

Internal Audit and Counter Fraud Quarter 2 Progress Report 2019/20

CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

1. Summary of Completed Audits

Collusion in Procurement

- 1.1 This audit was carried out in line with good practice guidance issued by the Organisation for Economic Cooperation and Development (OECD) called 'Fighting Bid Rigging in Public Procurement'. The purpose of this was to provide assurance that the procurement processes within the council had appropriate controls to prevent:
- *Cover bidding* (where a competitor agrees to submit a non-competitive bid that is too high to be accepted, or contains terms unacceptable to the buyer);
 - *Bid suppression* (a competitor agrees not to bid or to withdraw a bid from consideration);
 - *Market sharing* (a competitor agrees to submit bids only in certain geographic areas, or only to certain organisations); and
 - *Bid rotation* (competitors agree to take turns at winning business to share out an equal 'slice of the pie').
- 1.2 Key controls reviewed in our audit included those to ensure measures were taken at all stages of the procurement process to detect and prevent collusion, and that all tender and contract information issued to suppliers and bidders had specific anti-collusion clauses included.
- 1.3 We identified that the principles of the OECD good practice guide were partly embedded into procurement practice, with expected controls in place over tender submission, and the reviewing and moderating the scoring of tenders.
- 1.4 The audit did identify two areas for improvement. The first was in relation to an apparent lack of competition in some tenders (low numbers of bids received), the second around non-compliance in bidding practice (bidders not completing their bid in accordance with the specification). In both cases the tender exercise did have mitigating reasons to explain these anomalies, though we were pleased to see that management have taken the wider implications on board and have applied the lessons learned to improving the overall processes.
- 1.5 We also agreed with management that a refresh of the Procurement Standing Orders (dated December 2017 at the time of audit) would also be of value. A new draft was in progress to be incorporated into the Constitution whilst our audit was underway, and the agreed action arising from the audit was to consider the value of a more formal annual review.
- 1.6 Overall, based on our findings and general level of controls within the tested processes, we were able to give an opinion of Reasonable Assurance in this area.

E-Recruitment System

- 1.7 With effect from April 2019, the three Orbis partner authorities implemented a joint Applicant Tracking System (ATS) called TribePad, designed to converge recruitment processes administered for all three bodies by Business Operations and replace the various versions of the Talentlink system.
- 1.8 At the time of our review some of the implementation was still in progress. As a result, our input was focused upon providing advice on key controls being developed including:
- The implementation of effective governance structures, including ensuring that roles and responsibilities are clearly defined and understood;
 - Restriction of system access to appropriately authorised individuals;
 - System permissions being aligned correctly to job functions; and
 - Ensuring that the recruitment process was fair, open and transparent in line with the council’s sovereign policies.
- 1.9 The ongoing nature of development meant that we did not give an opinion in respect of overall assurance, and this audit was issued as a no-opinion position statement as a result. We were, however, able to conclude that the expected key controls within the overall recruitment area were robust and under continual review.
- 1.10 Our audit identified a number of areas for additional improvement around transparency of change management approval, and in preventing the publication of job advertisements by managers without the knowledge of recruitment teams. Most significant of our findings was the identification of an area that could be non-compliant with GDPR requirements (where hiring managers could see details of ‘new’ applications that were never actually formally submitted): as a result of the finding a task was commissioned with suppliers TribePad to resolve this issue immediately.

Making Tax Digital

- 1.11 HMRC has introduced new rules for submitting VAT returns, which they refer to as ‘Making Tax Digital for VAT’ (MTD). Essentially, a digital link between business systems must be established to replace the manual entry of VAT data via the HMRC website. For complex bodies, which includes the county council, HMRC has not required this electronic process to be in place until 1 October 2019.

- 1.12 There is a two-stage process in place:
- Stage 1: a 'soft-landing period' where digital information can be submitted to the Application Programming Interface (API) platform (but allowing for some 'copy/cut and paste' functionality); to be followed by
 - Stage 2: from 1 April 2020 a fully digital linkage must be in place between source systems and HMRC without human intervention.
- 1.13 The proposed solution to this involves all of the partners across Orbis, and thus an initial audit review was commissioned to examine preparedness over arrangements to ensure compliance with Stage 1.
- 1.14 We found that the solution for Stage 1 had been developed in-house and successfully tested at Brighton & Hove City Council for the submission of the March 2019 VAT return for the 'Homes for the City of Brighton and Hove Design and Build Company'. We were satisfied that adequate controls and protocols were in place to ensure the collation and accuracy of transferred data. This in-house solution will have a phased roll-out across all Orbis partners to ensure a smooth transition.
- 1.15 Our audit was able to add value into the current arrangements by agreeing actions to ensure more representative membership of ongoing working groups and increasing frequency of meetings. We also made suggestions for improvement in the areas of project planning, risk management, and documentation of the revised processes.
- 1.16 The ongoing nature of this developing process meant that we did not give an opinion in respect overall assurance, but instead issued a non-opinion position statement. We will revisit to review arrangements ahead of Stage 2 being due.

Surrey Virtual School (Purchasing Arrangements)

- 1.17 This audit was added to the approved 2019/20 annual audit plan following a request from management for additional assurance work after potential control weaknesses were identified during the restructuring of the Children's, Families, Learning and Culture directorate.
- 1.18 Surrey Virtual School (SVS) is responsible for raising the education standard for the council's Looked after Children (LAC) by collating information and tracking their educational progress as if they were contained within a single school. At the time of our audit the council had around 970 LAC (of whom approximately 600 were of school age). Funding for SVS activity comes via a

proportion of the Pupil Premium payment received from the DfE (currently £2,300 in total for each school-aged LAC).

- 1.19 Following discussion with management, our audit focused on providing assurance over a number of control objectives, namely:
 - Purchases are supported by a clear business case;
 - Orders and payments are made in line with the council’s finance and purchasing procedures;
 - Management has clear visibility over outstanding liabilities (such as licenses, subscriptions and equipment orders);
 - Budgetary control is robust; and
 - The council has a clear policy over the use of Pupil Premium funding in respect of SVS.
- 1.20 Whilst there was some evidence that some historic expenditure may not have been fully supported by transparent business cases, we were able to provide assurance to management that for the most part the control environment in place was effective during the period of transitioning the SVS from old to new structures following the directorate reorganisation.
- 1.21 Purchasing arrangements were compliant with council policy and were evidenced through clear audit trails and authorisation processes. We saw evidence of procurement waivers having been requested and granted on the few occasions that they were required.
- 1.22 We were able to give an opinion of Reasonable Assurance as a result, agreeing four medium priority actions to ensure legacy issues, such as inefficient use of funds for external venue hire, or on equipment that had little take-up by LAC, were addressed.

Annual Car User Lump Sum (ACULS) follow-up audit

- 1.23 The ACULS payment is made to officers who meet the stipulated criteria when using their personal vehicle for business purposes. Our original audit of this system in November 2018 identified numerous control weaknesses throughout the entire process, and an opinion of Partial Assurance was given as a result.
- 1.24 This follow-up review identified that the expected improvements to the control environment had been implemented as expected, though later than planned due to unforeseen complexity in designing a solution. A robotics solution has been implemented to automate as much of the process as possible and introduce appropriate gateway checks to ensure appropriate criteria for

payment are met. A revised Travel and Expenses policy has been introduced and communicated to staff, which was less ambiguous than the previous iteration.

- 1.25 As a result of this follow-up review, we were able to provide assurance that the following key controls were now in place and operating as expected:
- Staff were only paid ACULS if they met the basic criteria in terms of exceeding the threshold level for annual total business miles driven in-year;
 - Staff were paid in the correct banding, dependent upon mileage;
 - Managerial approval for claims was in place for all applications; and
 - Claims for multiple years of ACULS were prevented, as per the policy.
- 1.26 Our audit did identify that there remained some elements of the process that are yet to be fully automated. The most important of these is the link between the mandatory checking of driver documentation that is recorded on SAP (driving licence, insurance etc.) to the eSuite form through which claims for ACULS are made. At present, this control is reliant upon managers confirming on the ACULS claim form that they have checked the documentation prior to approving it. An action was agreed to address this issue moving forward.
- 1.27 Given the improvement to the control environment and the rewriting of the underpinning policy for ACULS, we were able to give an opinion of Reasonable Assurance following this review.

Surplus Assets follow-up audit

- 1.28 Our original audit of the council's approach to managing surplus property was published in April 2018 and provided an opinion of Partial Assurance. Among the issues previously identified were delays in decision-making by services in determining the future usage of surplus property, and a number of vacant properties that had stood empty for a disproportionate length of time.
- 1.29 Since this audit the Cabinet have approved a new Asset and Place Strategy (2019), which introduced new procedures for the management of surplus properties within the estate.
- 1.30 We identified that the new Strategy had effectively addressed the control weaknesses identified in the original audit in all but two cases. The first of these outstanding actions related to the documentation of process and procedure, which was partially complete but which did not fully reflect the changes brought about by the revised Strategy.

- 1.31 The second outstanding issue was in respect of compliance with the council’s Insurance Policy: whilst there was adequate insurance in place, a key element of the current policy is for the council to provide the Insurer with a quarterly list of surplus properties, which was not happening.
- 1.32 New actions were agreed with management to address these two areas, and overall we were able to give a revised opinion of Reasonable Assurance.

Health & Safety

- 1.33 In 2019/20, the Health and Safety function was moved out of HR&OD and under the Director of Community Protection and Emergencies, within the Surrey Fire and Rescue Service. We undertook a review of the new arrangements to provide assurance that the service was being effectively delivered and integrated across the council.
- 1.34 The key control objectives reviewed during this audit included:
 - Ensuring that there were effective management arrangements in place to protect the health and safety of employees, services users, suppliers and members of the public both within council premises, and for those interacting with the council (so far as reasonably practicable); and
 - Ensuring that sufficient evidence exists to demonstrate that the council is managing its duties for health and safety in line with legislative requirements.
- 1.35 As a result, we were able to provide assurance over some key areas of activity:
 - The council has adopted a risk-based approach to the management of health and safety;
 - There is a clear policy in place across the organisation, which is in line with HSE standards;
 - There is adequate information and opportunity for training made available to staff; and
 - The council consults employees on management of health and safety through the inclusion of union representatives at the Central Joint Safety Committee.
- 1.36 However, we also found that there were opportunities to improve the control environment and processes in place and agreed eleven actions with management to achieve this, three of which were high priority.
- 1.37 Through our findings, we identified that:
 - There was an opportunity to improve the take-up of mandatory health and safety training by senior management and staff;

- With the exception of inspections carried out at fire stations, there was no record in place to provide assurance that routine workplace inspections are being carried out across the council estate;
- Property Services could improve the record keeping to demonstrate that regulatory and statutory checks on gas fittings, lifts, water hygiene and electrical safety are being carried out on property where the council is the 'responsible person';
- There were opportunities to improve on the reporting and scrutiny of health and safety risks and incidents both within directorates, and through the Central Joint Safety Committee. This includes the development of key performance indicators for the area; and
- Using the data gathered on the OSHENS system, there were options to learn lessons from past incidents and to better track the implementation of corrective action(s) taken following an event to mitigate the risk of a future recurrence.

1.38 Consequently, our audit concluded with an opinion of Partial Assurance. All actions arising have been agreed with management and will be followed up in due course by Internal Audit to assess the progress made.

Cyber Security

1.39 Cyber-attacks on the council's IT systems and devices are a threat to the security of the council's data, and could have a large adverse impact on service delivery. We undertook an audit of the Authority's high-level arrangements for protecting its systems and services from cyber-attack; including arrangements for effectively responding to a cyber-attack should one occur. A technical audit of network security is planned later in the financial year. The controls for 'Patch Management' were covered only at a high-level, as further, more focused activity is planned in this area later in the financial year.

1.40 We were able to provide Reasonable Assurance over the controls operating within the area under review because our testing found that:

- Logging, monitoring and alerting of anomalous activity takes place, across a range of sources;
- Users are provided with sufficient information regarding cyber security risks and their role in minimising these. This includes mandatory e-learning, a detailed IT Security Policy, and a clear list of user's responsibilities found on the intranet;
- Defences are in place to protect the council's systems, including firewall and anti-virus products, blocking of potentially harmful emails and restriction of USB usage. Defences are regularly tested by external penetration testers; and

- Proactive measures are taken by relevant staff to keep informed of emerging cyber security threats and trends. These measures include subscription to newsletters, reviewing websites, attending conferences and cross-Orbis communication. Appropriate action can then be taken to mitigate risks once these are identified.

1.41 Some areas were, however, identified where arrangements could be further strengthened. These include:

- Strengthening response plans specific to cyber security incidents;
- Including and monitoring cyber security risks (or related risks around loss of IT systems) on the council's main strategic risk register; and
- Introducing web filtering on mobile devices.

1.42 One medium and four low priority actions (one of which has already been implemented) have been agreed to manage the risks associated with these weaknesses.

Waste PFI

1.43 During the quarter a high level review was carried out in relation to the historic management arrangements within the council with regard to the waste PFI contract. In particular, to help identify any opportunities for future learning.

1.44 Due the historic nature of this contract and, in particular the fact that most of the officers involved with it are no longer employed by the Council, our work was relatively limited in scope, focusing on the following:

- General project/contract governance and leadership;
- Decision-making and accountability;
- Roles and responsibilities; and
- Communication, reporting and escalation arrangements

1.45 The results of our work were summarised in the form of a briefing note to the Chief Executive which highlighted potential lessons associated with ensuring that management arrangements are clearly defined and communicated, particularly where they change over time and where there is potential overlap between project management and business as usual activities. We also highlighted the need to properly assess the impact of changes associated with restructuring exercises, especially where key roles and removed.

Other audit activity

Grant claims

- 1.46 Throughout quarter two we undertook the certification of a number of grant claims. These audits do not result in a report, but through the certification process allow services to continue to draw down funding from central government to support key areas of service delivery.
- 1.47 In this period, the grants that we were able to provide an unqualified certification covered:
- Local Transport Capital Block Funding (Integrated Transport & Highways Maintenance 2018/19) for £28.5m;
 - Local Transport Capital Block Funding (Pothole Action Fund 2018/19) for £482k;
 - Local Transport Capital Block Funding (Flood Resilience Fund 2018/19) for £1.4m;
 - A Troubled Families claim, totalling £140k;
 - Semester 2 of the EU funded 'Digi-Tourism' project, totalling c£25k (conversion from €);
 - Semester 2 of the EU funded 'Urban Links 2 Landscape' project, totalling c£13k (conversion from €); and
 - Semester 1 of the EU funded 'IMAGINE' project, totalling c£20k (conversion from €).

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 set out below.

National Fraud Initiative Exercise

- 2.2 The results from this 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 there is a robust and consistent approach to tackling fraud.

Fraud Risk Assessments

2.4 Fraud risk assessments have been consolidated and are regularly reviewed 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. This includes an increased emphasis on data analytics. The Fraud Response Plans set out the proactive work plan for Internal Audit in 2019/20. Areas identified include analysis in the following areas:

- 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 National Fraud Awareness Week in November.

Reactive Counter Fraud Work - Summary of Completed Investigations

Employee Misconduct

2.7 Following a whistleblowing report of an allegation that an employee was manipulating their timesheets, Internal Audit undertook analysis of network activity and timesheet records. The findings were passed to management to proceed with support from HR. The employee subsequently resigned from their post.

Cash Loss

2.8 Internal Audit were asked to undertake a review of cash handling controls at a school following the loss of unbanked income. The review found no evidence of wrongdoing but did identify a number of areas that required improvement. Management actions were agreed as a result of the review.

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 2, 96% of high priority actions due by 30 September 2019 had been implemented.
- 3.2 We are continuing to seek assurance from management that the three high priority agreed actions that are not yet known to be fully implemented (relating to past audits of Traffic Management Signals, and Emergency Planning) remain on target to be completed by the end of quarter three.
- 3.3 We have agreed an extension of the due dates for high priority actions for two audits; for CFL Assessment and Care Plan Management (to the end of quarter 3), and for Pensions Administration (to the end of quarter 4). In both cases the original timeframe set by management proved unachievable given the complexity of the work required and the ongoing nature of action required to fully 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, no reviews were added to the audit plan during the second quarter (excluding irregularity investigations).
- 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
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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 Satisfaction Levels	90% satisfied	A	85% (albeit a small number of returns have been received in year so figures may not be representative of underlying performance)
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	51.4% completed to draft report stage by end of Q2 (against a Q2 target of 45%)
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	96%
Our staff	Professionally Qualified/Accredited	80%	G	96.3% ¹

¹ Includes staff who are part-qualified and those in professional training

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.