

INTERNAL AUDIT ANNUAL REPORT & OPINION 2019/2020



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 2019/20, 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, and in the latter part of the year to respond to the Coronavirus pandemic.

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. Whilst it did not make a material difference to our overall audit plan delivery for the year, and our subsequent annual audit opinion, the Coronavirus pandemic meant that a number of reviews in progress at the time were not completed to final report stage. Where appropriate, the findings from these audits were still reported to services for information, with a view to finalising the reports at a future date.

2.4 In other cases, planned work was suspended as a result of the Coronavirus pandemic and will therefore be considered for inclusion within our 2020/21 audit plan. Given the ongoing impact of the Coronavirus on our work, it is anticipated that the 2020/21 audit plan will be subject to a comprehensive review, taking into account new risks to the organisation arising from the crisis and previous work that we have been unable to complete. The outcome of this will be reported to the Corporate Leadership Team and the Audit and Governance Committee once it has been completed.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable assurance¹ that Surrey County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2019 to 31 March 2020.

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 been generally positive, including improved levels of assurance for a number of partial or minimal audit opinions previously issued in 2018/19. Whilst this is the case, internal audit activities have still identified a number of areas where the operation of internal controls has not been fully effective, as reflected by the two minimal assurance opinions and five partial assurance reports issued in the year.

3.3 Significant effort continues to be made by the organisation to strengthen governance, risk management and internal control. Additionally, major transformational programmes have started to deliver their anticipated benefits during the year.

3.4 Where improvements in controls are required as a result of any of our work, we have agreed appropriate remedial action with management.

4. Basis of Opinion

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

- All audit work completed during 2019/20, 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.

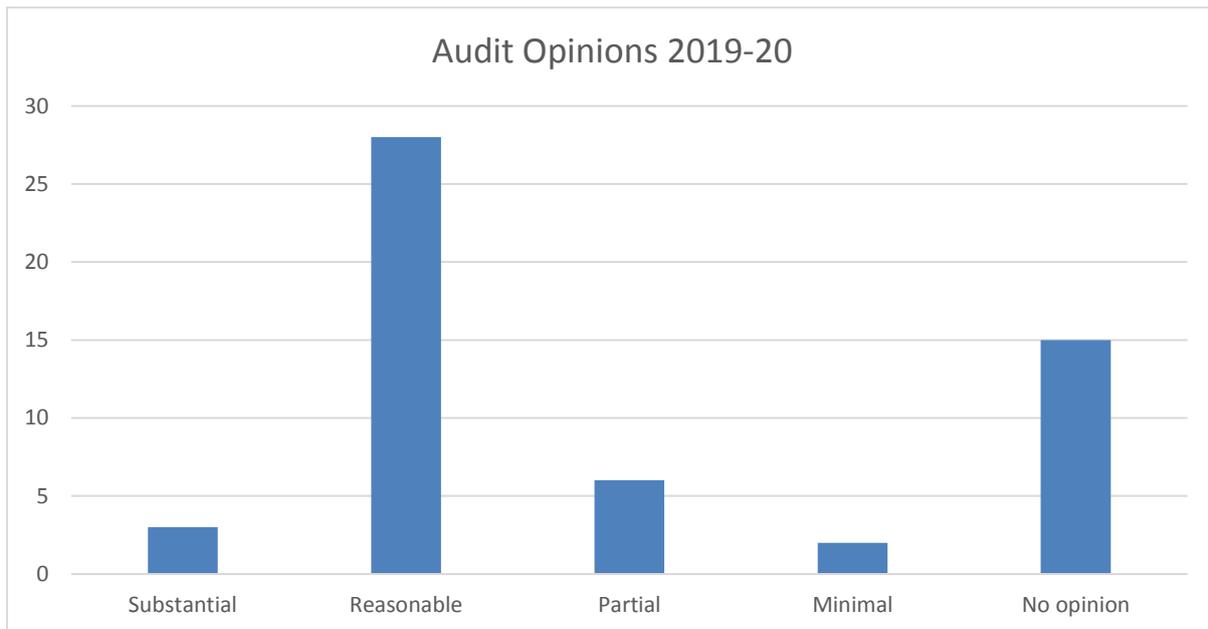
4.2 No limitations have been placed on the scope of Internal Audit during 2019/20. It should, however, be noted that very little internal audit activity was carried out during the year in relation to Surrey County Council schools. Our Internal Audit opinion for 2019/20 therefore excludes the control environment within schools. However, partway through the year additional funding was agreed with Corporate Finance to allow for a five-year audit programme to be initiated across all Surrey's maintained schools. Planning for the launch of this project was underway, with audits due to start in quarter one of the 2020/21 annual plan, before the onset of Coronavirus.

5. Key Internal Audit Issues for 2019/20

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

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 2019/20 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 levels². 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:

- **Pension Administration** – the impact of the legacy issues within this area meant that our 2018/19 audit was only published in early 2019/20 as a result of extended testing being required. We identified that little progress had been made in the implementation of previously agreed audit actions, whilst the current audit found significant control weaknesses existed. These included a lack of documented procedure notes, a backlog of pension administration tasks which impacted on service performance, issues around data quality and key reconciliations not being undertaken and working practices that were paper-based and inefficient.

We supported the service throughout 2019/20 as various managerial changes were made and a new Service Improvement Plan was implemented. However, progress has

² Due to the Coronavirus crisis a number of reports were issued in the final quarter as draft reports without us yet obtaining a formal response from management in terms of factual accuracy and agreeing actions arising. These reports are therefore subject to potential amendment once such responses are received.

remained slow to address many of the key issues. A follow-up audit in quarter 4 of the year was paused due to the Coronavirus outbreak, but the work undertaken reviewing progress against three previously agreed high priority actions confirmed that the control environment in this area remains weak.

- **CFLC Schools Safeguarding Arrangements** - this audit sought to provide assurance over the arrangements in place whereby the Education Safeguarding Team collated safeguarding data and information from education providers to provide the council with assurance over its current statutory obligations.

Our original audit identified that the processes within this specific team were deficient and not fit for purpose. At the time of the audit, however, Children's Services were going through a major top-down reorganisation and new management and structures were brought in across the directorate to improve practice and processes.

We therefore undertook a follow-up of this audit within 2019/20 and a draft report was issued just before the lockdown caused by Coronavirus. This follow-up work was able to provide greater assurance from the revised approaches that this team has undergone since the restructure, and whilst the final report has not yet been issued, a provisional audit opinion of reasonable assurance has been given.

5.4 In addition to the above, a total of 5 audits received partial assurance opinions in the year as follows:

- GDPR compliance;
- Surveillance Cameras;
- Health & Safety;
- Officer Code of Conduct; and
- Property Asset Management System (PAMS) Income.

5.5 Whilst actions arising from these reviews will be followed up by Internal Audit, either through specific reviews or via established action tracking arrangements, it is important that management take prompt action to secure the necessary improvements in internal control.

5.6 Included in the graph above are two other reviews where we have revisited areas which had previously received lower levels of assurance. For both of these (Looked After Children Initial Health Assessments, and Annual Car User Lump Sum Allowances), we have been able to issue revised, improved opinions of reasonable assurance.

5.7 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 2020, of the 25 high risk recommendations issued and due by the end of the 2019/20, we are able to report that 100% 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.

5.7 As at 31 March 2020, a total of twenty three planned reviews from 2019/20 remained in progress but had been paused as a result of the Coronavirus pandemic so that Internal

Audit work would not impede service response to the emergency. Thirteen of these have now been finalized and two more are at draft report stage, and we are working with management to progress these to final reports. For the remaining audits, depending on the circumstances of returning to business-as-usual, these will be completed later in the financial year.

Key Financial Systems

5.8 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 2019/20, all of these have resulted in either full or substantial assurance being provided over the control environment.

Other Internal Audit Activities

5.9 During 2019/20, Internal Audit has continued to provide advice, support and independent challenge to the organisation on risk, governance and internal control matters across a range of areas. These include:

- Continued our work to support the Council's 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;
- Supporting the Risk Governance Group, formed of the Chief Internal Auditor and key statutory officers, including the Chief Executive, Section 151 Officer and Monitoring Officer; and
- Attending the reconvened Governance Panel, which in part helps to oversee the production of the Council's Annual Governance Statement.

5.10 As well as actively contributing to, and advising these groups, we utilise the intelligence gained from the discussions to inform our own current and future work programmes to help ensure our work continues to focus on the most important risk areas.

Anti-Fraud and Corruption

5.11 During 2019/20, the Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the Orbis Partnership.

5.12 The team logged 19 allegations under the Council's Anti-Fraud and Corruption Strategy, with cases being identified through the Council's confidential reporting hotline or referrals from other departments. As a result of the allegations, 15 cases were taken forward to investigation by Internal Audit or where support was provided to a management investigation, with the remainder being referred to local management, another local authority, or assessed as requiring no further action.

5.13 The following provides a summary of the investigation activity undertaken by the Internal Audit Counter Fraud Team in the last 12 months:

- 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;
- Following receipt of a whistleblowing report alleging the failure of an officer to follow due process during a severance, Internal Audit undertook preliminary investigations and found there was no case to answer;
- Following a whistleblowing report 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;
- Internal Audit was 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 a number of control improvements were identified and reported as a result of the review;
- Following a whistleblowing report that a proper appointment process had not been followed when engaging a consultant, Internal Audit conducted a review of the appointment process. The contract was subsequently cancelled;
- 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;
- 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 which the employee concerned was given a formal warning;
- Following concerns that client monies were unaccounted for, Internal Audit investigated the management of client funds at an County Council adult care home. The audit work identified poor practice and lack of compliance with procedures, but did not find evidence that cash had been subject to misappropriation. A report was provided to management and the employee subsequently resigned prior to a disciplinary hearing;
- Analysis of billing data highlighted a mobile device that had incurred £1,800 of charges over a year relating to non-business use. Internal Audit established that the device had previously been reported as stolen but that the connection had not been cancelled. Coincidentally, during the investigation we also identified a salary overpayment that had been incurred over almost two years relating to the same officer. The salary has been corrected and a payment plan is being agreed to recover the overpayment; and

- Six further investigations remain open at the time of writing this report, in addition to ongoing assistance being provided to Surrey Police on a case previously reported on in 2018/19.

5.14 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.

5.15 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.

5.16 Progress over the last 12 months is outlined below:

Priority	Progress to date
Reactive investigations	<p>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.</p> <p>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.</p>
NFI Exercise	<p>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.</p> <p>Results from the matching exercise were received in Spring 2019 and the counter fraud team have been liaising with internal departments and partner authorities to review, prioritise and investigate flagged matches. To date, overall savings of £79,565.83 have been recorded. This is split between the following reports 'Pensions to DWP deceased data (£7072.97)' and 'Private Residential Care Homes to DWP deceased data (£72,492.86)'.</p>
Counter Fraud Policies	<p>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 have reviewed the sovereign strategies and aligned them with best practice to ensure a robust and consistent approach to tackling fraud across the partnership.</p>
Fraud Risk Assessments	<p>Fraud risk assessments have been consolidated to ensure that the current fraud threat has been considered and mitigating actions identified. The final Fraud Risk Assessment is continually reviewed.</p>
Fraud Response Plans	<p>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.</p>
Fraud Awareness	<p>The team have refreshed and rolled out a fraud eLearning package to the whole organisation. This was rolled out in conjunction with fraud awareness workshops to help specific, targeted services identify the risk of fraud and vulnerabilities in their processes and procedures.</p>

Fraud awareness workshops were delivered to school governors and fraud bulletins highlighting potential fraud risks have been provided to schools.

A fraud awareness campaign took place during November as part of National Fraud Awareness week. Regular fraud alerts have been provided to departments including both banking and schools.

5.17 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, particularly in the current pandemic where controls are being changed and new fraudulent practices have arisen. This includes leading on the Surrey Counter Fraud Partnership; 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

5.18 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:

- Linden Farm Capital Project
- IMAGINE (EU grant)
- Disabled Facilities Grant
- Waste PFI
- Officer Code of Conduct
- Member Code of Conduct
- Unearthed Grant
- SFRS Health & Safety in Fire Stations
- Overseas Pensioners Life Certification

5.19 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:

- Surrey Choices
- Area SEN Finance Processes
- Voluntary Grants
- Coroner's Service
- Risk Management
- Surrey Wildlife Contract
- Property Investment Company
- SEND Case Management
- SCC / Guildford Borough Council Housing Improvement Programme

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 2019/20, 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 2020:

- 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; and
- 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 We have completed 88.7% of the 2019/20 audit plan, just under our target of 90%. As reported in 5.6 above, a number of outstanding reviews were nearing completion at year end and, due to the impact of the COVID-19 crisis, there are a larger number of reports than usual still in draft status at the year end. Where this is the case this is noted against the title of the audit in this report.

6.6 In respect of the implementation of agreed management actions indicator, we achieved 100% of actions implemented in the period. However, in respect of the audit of Pensions Administration specifically, we had agreed with management to reschedule the timing of some actions to allow for a new service improvement plan to be implemented. Although verbal assurances were received late on in 2019/20 to suggest progress was on track for four previously agreed high priority actions, a initial audit commenced just before the COVID-19 lockdown identified that this was not the case, and as a result it is unlikely that the new implementation date of 31 March 2020 was met for all of these actions.

6.7 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.

6.8 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.

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	G	Approved by Audit & Governance Committee on 8 April 2019.
	Annual Audit Report and Opinion	By end July	G	Approved by Audit & Governance Committee on 29 July 2019.
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	A	88.7%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	Last independent external assessment (2018) awarded highest level of conformance. Confirmed in most recent self-assessment, Quarter 4 2019/20
	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	100%
Our staff	Professionally Qualified/Accredited	80%	G	87%

Summary of Opinions for Internal Audit Reports issued during 2019/20

Substantial Assurance:

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

Audit Title	Department
Procure to Pay (2019/20)	Finance
Academy Transition Arrangements	Schools & Learning

Reasonable Assurance:

Audit Title	Department
Payroll (2018/19)	Finance
Order to Cash (2018/19)	Finance
Treasury Management (2018/19)	Finance
General Ledger (2018/19)	Finance
Payroll (2019/20)	Finance
Collusion in Procurement	Finance
Annual Car User Lump Sum [ACULS] follow-up	Business Operations
Member Code of Conduct	Law & Governance
Cultural Compliance (Surrey Commercial Services)	Commercial Services
Looked After Children (Initial Health Assessments)	Children's Services
Virtual Schools	Schools & Learning
Post Babcock 4S Governance Arrangements	Schools & Learning
ICT Asset Management	IMT
Third Party IT Providers	IMT
Cyber Security	IMT
ICT Compliance Framework	IMT
Residential Care Homes	ASC
Surrey Heartlands	Public Health
Payments to GP's and Pharmacies	Public Health
Surplus Assets (follow-up)	Land & Assets
Kier Lot 1 contract review	Highways
Cultural Compliance (Surrey Fire & Rescue)	SFRS

Partial Assurance:

Audit Title	Department
GDPR compliance	Corporate
Health & Safety	Corporate
Surveillance Cameras	Land & Assets
Officer Code of Conduct	Corporate
PAMS Income (2018/19)	Land & Assets

Minimal Assurance:

Audit Title	Department
Pension Administration (2018/19)	Business Operations
School Safeguarding Arrangements (2018/19)	Children's Services

Other audit activity undertaken during 2019/20 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
Unearthed grant certification	Finance
Local Capital Highways grant certification	Highways
Bus Subsidy grant certification	Highways
Troubled Families grant certification (x 4 instalments)	Children's Services
Interreg Europe – Urban Links To Landscape grant certification (x 2 semesters)	Economic Growth
Interreg Europe – DigiTourism grant certification (x 2 semesters)	Economic Growth
Interreg Europe NE – IMAGINE grant certification (x2 semesters)	Economic Growth
Carbon Reduction Credits / Greenhouse Gases annual certification	Environment
PREVENT Agenda (position statement)	Children's Services
Transformation Programme	Corporate
eRecruitment (position statement)	Corporate
Making Tax Digital (position statement)	Finance
Orbis Customer Access Portal (position statement)	IMT
Linden Farm capital programme	Land & Assets
Waste PFI	ET & I

Audits Carried Forward (suspended as a result of Covid19) from 2019/20 to 2020/21 (note that, where draft reports have been issued to clients, or the audit has subsequently been completed, these have been marked as such in the following list):

Audit Title	Department	Status
General Ledger (2019/20)	Finance	Now complete and final report issued (Reasonable Assurance)
Financial Assessment and Income Collection (ASC) (2019/20)	Finance	Now complete and final report issued (Reasonable Assurance)
Transformation Programme	Corporate	Now complete and final report issued (Substantial Assurance)
Revenue Budgetary Control (2019/20)	Finance	Now complete and final report issued (Reasonable Assurance)
Pension Fund Administration (2019/20 position statement)	Business Operations	Now complete and final report issued (no opinion)
Overseas Pensioner Life Certification	Business Operations	Now complete and final report issued (Reasonable Assurance)
Local Economic Partnerships (LEP's)	ET & I	Now complete and final report issued (Partial Assurance)

Audit Title	Department	Status
Children's Services Quality Assurance (follow-up)	Children's Services	Now complete and final report issued (Reasonable Assurance)
Order to Cash (2019/20)	Finance	Now complete and final report issued (Reasonable Assurance)
Surrey Fire & Rescue Pension Schemes Administration	Bus Ops/SFRS	Now complete and final report issued (Minimal Assurance)
Care Plan Assessments/Care Plan Management (follow-up)	Children's Services	Now complete and final report issued (Reasonable Assurance)
LAS (ASC) application audit	IMT	Now complete and final report issued (Reasonable Assurance)
Mobile Device Management	IMT	Now complete and final report issued (Reasonable Assurance)
Use of Consultants	Corporate	Draft report issued
Schools Safeguarding Arrangements (follow-up)	Children's Services	Draft report issued
Pension Fund Investment (2019/20)	Finance	Work-in-progress
Capital Programme (2019/20)	Finance	Suspended, relaunch in July
Treasury Management (2019/20)	Finance	Work-in-progress
CSF Data Integrity	Children's Services	Work-in-progress
Home to School Transport	Children's Services	Work-in-progress
Patch Management	IMT	Work-in-progress
Cloud Computing	IMT	Work-in-progress
Better Care Fund	Public Health	Work-in-progress

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.

This page is intentionally left blank