

# Internal Audit and Counter Fraud Quarter 3 Progress Report 2019/20

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## 1. Summary of Completed Audits

### 'Prevent' Agenda

- 1.1 This audit followed the production of a position statement by Internal Audit in September 2018, when the service was then engaged in a self-assessment of the governance framework against Government guidelines.
- 1.2 Our 2019/20 coverage reviewed the arrangements in place across the 'Prevent' agenda ('Prevent') to provide assurance against a number of key controls:
- The council has a clear risk assessment process in place for Prevent, with action plans to manage identified risks;
  - The Prevent Partnership Plan is being delivered through an effective partnership board;
  - An effective referral process exists for individuals identified as being at risk of radicalisation;
  - A Prevent training programme is in place for relevant council personnel;
  - Engagement and communications with community groups promotes open dialogue on Prevent issues;
  - Venue hire policies for council buildings is in place to ensure no inappropriate letting activity occurs; and
  - Recommendations from the Home Office enquiry into the Parsons Green attack have been implemented by the council.
- 1.3 We were able to provide positive assurance over a number of these key controls, including the existence of a Prevent Executive Board comprised of multi-agency partners who oversee the delivery of the Prevent agenda; training programmes and risk assessments being in place and drawn up in consultation with Surrey Police; and appropriate safeguards being in place over venue hire and use of IT in council buildings. We also noted that all relevant recommendations made by the Home Office after the Parsons Green incident had been implemented by the council.
- 1.4 Our audit did identify some scope for improvement within the current arrangements, and accordingly actions were agreed with management in respect of better signposting to Prevent referral forms online; enhanced performance management through wider use of available data; and wider promotion and communications of Prevent issues to all communities within Surrey.
- 1.5 Overall, based on our findings and general level of controls within the areas examined, we were able to give an opinion of Reasonable Assurance in this area.

### Linden Farm Capital Project

- 1.6 Internal Audit was asked to provide a briefing note to senior management following the identification of an over-spend against a capital project – Linden Farm supported living accommodation. The project was awarded planning permission in January 2017, with design revisions coming in October 2018 to the building and associated landscaping.
- 1.7 By May 2019, the Cabinet Member for Finance was notified of a potential over-spend on the project, which in turn was reported to the Executive Director of Resources. As this has not been independently identified through existing Finance capital monitoring processes, Internal Audit was asked to look into the matter to assess the robustness of the control environment and financial reporting mechanisms.
- 1.8 Our audit identified that there was ineffective governance and risk management over this project, compounded by the fact that the Project Manager had taken planned retirement in April 2019 and was thus not available to be interviewed. Roles and responsibilities of Property officers involved were not sufficiently clear, and contract management of the architects and consultants employed on the scheme was insufficiently robust.
- 1.9 The audit also identified that limited amounts of financial data had been communicated to Finance and to senior managers within Property Services and consequently commitments were not captured in SAP or the Property Asset Management System (PAMS) or reflected correctly in the capital programme monitoring process.
- 1.10 As a briefing note, the audit did not record an overall opinion. However, themes and findings from the audit have been communicated to management to help ensure lessons are learned, and are also being used to inform the Capital Programme key financial audit that is scheduled for Quarter 4 of 2019/20 year. A wider audit of Capital Project Management has been included in the proposed 2020/21 annual Internal Audit plan.

### Surrey Heartlands Health and Care Partnership

- 1.11 In October 2016, the Surrey Heartland’s five year Sustainability and Transformation Plan (STP) was developed to describe a wide range of health benefits and improved outcomes that would be realised for the population of Surrey through transformation of health and care services. The STP has since evolved to form an Integrated Care System (ICS), a new type of even closer collaborative working between local government and the NHS.

- 1.12 In planning our audit for 2019/20, we sought to provide assurance over the progress made by the council in the still-developing systems, governance and risk management arrangements to support the collaborative objectives of Surrey Heartlands.
- 1.13 Our audit identified that the Surrey Heartlands secured 'mature' ICS status from the NHS through the development of enhanced local system-led assurance arrangements, relying upon existing governance arrangements and not creating additional and burdensome new processes. Systems governance architecture includes collaborative representation from a mixture of council, CCG and joint partnership groups.
- 1.14 Being in the early stages of developing embedded governance arrangements meant that we were unable to verify the effectiveness of risk management at an operational or strategic level, though the terms of reference of the Systems Oversight and Assurance Group show them to be the responsible body to review risks monthly.
- 1.15 Conversations are ongoing about how to progress and accelerate the integration of health and social care. Whilst there was no specific council commitment towards a pooled budget at the time of audit, the council contributes to the delivery of the partnership through the continuation of its work in Adult Social Care, Children's Services, and Public Health, tracked through the Surrey Heartlands governance arrangements and subject to internal performance reporting and accountability mechanisms.
- 1.16 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.

### **Post Schools Support Contract Assurance and Governance Review**

- 1.17 Following the end of the schools support service contract between the council and joint venture company Babcock 4S (B4S) on 31 March 2019, an audit was planned in order to determine whether appropriate assurance and governance arrangements were in place over statutory activities brought back in-house as a result.
- 1.18 The audit reviewed the following key controls:
- All relevant statutory responsibilities previously managed by B4S had successfully migrated to a new owner;

- Arrangements are in place within the council to manage contracts, policies, procedures and/or systems to meet statutory duties previously under the B4S contract;
- There is sufficient resource and expertise to manage any duties now in-house following the end of the contract; and
- Effective arrangements are in place to oversee, and take assurance from, robust financial procedures in maintained schools.

1.19 We identified that there had been a transparent and well managed project to transition statutory services back in-house at the end of the contract. Some activities were well embedded (Finance, HR, and IMT in particular) whilst some were still becoming integrated following internal staff reorganisation (for example, SEND provision for NMI schools, and safeguarding duties). We were assured that arrangements in place were sufficiently robust to ensure no duties had not found an appropriate new owner.

1.20 Changes to overseeing the financial control environment in maintained schools were less robust: if schools are non-compliant with expected financial procedures then their new contract does not require the provider of the traded service to make the council aware as it previously did under the B4S contract. Information provided by schools to the council for statutory reporting purposes is also not subject to any validation procedures. We have agreed actions with management in respect of these findings.

1.21 Whilst our overall opinion for this audit was Reasonable Assurance, under the new arrangements we concluded that the council can now no longer take third party assurance over the robustness of schools finances in the way it previously did from B4S. One result of this, for the 2020/21 annual plan, increased resources have been made available for Internal Audit to re-launch a cyclical programme of schools audit to provide the necessary independent assurance.

**Kier Contract (Lot 1)**

1.22 The LOT 1 contract relates to minor works, drainage works, local structural repairs, and replacement of road signage. An audit was requested by management following issues that had arisen in the preceding financial year over the maintenance of the supply chain, and we were asked to provide assurance over the controls and governance surrounding the allocation of smaller jobs to contractors, and the processes that ensured works were completed before payment was made.

- 1.23 We audited the key controls in place around a newly implemented working model for minor works (live from April 2019) and in the Works Management System (WMS), which enables real-time monitoring of works to take place via a shared portal between council and contractor. Our audit was able to provide assurance that:
- Works are ordered through effective joint working arrangements between Kier and the council;
  - Costs and job budgets are jointly agreed between Kier and the council ahead of work commencing;
  - Efficiencies in work delivery – and therefore costs – are being delivered through better scheduling of jobs; and
  - Final payment of work is only authorised once appropriate completion has been validated and certified.
- 1.24 Our audit was also able to provide assurance that the audit trail functionality in WMS was operating as expected, and that user access controls were implemented in accordance with expectation.
- 1.25 We suggested improvements to the process that surrounds the handling of permit data, as WMS was not always kept up to date with the permits issued (these being recorded on a separate system by the contractor). We also agreed an action with management to reconcile and cleanse data on WMS for old jobs, as a number of tasks were identified that were past their start/end date which should be cleansed from the data once their status had been established.
- 1.26 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.

### Procure to Pay

- 1.27 Procure to Pay is the end-to-end process from the procurement of goods and services to the payment of the supplier. It is reviewed annually as it is identified as a key financial system of the council. For the year in which audit testing occurred, purchase order payments were raised totalling c. £420m, whilst non-purchase order transactions totalled c. £731m.
- 1.28 Our audit focussed on providing assurance around key controls in the system, including:
- Orders are raised for goods, works and services for bona fide services in accordance with financial procedures;

- All payment runs (including non-order invoices, cheque requisitions and/or urgent payments) are subject to appropriate review and authorisation;
- All creditor details are maintained accurately in the system and appropriate user access controls the ability to amend or set up new creditors; and
- Transactions in the system are complete and accurate when transferred to (or reflected in) the General Ledger.

1.29 Our audit was able to provide Substantial Assurance in respect of the Procure to Pay system. All key controls were tested on a sample basis and assurance obtained as expected.

1.30 Two areas for improvement were noted: There was a discrepancy in the authorisation level for payments of £100k and above between guidance in the Surrey County Council Scheme of Delegation (1 signatory), and the Orbis Scheme of Delegation (2 signatories). We also identified that regular reconciliations are not undertaken by Finance of the Goods Receipt/Goods Invoice Suspense Account. The last reconciliation was dated November 2018 when the account stood at £16.1m. Actions were agreed with management to address these findings.

**Surveillance Cameras**

1.31 Local authorities are required to pay due regard to the surveillance camera code of practice (SC Code) where they operate surveillance cameras overtly in a public space (e.g. in town centres, municipal buildings, libraries, leisure centres, body worn videos worn by enforcement officers etc.).

1.32 The SC code sets out 12 principles for the operation of surveillance camera systems, the Surveillance Camera Commissioner will be writing to all SROs to conduct a survey of compliance with PoFA with the results of the survey to be included in the Commissioner’s annual report to Parliament. In anticipation of this exercise, this audit was undertaken to provide an opinion on the Authority’s arrangements for managing the Surveillance Camera Systems and complying with the SC Code.

1.33 We were only able to provide Partial Assurance over this area because the council is only partly compliant with the 12 principles of the surveillance camera code of practice.

1.34 Examples of good practice were identified in the following areas:

- CCTV schemes in our sample were found to be for a legitimate use (i.e. crime prevention, public safety and economic wellbeing) that is in line with the surveillance camera code of practice;
- We found no evidence that the systems are being used for anything other than the intended/specified purpose;
- The governance arrangements are robust with the Executive Director of Resources acting as the council's nominated Senior Responsible Officer (SRO) and access to retained images and information is restricted and controlled.

1.35 However, we also identified a number of areas of non-compliance with the code, with agreed actions to ensure:

- A record of all surveillance camera systems that have been deployed across the council is maintained;
- Policy and procedures to support the use of surveillance camera technology across the council is developed;
- An annual review to ensure surveillance camera systems remain necessary, proportionate and effective in meeting their stated purpose is undertaken;
- Data protection impact assessments (DPIA) are completed for the surveillance camera systems that are in operation; Adequate signage at council buildings that inform the public of who is undertaking the surveillance, the purpose of surveillance, and the point of contact for further information and complaints are provided; and
- Procured surveillance devices meet a recognised operational, technical and competency standard.

## Other audit activity

### *Grant claims*

1.36 Throughout quarter three we undertook the certification of a Government grant return. Such 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.

1.37 In this period, the grants that we were able to provide an unqualified certification covered:

- Troubled Families (December 2019) - £148,000

## 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 results from this exercise were received on 31 January 2019 and were prioritised for review over the following months. Any savings generated from the exercise will be summarised in our annual report.

*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 have reviewed the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud. These will be reported to Audit and Governance Committee in April.

*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. These include an increased emphasis on data analytics. The Fraud Response Plans will be refreshed for 2020/21 and set out the proactive work plan for Internal Audit.

*Fraud Awareness*

2.6 The team has launched refreshed eLearning content to provide engaging and current material available to the whole organisation. This is now available through the council’s eLearning portal and is available 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 was run in November 2019 to coincide with Internal Fraud Awareness Week and promote the fraud eLearning.

**Reactive Counter Fraud Work - Summary of Completed Investigations**

*Misuse of Petty Cash*

- 2.7 Internal Audit provided support to a management investigation concerning the misuse of petty cash at a Children's Home. Following the management investigation, we agreed a number of actions to improve internal control over the use of petty cash and purchase cards at the home.

#### *Misconduct*

- 2.8 Following a notification from the Department of Work & Pensions that an employee had used a DWP system to view their own information, we provided advice and support to a management investigation. Following the investigation the employee was given a formal warning.

#### *Cash Loss*

- 2.9 Following concerns that client monies were unaccounted for, Internal Audit investigated the management of client funds at an Adult Care Home. The audit work identified poor practice and lack of compliance with procedures, but no evidence of fraud or personal gain was found.

#### *Mobile Device Charges & Salary Overpayment*

- 2.10 Analysis of billing data identified a mobile device that was incurring significant charges. Internal Audit identified that the device had previously been reported as stolen but the connection not been cancelled. As part of the investigation we also identified a salary overpayment that had been incurred over a number of months. The salary payment has been corrected and a payment plan is being agreed to recover the amount.

### 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 3, 100% of high priority actions due by 31 December 2019 had been implemented or were substantively in the process of being implemented (in the case of CFL Assessment and Care Plan Management).

### 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 were added to the audit plan during the third quarter (excluding irregularity investigations):
- Members Code of Conduct (gifts and hospitality, and declarations of interest)
- 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. In the third quarter, the following audits have formally been removed from the plan:

- Voluntary Grants
- Surrey Wildlife Trust Contract

## 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	<b>G</b>	Approved by Audit Committee on 8 April 2019
	Annual Audit Report and Opinion	By end July	<b>G</b>	2018/19 Annual Report and Opinion approved by Audit Committee on 29 July 2019
	Customer Satisfaction Levels	90% satisfied	<b>A</b>	86% (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%	<b>G</b>	69.7% completed to draft report stage by end of Q2 (against a Q2 target of 67.5%)
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	<b>G</b>	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	<b>G</b>	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions	95% for high priority agreed actions	<b>G</b>	96%

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
	agreed in response to audit findings			
Our staff	Professionally Qualified/Accredited	80%	<b>G</b>	96.3% <sup>1</sup>

<sup>1</sup> Includes staff who are part-qualified and those in professional training

## 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.

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