

Internal Audit and Counter Fraud Quarter 1 Progress Report 2019/20

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1. Summary of Completed Audits

Review of PAMS Income

- 1.1 Income due from all properties owned and leased out by the council should be recorded in the Property Asset Management System (PAMS) after receipt. The objectives of this review were therefore to ensure that:
- The council is able to effectively manage and recover income from properties it owns and leases;
 - That all properties generating income are recorded in PAMS along with all of the relevant contractual paperwork; and that
 - Property Services reviews all of the details held in PAMS to maintain accurate data in order to maximise income collected
- 1.2 Our audit identified areas where the control environment in which the PAMS system operates could be strengthened, including:
- Improving the quality of master data in the system, including that associated with contractual agreements and credit balances on customer accounts;
 - Delays in the implementation of PAMS in-year, combined with shortage of staffing resources;
 - Improving the formal guidance and procedure notes in key areas, to encourage more consistent practice; and
 - Introducing process enhancements to positively impact upon effective debt management and recovery.
- 1.3 We were only able to draw an opinion of **Partial Assurance** as a result of our review. We have agreed an action plan with management to address the issues identified within a timely manner.

Surrey Fire & Rescue Service (SFRS) Cultural Compliance

- 1.4 The objective of this audit was to ensure that the delivery of the SFRS is supported by effective use of corporate processes, and compliance with all appropriate council policies and procedures. Testing was undertaken focusing on compliance with basic internal controls to inform the audit opinion on the culture of compliance within the service.
- 1.5 Overall, in the majority of the areas reviewed we found sufficient evidence of compliance with appropriate council policies and procedures, including the checking of assets, recording of annual and sick leave, travel and expenses claims, gifts and hospitality records and recruitment controls.
- 1.6 In addition, we identified a number of areas in which further improvements could be made, and therefore agreed appropriate actions with management to address these. The areas included:

- Reviewing the use of paper based or outdated IT systems, which limits the availability of management information. Particular areas of focus include the systems for fleet management, time recording, and petty cash handling;
- Strengthening performance management arrangements, and associated record keeping, particularly for uniformed staff.

1.7 Based on the work carried out, we were able to give an overall opinion of **Reasonable Assurance** in this area.

Surrey Pension Fund Administration

1.8 This audit followed a previous review in 2017/18 that concluded with a partial assurance opinion. This subsequent review, which formed part of the 2018/19 audit plan, included a follow up to assess the extent to which the previously agreed actions had been addressed by management.

1.9 Despite a new management team being in place, the impact of the legacy issues within this service remains significant and consequently little progress has been made in implementing improvement actions arising from our previous audit. As a result, we have only been able to provide **Minimal Assurance** that appropriate controls are in place within this area of activity.

1.10 A summary of some of the significant issues the audit identified includes:

- A lack of key documents such as the Pension Administration Strategy, Business Plan, and Service Level Agreement, which help ensure staff are compliant in their practices whilst also enabling management to monitor and manage effective service delivery;
- High levels of case backlog in tasks (circa 57k across all managed funds, with circa 22k for the Surrey Pension Fund);
- Data quality issues in the Altair system relating to scheme members, with resourcing issues adversely affecting plans to cleanse the data;
- An working culture that maintains inefficient ways of working, including the use and maintenance of paper filing records;
- More than 60% of the service’s key performance indicators are not being met, and none of the performance statistics presented to scrutiny committee are validated, which reduces the assurance that can be placed on them; and
- Delays in employer contributions are not tracked, and their reconciliations are not completed in a timely manner.

1.11 As a result of our work, we have once again agreed a detailed set of actions with management, the implementation of which are now being monitored through new Board, which includes officers from within Finance, Internal Audit and the Pensions Administration Team.

- 1.12 Finally, it has been agreed with the council's S151 Officer and the Pension Team Manager that an independent Controls Assurance Report (known as an ISAE 3402 report) will be commissioned by the council in autumn 2019 for the pension administration function ahead of a follow-up audit. This report can be requested by any admitted body whose funds are managed by Surrey.

Payroll (2018/19)

- 1.13 Our audit of this key financial system was scoped to provide assurance over the major controls operating within it, which include (but are not limited to):
- Starters are properly approved, calculated and paid from the correct dates;
 - Leavers are removed from the Payroll in a timely manner and paid correctly and accurately to the correct dates;
 - Permanent variations to pay are properly approved, calculated and paid from the correct dates;
 - Pay runs and BACS transmissions are correct and authorised;
 - Payroll data is regularly reconciled to the General Ledger;
 - Temporary payments (including additional hours, expense claims and payment to casual staff) are correctly authorised prior to processing;
 - Changes to Standing data are reviewed, accurately input and authorised; and
 - Guidance and documentation is available to support key processes.
- 1.14 We were able to provide assurance that these key controls were in place and operating as expected within the system. As a result we were able to give an opinion of **Reasonable Assurance**.
- 1.15 We agreed with management four actions to further improve the control environment, including strengthening the reconciliation of payroll suspense accounts, ensuring the accuracy of input relating to overtime and casual work payments, maintaining audit trails for authorisation and strengthening guidance relating to the Working Time Directive.

Accounts Receivable (Order to Cash) (2018/19)

- 1.16 Our audit of this key financial system was scoped to provide assurance over the major controls operating within it, which include (but are not limited to):
- All income generating activities are identified and accurately raised to customers;
 - A customer account maintenance process is in place and operating effectively;
 - Amendments to invoices are correct and authorised;
 - Collection and debt recovery is managed efficiently and effectively;
 - Writes offs are processed accurately and correctly authorised;

- Payments are received and recorded against the correct debtor account in a timely manner;
- Reconciliations between the local debtors system and the General Ledger are undertaken on a regular basis; and
- Debt recovery performance is monitored and reported.

1.17 We were able to provide assurance that these key controls were in place and operating as expected within the system. As a result we were able to give an opinion of **Reasonable Assurance**.

1.18 We agreed with management a number of low and medium priority actions associated with managing aged debt, maintaining effective debt management targets and updating both local procedures and the council’s Financial Regulations for write-offs and debt recovery.

IT Asset Management

1.19 IT & Digital provides information and technology services to approximately 8,000 staff and members. The council has, through the Modern Worker Vision, implemented a project to refresh core technologies to support officers with the technology and associated devices to work in partnership with others. As of January 2019, the council had in excess of 24,000 end user devices (laptops, desktops, mobile phones, etc.) either deployed, held as stock or awaiting disposal.

1.20 The purpose of this audit was to provide assurance that controls are in place to meet the following objectives:

- Appropriate governance arrangements are in place for the procurement and disposal of hardware assets;
- There are robust arrangements in place for the recording and monitoring of hardware assets;
- Robust arrangements exist to record the transfer of hardware assets or submission into central IT stores when employees leave or move posts; and
- Appropriate security arrangements are in place for the storage of hardware assets.

1.21 Overall, we found that the majority of expected key controls were in place and operating effectively, resulting in the provision of **Reasonable Assurance** t over the control environment.

1.22 We agreed a number of medium and low priority actions with management where further improvements to the control environment were possible. These covered policies and procedures for each stage of the hardware asset lifecycle, removing the use of ‘generic’ team

accounts in the asset management system and strengthening separation of duties in relation to the handling of hardware assets.

Third Party IT Service Providers (Non-Corporate)

- 1.23 Third party IT systems refer to those provided by a third party IT supplier, where the services are hosted outside of the council's network infrastructure and fall outside of the control of the IT & Digital Service (IT&D). In such instances, there is a risk to the security of data held in these systems, as well as to system availability, which can potentially impact upon service provision.
- 1.24 The purpose of the audit was to provide assurance that key controls were in place to meet the following objectives:
- There are adequate governance processes in place to ensure all systems are reviewed and approved by IT&D;
 - System access is restricted to appropriately authorised individuals and the permissions provided to those users are in line with business requirements and this is kept up to date with role changes;
 - Leavers are promptly and consistently removed from all systems;
 - Access to council data is held in accordance with relevant legislation and data is sufficiently protected by the service provider;
 - A process or agreement is in place for externally hosted systems in order to identify and manage vulnerabilities as they arise. This could include patches and other system updates being applied in a timely manner; and
 - Service providers have sufficient disaster recovery and business continuity arrangements in place.
- 1.25 From sample testing of a range of third-party systems used at SCC (from hundreds in operation), we were satisfied that appropriate key controls are in place. This includes the existence of technical and robust risk assessments by IT&D ahead of implementation, appropriate access permissions being in place, data recovery and back-up plans existing, along with business continuity plans, and appropriate controls over updates to the system.
- 1.26 One main area of weakness identified was a lack of awareness of the role of system owner and the responsibilities this entails. We have therefore agreed an action plan with management to address this weakness, and in so doing have mitigated the risks of:
- Significant changes taking place to systems without IT&D involvement;

- Inappropriate access to systems and data due to password security not following good practice;
- Responsibilities of the system provider not being known or monitored due to formal contracts not being available for all systems; and
- Business continuity plans not being available in the event that systems suffer an outage.

1.27 Overall, we were able to provide an opinion of **Reasonable Assurance** in this area.

GDPR (General Data Protection Regulations) Compliance

1.28 As part of the 2018/19 annual audit plan, Mazars Public Sector Internal Audit were commissioned to review the council’s key controls and processes to help ensure compliance with the GDPR. In doing so, adherence to the provisions of the existing Data Protection Act 2018 (DPA) were also assessed. The audit followed a previous audit of the council’s preparedness for GDPR, which resulted in an opinion of partial assurance.

1.29 Overall, this most recent review concluded that whilst there was generally a control framework in place, there remained numerous areas of non-compliance or specific gaps in the control environment which needed to be addressed. As a result, **Partial Assurance** was the overall opinion given.

1.30 Based on an assessment of the council’s arrangements against the ‘12 Steps Towards GDPR Compliance’, as published by the Information Commissioners Office (ICO), the review identified several areas where further improvements continue to be required. The most significant of these include:

- Reducing the substantial Subject Access Request (SAR) backlog;
- Updating the SCC website to clearly present the right to lodge a complaint, which is one the rights of a Data Subject;
- Updating the Data Breach Notification procedure to reference the 72-hour time limit to inform the ICO; and
- Increasing Data Protection training for all staff and communicating its importance on a regular basis.

1.31 In all cases, the identified actions have been agreed with management and will be subject to a formal follow up review by Internal Audit is due course.

Schools Safeguarding Arrangements

- 1.32 We audited an element of school safeguarding arrangements, specifically the role of the School Safeguarding Team and how their role contributed to the overall assurance picture.
- 1.33 We identified that the work undertaken by this team was lacking in a number of key control areas, meaning that we were unable to provide higher than **Minimal Assurance** that their work would contribute effectively to the council fulfilling its duty of safeguarding under Section 175 of the Education Act 2002.
- 1.34 Specifically we identified that:
- Procedure notes had not been developed to clearly set out the roles and responsibilities of the team;
 - Historical records prior to 2017 relating to assurance activity had not been retained, greatly reducing cumulative information known about educational settings;
 - In the financial year reviewed (2018/19) no assurance has been obtained by the team through their self-assessment process, mainly due to poor response rates in the past;
 - Whilst plans for a new IT platform are currently underway which will enable schools to provide information, data and evidence, of their safeguarding arrangements, the project was still awaiting IMT approval;
 - We identified that there had been contact with 107 schools as at February 2019 but that there was no high level summary available to indicate the type of contact/issue raised for each school; and
 - A high proportion of schools that had experienced safeguarding related incidents in recent years were also those that had not submitted the last self-assessment questionnaire.
- 1.35 Since the audit, we have been informed that an online tool has been purchased and a bespoke audit built ready for roll out to all education providers on 2 October 2019 for a self-evaluation of safeguarding arrangements. The tool is currently in the final testing phase with SCC staff and 3 volunteer schools.
- 1.36 The information will be collected biennially, with the first full collection in May 2020 (with data collections each school term starting in December 2019). In the academic year 2020/2021 there will be moderation and quality assurance activity. A Communication plan is in place and education providers are due to receive a letter in September to formally introduce the audit.
- 1.37 A follow-up review by Internal Audit will be scheduled after the implementation dates agreed to seek assurance that the agreed actions and changes above are embedded.

Treasury Management (2018/19)

- 1.38 This annual key financial system audit was undertaken to provide assurance that specific key controls were operating effectively within the Treasury Management system, including providing assurance that:
- The council has established an appropriate Treasury Management Policy & Investment Strategy;
 - All lending and borrowing decisions are based on robust cash flow forecasting over the short, medium and long term;
 - Investments are made with approved counterparties within approved limits, are correctly paid, authorised and are repaid by counterparties with the correct amount of interest;
 - Borrowings are made only from approved organisations, are correctly authorised and repaid to counterparties with the correct amount of interest;
 - There is regular and independent reconciliation between the Treasury Management record, the Bank Account and the General Ledger; and
 - Officers and elected Members receive regular and informative training and performance monitoring information.
- 1.39 Based on the audit work carried out, we were able to provide **Reasonable Assurance** over the Treasury Management system control environment. In addition, we agreed actions for further improvement with management focussing on reconciliation of interest payments due and the authorisation of supporting documents for recent investments.

Surrey Commercial Services Cultural Compliance

- 1.40 Commercial Services provide support services to schools and other council-owned buildings. There are around 1200 staff working in approximately 450 locations around the county, mainly in the provision of over 55,000 daily school meals.
- 1.41 The objective of this audit was to ensure that the delivery of these commercial services is supported by effective use of corporate processes, and compliance with all appropriate council policies and procedures. Testing was undertaken focusing on compliance with basic internal controls to inform the audit opinion on the culture of compliance within the service..
- 1.42 Overall, in the majority of areas reviewed we found sufficient evidence of compliance with appropriate council policies and procedures including recruitment and induction, DBS checks, probation arrangements, pay, overtime and allowances, leave and attendance. Consequently, we were able to provide **Reasonable Assurance** over the control environment.
- 1.43 Due to the nature of the services provided, only a very small proportion of Commercial Services staff have regular access to IT systems resulting in a greater proportion of paper based processes, requiring manual completion. In such circumstances, processes are less efficient and

have a greater risk of error. This is an area we have highlighted with management with a view to increasing the use of technology where this is possible and beneficial.

- 1.44 All actions to further improve the control environment have been agreed with management as part of a formal action plan.

General Ledger (2018/19)

- 1.45 This annual key financial system audit was undertaken to provide assurance that specific key controls were operating effectively, including that:
- The main accounting system operates in accordance with the Code of Practice on Local Authority Accounting and council regulations;
 - Suspense accounts are reconciled and cleared in a timely manner;
 - Bank reconciliations are performed daily and are adequately controlled;
 - The coding structure within the general ledger supports the requirements of the council;
 - All journals posted into the account have been entered accurately into the accounts and for a legitimate reason; and
 - Accruals are processed in accordance with local authority accounting requirements, ensuring that financial accounts accurately report income and expenditure within the year that it relates to.
- 1.46 For the most part we were able to provide assurance that the expected key controls were in place and operating as expected. As a result, we were able to give an overall opinion of **Reasonable Assurance**.
- 1.47 As part of the audit we agreed a number of improvements of medium and low priority with management, including updating of the Master Data Policy Document, improving the process for management of uncleared cheques, ensuring the timely clearance of non-material balances on a sample of suspense accounts and the need to realign some cost centres where the identified responsible officers were no longer working for the authority.

Academy Transition Arrangements

- 1.48 Our audit considered the risks and mitigating controls associated with the academy conversion process to provide assurance that controls are in place to meet key objectives. This included ensuring that the council has sufficient time and capacity to support the academy conversion process, that key risks and issues are identified, prioritised, and acted upon appropriately, that

an up to date register and programme of works regarding aspects of conversion is maintained and that the council's exposure to financial risk is minimised.

- 1.49 Overall, we were able to give an opinion of **Substantial Assurance** in this area. Our review confirmed that the council's arrangements for transferring schools to academies, which are clearly documented and followed, have evolved over time and it is evident that lessons learnt from previous conversions have been used to strengthen the current process. There was effective coordination between services (for example, between CFLC and Legal and Property Services) and transfers of land and assets were managed appropriately.

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

- 2.1 Internal Audit deliver both reactive and proactive counter fraud services across the Orbis partnership. Work to date has focussed on the following areas.

National Fraud Initiative Exercise

- 2.2 The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The council is required to submit data every two years, and matches are sent back to the council for investigation. The results from the 2018 exercise were received on 31 January 2019 and have been prioritised for review over the coming months. Periodic updates on any outcomes from this work will be provided as part of future internal audit progress reports.

Counter Fraud Policies

- 2.3 Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. Internal Audit are in the process of reviewing the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud. A refreshed Counter Fraud Strategy will be reported to Audit Committee in December.

Fraud Risk Assessments

- 2.4 Fraud risk assessments have been consolidated to ensure that the current fraud threat for the council has been considered and appropriate mitigating actions identified.

Fraud Response Plans

- 2.5 The Fraud Response Plans take into consideration the results of the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. These include an increased emphasis on data analytics. The Fraud Response Plans will set out the proactive work plan for Internal Audit in 2019/20. Areas identified include:
- Conflict of Interest
 - Gifts and Hospitality
 - Payments to GPs and Pharmacies
 - Purchasing and Fuel Cards

Fraud Awareness

- 2.6 The team has been refreshing eLearning content to provide engaging and current material available to the whole organisation. This will be run in conjunction with fraud awareness workshops to help specific, targeted services identify the risk of fraud and vulnerabilities in their processes and procedures. An awareness campaign is planned to coincide with Internal Fraud Awareness Week in November.

Reactive Counter Fraud Work - Summary of Completed Investigations

Employee Misconduct

- 2.7 Internal Audit provided support to management following allegations that a member of staff had privately sold their work mobile phone. The officer resigned whilst the investigation was ongoing with the cost of the handset recovered from their final salary payment.

Cash loss

- 2.8 An audit review was undertaken following an allegation of cash loss from a Primary School. The audit identified a range on internal control weaknesses at the school all of which will be addressed through the implementation of the actions agreed following our visit.

3. Action Tracking

- 3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 1, 95% of high priority actions due had been implemented.
- 3.2 We have received assurance from management that the three high priority agreed actions that are not fully implemented (relating to past audits of Traffic Management Signals, Schools Safeguarding Arrangements and Pension Fund Administration) remain on target to be completed by the end of quarter two.

3.3 We have agreed an extension of the due dates for high priority actions in two audits, from the end of quarter 1 to the end of quarter 2: the audits in question are for CFL Assessment and Care Plan Management, and SFRS Modified Pension Scheme. In both cases the original timeframe set by management proved unachievable given the complexity of the work required and the length of time to resolve the issues.

4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the Internal Audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan during the year, with new additions being resourced from our contingency budget:

- Virtual Schools (procurement assurance focus)
- Waste Contract PFI ('lessons learned' exercise)
- IMAGINE (Interreg NW European grant)
- Linden Farm (capital project review)

4.2 Through the same process, audits could either be removed or deferred from the audit plan and, where appropriate, considered for inclusion in the 2019/20 plan as part of the overall risk assessment completed during the annual audit planning process. To date, no audits have formally been removed from the plan.

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set up agreed key performance indicators as set out in the following table:

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 Committee on 8 April 2019
	Annual Audit Report and Opinion	By end July	G	2018/19 Annual Report and Opinion approved by Audit Committee on 29 July 2019
	Customer	90% satisfied	G	100%

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
	Satisfaction Levels			
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	A	21.5% completed to draft report stage by end of Q1 (against a Q1 target of 22.5%)
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	May 2019 – self-assessment by Orbis Internal Audit against PSIAS standards gives 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	G	95%
Our staff	Professionally Qualified/Accredited	80%	G	85% ¹

¹ Includes 1 part-qualified staff

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.

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