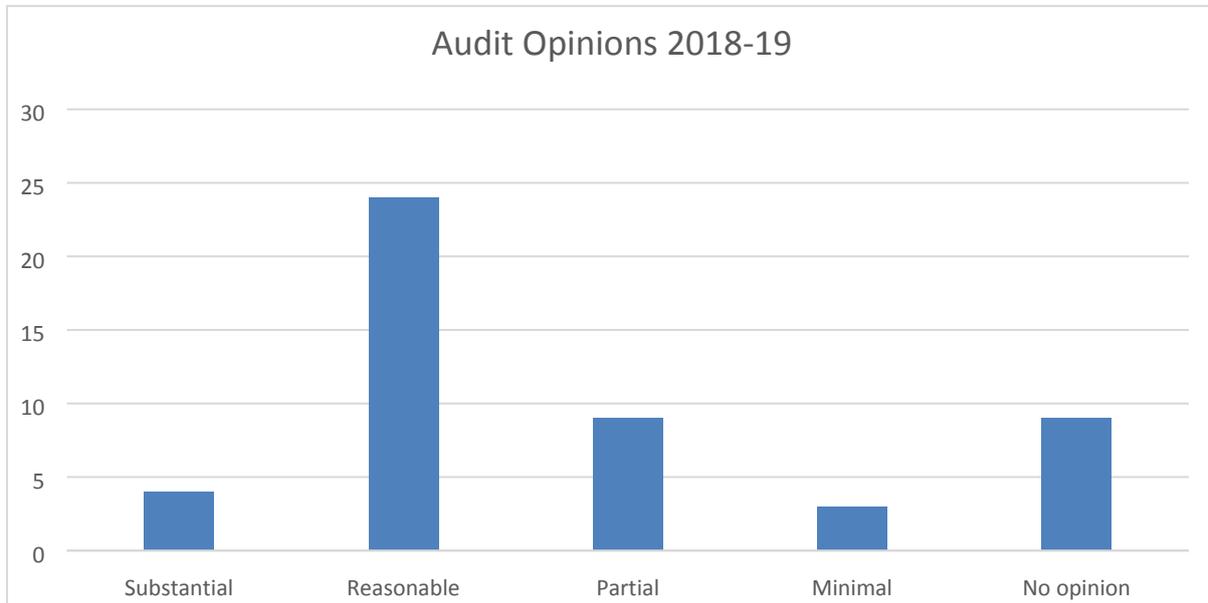
- All audit work completed during 2018/19, planned and unplanned;
- Follow up of actions from previous audits;
- Management's response to the findings and recommendations;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor and Audit Managers at organisational 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; and
- Quality of the Internal Audit service's performance.

4.2 No limitations have been placed on the scope of Internal Audit during 2018/19. It should, however, be noted that very little internal audit activity was carried out during the year in relation to Surrey County Council schools, with the organisation placing reliance on the assurance arrangements provided as part of the Babcock 4S contract. Our internal audit opinion for 2018/19 therefore excludes the control environment within schools. In light of the termination of the Babcock 4S contract, our internal audit plan for 2019/20 includes work to examine the future assurance regime in relation to the county's schools and this will be used to inform our future schools audit strategy.

#### 5. Key Internal Audit Issues for 2018/19

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 2018/19 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. Whilst the results of all audit work completed is reported to CLT and Audit and Governance Committee throughout the year, those reviews with minimal assurance have been summarised again below for completeness:

- Looked After Children Initial Health Assessments** – this review sought to provide assurance that all newly Looked After Children receive an Initial Health Assessment within the statutory timescales, given previously poor performance in this area against national targets. We have only been able to provide minimal assurance over the controls in operation because performance against target remained very low, with less than 20% of assessments undertaken within the statutory timescales.

We found regular delays at all key stages in the process, involving both Children’s Services and the main provider. Performance management and reporting arrangements within this area were found to be weak and inefficient, diverting management attention away from addressing key issues.

All actions arising from the review were agreed with management who have been involved in discussions with the CCG and the main provider to improve performance. This includes a LEAN project to review processes, with plans to change the delivery model of assessments in order to speed up the system.

- **CFL Care Assessments** - this audit was commissioned by Chief Executive with a view to providing assurance over arrangements within Children’s Services for carrying out care needs assessments, approving packages of care, commissioning and procurement of care, cost identification, forecasting and financial monitoring and the review of care packages. The review identified numerous and significant control weaknesses in each of the areas reviewed, the most serious of which resulted in:

- The financial sustainability of care packages not being robustly challenged or scrutinised;
- IT systems not operating effectively, leading to resource-intensive, inefficient workarounds, in some cases leading to data errors and overpayments; and
- A prevalence of inaccurate and unreliable service data, hindering financial monitoring and limiting the availability of meaningful management information.

The poor control environment in this area has ultimately impacted on the Council’s ability to fulfil its statutory duties for SEND and as a corporate parent for looked after children. Whilst we were only able to give an opinion of minimal assurance, it was clear that the issues identified through our work had already been acknowledged by the service and significant resources allocated to ongoing process re-design and improvements through the Transformation Programme (see below). It is anticipated that the majority of risks will be addressed by this work and we will seek to provide assurance on this as part of a follow-up review due to be undertaken in quarter 2 of 2019/20.

- **Modified Fire Pension Scheme (2006) for Retained Firefighters** – this review was undertaken following the discovery that a required ‘Options Exercise’ for Surrey’s Retained Firefighters (RFF) to join the Modified Fire Pension Scheme did not take place in the timeframe prescribed by the DCLG. Historically RFF’s had been precluded from membership of the 1992 Scheme but, following legal challenge, were entitled to join the Modified 2006 Scheme, if they chose to do so, by expressing a preference prior to September 2015 (the end of the DCLG timeframe).

In conducting our review, we found an absence of effective governance, management oversight, and personal accountabilities by a number of officers within the Council, which resulted in the options exercise not being started, let alone completed, within the timescales stipulated by the DCLG. As a result, we have only been able to provide a minimal assurance opinion and have highlighted the need for the Council to seek legal and financial support to fully understand any possible future liabilities as a result of RFF being denied the opportunity of joining the scheme at the time. Further internal audit work examining governance and internal control arrangements in relation to the Pensions Service will be carried out as part of the 2019/20 audit plan.

5.4 Included with the above graph are a total of 4 reviews where we have revisited areas which had previously received lower levels of assurance. For 2 of these (Highways Contract

Lot 5, and DOLS in Adult Social Care), we have been able to issue revised, improved opinions of reasonable assurance. However, of two follow-ups in Children's Services, one (NMI Placements) remained a partial assurance after follow-up, and the other (Unaccompanied Asylum Seeking Children), was reduced from reasonable to partial assurance.

5.5 As well as conducting formal follow up reviews, we have in place arrangements to track the implementation of all high risk audit recommendations issued during the year. As at 31 March 2019, of the 44 high risk recommendations issued and due by the end of the 2018/19, we are able to report that 90% had been implemented within the agreed timescales. We will continue to monitor implementation of outstanding actions and will escalate to senior management and Members where insufficient progress is made.

5.6 At the time of producing this report, a total of 16 planned reviews remained in progress, all of which will be completed during the quarter 1 of 2019/20. The finalisation of these reports will result in 100% completion of the 2018/19 internal audit plan.

### Key Financial Systems

5.7 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. Of those completed during 2018/19, all of these have resulted in either full or substantial assurance being provided over the control environment.

### Other Significant Organisational Issues

5.8 Surrey County Council continues to face a number of significant challenges, not least the need to improve both services to children and the overall financial management of the Council, as highlighted in recent Ofsted and CIPFA reports respectively. Although these reports highlight a range of serious shortcomings within organisation, some of which have also been identified within internal audit activities, it is clear from the new leadership arrangements that there is a strong commitment from the organisation to address these issues. In particular, development of:

- An updated community vision and organisational strategy;
- A Council-wide transformation programme to reform almost all services across the Authority;
- A finance improvement programme addressing the actions arising from the CIPFA report, including strengthening financial management capability across the organisation and ensuring the Council operates within available resources; and
- Initiatives to review organisational culture to better support the achievement of the new vision and strategy.

5.9 During 2018/19, internal audit has sought to provide advice, support and independent challenge in relation to these and other improvement initiatives, much of which will continue into future years. To date we have:

- Commenced ongoing work to specifically support the Council wide transformation programme, based a series of focus areas agreed with management. These include overall governance arrangements, project management, risk management, data quality and mechanisms for ensuring appropriate internal control arrangements are maintained as a result of service changes;
- Supported the creation of the new Risk Governance Group, formed of the Chief Internal Auditor and key statutory officers, including the Chief Executive, Section 151 Officer and Monitoring Officer. The group meets periodically to consider current risk and governance issues facing the authority with a view to ensuring appropriate management / response arrangements are in place;
- Provided advice and input into the development of revised strategic risk management arrangements for the Council, including support for the production of a refreshed Leadership Risk Register.

### Anti-Fraud and Corruption

5.11 The Orbis IA structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality; specialisms; and sustain a strong sovereign focus. A key strand of the structure was the formation of a counter fraud team that would deliver specialist fraud resource across the partnership.

5.12 During 2018/19, we logged 27 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, 8 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 provides a summary of the investigation activity undertaken by Internal Audit in the last 12 months:

- A referral was made to Internal Audit relating to a senior member of staff who had failed to follow proper policy and procedures when claiming a car user lump sum payment. Whilst there is no suggestion that the officer concerned was not entitled to the payments received, key controls had clearly been bypassed. The officer concerned was reprimanded for their actions and the process for claiming these allowances is currently being strengthened to help avoid future repetition.
- We concluded work on the investigation associated with the apparent falsification/forgery of signatures on Council documents. Whilst the investigation was not able to definitively identify who was responsible, evidence of unacceptable

performance was found within the service resulting in the resignation of one member of staff in advance of a disciplinary hearing.

- We provided support and advice to management during their investigation of a case of misconduct by a member of staff who had defaced Council records. Internal Audit support was given through interview and analysis of hand-writing samples from officers. Appropriate disciplinary action was taken as a result.
- We provided support and guidance to management in investigating a whistleblowing allegation associated with a member of staff not working appropriate hours. This was not substantiated and there was no case of misconduct to answer.
- Allegations of corruption and misconduct in a procurement exercise were made via an internal referral. An extensive audit was undertaken which found no evidence of fraud or misconduct by individual officers. Weaknesses across the entire procurement exercise were, however, identified and appropriate actions to address these were agreed with management.
- A major investigation was undertaken at a maintained school associated with anomalies in the working and accounting practices of the school business manager. Internal Audit support with preliminary investigations subsequently led to a referral to the police, with whom the case is currently rests. We will continue to support this as the case progresses.
- A significant investigation was undertaken at a maintained special school when allegations of financial impropriety were received. We found that there were poor controls in place around the use of petty cash and the banking of income. In addition, the investigation identified that the headteacher failed to adequately manage her conflict of interest at the school and acted without transparency. The headteacher was dismissed following additional safeguarding and OFSTED inspections.
- We have also undertaken ad hoc work providing data analytics support to Early Years to identify potential duplicate funding of nursery places. The findings have been shared with the service and improvements identified to improve the administration of nursery funding.
- Two further allegations remain open at the time of writing this report.

5.13 Any internal control weaknesses identified during our investigation work are reported to management and actions for improvement are agreed. This work is also used to inform future internal audit activity.

5.14 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 2018/19, this has also involved the review and alignment of policies and procedures to ensure the Counter Fraud Team deliver a consistent standard of service across the Orbis partners. Progress over the last 12 months is outlined below:

Priority	Progress to date
----------	------------------

<b>Reactive investigations</b>	The counter fraud team is responsible for assessing and evaluating fraud referrals received by each sovereign partner, and then leading on subsequent investigations. The team have implemented a coordinated approach to assessing and logging referrals and adopted consistent procedures for recording investigations. During the 12 month period to date, there have been several investigations across the partnership which have been resourced through a mixture of the counter fraud team and sovereign audit teams supported by advice and direction from the counter fraud team.
<b>NFI Exercise (National Fraud Initiative)</b>	The counter fraud team have taken on responsibility for the coordination and submission of datasets at each authority. The NFI Key Contacts are members of the counter fraud team to ensure a consistent approach is followed and good practice is shared across all partners. Results from the matching exercise were received in Spring 2019 and the counter fraud team is liaising with partner authorities to review, prioritise and investigate flagged matches.
<b>Counter Fraud Policies</b>	Each Orbis partner has in place a counter fraud strategy that sets out their commitment to preventing, detecting and deterring fraud. The counter fraud team is reviewing the sovereign strategies and aligning with best practice to ensure a robust and consistent approach to tackling fraud. As a priority the Anti Money Laundering policies have been reviewed and updated to reflect recent changes in legislation.
<b>Fraud Risk Assessments</b>	Fraud risk assessments have been consolidated to ensure that the current fraud threat has been considered and mitigating actions identified.
<b>Fraud Response Plans</b>	The Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector and provide a proactive counter fraud programme. These have been reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will form the basis of planned proactive work for 2019/20 and include an increased emphasis on data analytics.
<b>Fraud Awareness</b>	The team have been rolling out a programme of fraud awareness workshops to help services identify the risk of fraud and vulnerabilities in their process and procedures. Workshops have been delivered to several teams across the partners from a mix of services.

5.15 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.

### Amendments to the Audit Plan

5.16 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews were added to the original audit plan during the year:

- Car User Lump Sum Allowance systems review
- ASC & CFL Care Assessments – Internal Control Review
- Highways Contract (Lot 5) follow-up
- Orbis Customer Access Portal
- Transformation Programme
- Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance)
- Local Transport Capital Block Funding (National Productivity Investment Fund)
- Local Transport Capital Block Funding (Flood Resilience Fund)
- Support to Customer Relations team for a specific referral
- Rights Of Way

5.17 In order to allow these additional audits to take place, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in future audit plans as part of the overall risk assessment completed during the annual audit planning process. These changes have been made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- Ethical Procurement
- Transition from Children’s Service to Adult Social Care
- Substance Abuse
- Impact of Savings Plans
- Traffic Management
- Surrey Wildlife Trust
- Schools Data Analysis
- Officer Expenses
- Street Lighting PFI
- Public Health Commissioning.

## 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 2018/19, 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 Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self assessment in 2019:

- 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 the SWAP review and our latest self assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our quality assurance and improvement plan.

### 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 Two service targets were, however, assessed as red at year-end, relating to customer satisfaction questionnaire results (71% against a target of 90%) and implementation of agreed management actions (90% against a target of 95%). With regards to the former, we received very few survey responses in-year, so the receipt of two less than positive results

for one audit significantly impacted on the final results. The issues raised in these surveys are being explored with management with a view to ensuring any necessary lessons are learned.

6.6 In respect of the implementation of agreed management actions indicator, outstanding issues relating to the audit of Pensions Administration specifically led to this indicator failing to hit the target. Although verbal assurances were received in 2017/18 to suggest progress was on track for four previously agreed high priority actions, a new audit in 2018/19 identified that this was not the case and as a result the indicator was revised to show them as still relevant and requiring implementation. This latest audit was issued in early 2019/20 and will therefore be covered within our quarter 1 progress report.

6.7 Significantly, we have completed 93.3% of the 2018/19 audit plan, exceeding our target of 90%. As reported in paragraph 5.6 above, a number of outstanding reviews were nearing completion at year end, with all reports due to be finalised early in quarter 1 of 2019/20.

6.8 Internal Audit will continue to liaise with the Council's external auditors (Grant Thornton) to ensure that the Council obtains maximum value from the combined audit resources available.

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

## Appendix A

## Internal Audit Performance Indicators 2018/19

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	<b>G</b>	Approved by Audit & Governance Committee on 12 April 2018.
	Annual Audit Report and Opinion	By end July	<b>G</b>	Approved by Audit & Governance Committee on 29 July 2018.
	Customer Satisfaction Levels	90% satisfied	<b>R</b>	71% (very low levels of response from management have meant that the responses on one particular audit has had a significant impact on this indicator).
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	<b>G</b>	93.3%.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	<b>G</b>	Last independent external assessment awarded highest level of conformance. Confirmed in most recent self assessment.
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	<b>G</b>	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	<b>R</b>	90%
Our staff	Professionally Qualified/Accredited	80%	<b>G</b>	87%

## Summary of Opinions for Internal Audit Reports issued during 2018/19

### **Substantial Assurance:**

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

<b>Audit Title</b>	<b>Department</b>
Treasury Management	Finance
Better Care Fund	ASC
Surrey Local Assistance Scheme	Business Ops
Rights Of Way	Environment

### **Reasonable Assurance:**

<b>Audit Title</b>	<b>Department</b>
Capital Expenditure Monitoring	Finance
Revenue Budgetary Control	Finance
Pension Fund Investments	Finance
SAP Application Controls	ICT
General Ledger	Finance
Procure To Pay (17/18)	Finance
Revenue Budgetary Control (17/18)	Finance
Payroll (17/18)	Finance
Apprenticeship Levy	HR
Direct Payments (Surplus Balances)	ASC
Purchase Cards	Business Ops
Members Expenses	L&DS
Information Governance in Schools	Schools & Learning
Occupational Health	HR
Procurement Due Diligence	Procurement
Disaster Recovery	ICT
Liquidlogic Implementation	ASC
Social Care Debt	ASC
DOLS follow-up audit	ASC
Care Assessments Process in Adults	ASC
Contact Bank Supervisors (expenses)	Children's Svs
Better Care Fund Schemes	ASC
Traffic Signals Management	Highways
Lot 5 follow-up	Highways

### **Partial Assurance:**

<b>Audit Title</b>	<b>Department</b>
Cultural Compliance (Business Operations)	Business Ops
Emergency Planning and Response	Community Protection
PAMS Income	Property

Employees Expenses	Business Ops
CSF Quality Assurance	Children's Svs
Unaccompanied Asylum Seeking Children follow-up	Children's Svs
CFL Payment Cards	Children's Svs
ACULS	Business Ops
Orbis Budget Management	Finance

**Minimal Assurance:**

<b>Audit Title</b>	<b>Department</b>
Looked After Children Initial Health Assessments	Children's Svs
Care Assessments Process in Children's Services	Children's Svs
Modified Firefighters Pension Scheme (2006)	Business Ops

**Other Audit Activity Undertaken During 2018/19 (including direct support for projects and new system initiatives and grant audits):**

<b>Audit Title</b>	<b>Department</b>
Sport England grant certification	Finance
Pothole Action Fund grant certification	Highways
Bus Subsidy grant certification	Highways
Troubled Families grant certification	Children's Svs
Interreg Europe – Urban Links To Landscape grant certification	Economic Growth
Interreg Europe – DigiTourism grant certification	Economic Growth
Carbon Reduction Credits / Greenhouse Gases certification	Environment
PREVENT (position statement)	Children's Svs
Transformation Programme (position statement 1)	Corporate

### Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	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.
<b>Minimal Assurance</b>	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.