

Internal Audit and Counter Fraud Quarter 3 Progress Report 2020/21

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1. Summary of Completed Audits

Health & Safety follow-up (2019-20)

- 1.1 The council has a statutory duty under the Health and Safety at Work Act 1974 to secure, as far as is reasonably practicable, the health and safety of employees and others who may be affected by the council's activities. Serious harm to an employee or a service user can result in significant costs to the council as well as the possibility of reputational damage. It is essential that senior management and members are confident that health and safety governance arrangements within the council stand up to scrutiny.
- 1.2 Our previous audit in this area reported in September 2019 and gave an overall opinion of Partial Assurance due to significant weaknesses in the control environment. We undertook a follow-up audit (allowing enough time for previously agreed actions to have been implemented that had been delayed because of the pandemic) to assess progress made to secure the necessary improvements.
- 1.3 We found evidence of improvement across the board in terms of actions taken by the council, although some progress was still incremental.
- 1.4 Improvements to the control environment were noted in respect of:
- A comprehensive health & safety training programme was found to be in place for both managers and employees, although our review of training records for the past year noted that there had been a significant drop in completed courses;
 - A clear process was now in place for the reporting and management of high-risk incidents, and this was found to be operating as expected;
 - Management has developed a suite of reports which effectively report on health & safety activity within the organisation;
 - An annual report on health and safety activity is now produced by the service for the senior leadership team and for members; and
 - The Health & Safety Manager's job profile has been updated to include required responsibilities
- 1.5 The impact of COVID-19 has affected the pace of progress towards meeting required national standards in Health & Safety risk areas for owned and managed properties. At the time of our audit, 72% of properties had been assessed as meeting the required standards and were deemed safe, which still leaves work to be completed but is a considerable improvement on the 2019 position. Additionally, whilst a programme of workplace inspections was found to be in place in

operational buildings (with frequent checks conducted in key risk areas such as fire safety, building safety and safety equipment) we were unable to gain assurance that similar checks were being consistently conducted at all smaller sites.

- 1.6 As a result of our follow-up audit, we agreed three further actions with management (one of high priority and two medium). Given the overall improvement in processes and compliance, we gave an opinion of **Reasonable Assurance**.

Surveillance Cameras follow-up (2019/20)

- 1.7 Section 33 of the Protection of Freedoms Act requires all local authorities to pay due regard to the Surveillance Camera Code of Conduct 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.). The council should also have regard to GDPR and the Data Protection Act 2018 (DPA) when using surveillance camera systems, because the cameras may capture personal information that could identify individuals.
- 1.8 We audited this area as part of our 2019/20 plan and in January 2020 gave an opinion of Partial Assurance.
- 1.9 A follow-up audit was undertaken in quarter three of 2020/21 in order to review the progress made against the agreed actions from the previous audit and make any recommendations as necessary to ensure that suitable systems and procedures are in place to meet the following objectives:
- Deployment of surveillance camera systems in public spaces is effective, proportionate and transparent;
 - The use of new and existing surveillance camera systems complies with the Surveillance Camera Commissioner's Code of Practice; and
 - Personal information captured from surveillance camera systems is managed in accordance to the requirements of GDPR and the DPA.
- 1.10 In line with the original timetable for implementing agreed actions we originally sought an update from responsible officers in July 2020, at which point it was apparent that COVID-19 had inevitably impacted on expected progress. The agreed implementation dates were therefore extended to where officers were confident progress would be made, and we rescheduled our audit accordingly for quarter three.

- 1.11 Whilst progress has been made, further work is needed in relation to all nine previously agreed actions to manage the risks identified and meet the requirements of the Code of Practice. The implementation of several actions is dependent on surveys being undertaken, which the service has now decided to contract to a third party. These surveys have not yet been commissioned and, as a result, the council's ability to take steps to ensure compliance with the Code of Practice and to demonstrate this is limited.
- 1.12 Outstanding issues of significance include the fact that the council's Single Point of Contact (SPOC) sits within Land and Property and therefore focusses on surveillance cameras within this service. However, government guidance requires the SPOC to be responsible for oversight of surveillance cameras across the whole of the council, which needs to be addressed.
- 1.13 We have agreed a revised set of actions with management for implementation by the end of February 2021, and will revisit this area again as part of our 2021/22 annual audit plan as continued non-compliance with the Code of Practice could result in financial and/or reputational damage to the council. Given the lack of progress, albeit hampered by the pandemic, we concluded the overall opinion remained at **Partial Assurance**.

Cyber Security during COVID-19

- 1.14 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. Cyber security refers to the measures in place to combat these threats, and is defined as the protection of information systems, the data on them, and the services they provide, from unauthorised access, harm or misuse.
- 1.15 During the Covid-19 pandemic, most council employees have been working remotely - a change which was, through necessity, introduced quickly. For this reason, the council is even more reliant on its IT network infrastructure. This audit therefore focussed on whether suitable controls in relation to cyber security have remained in place, considering this new way of working.
- 1.16 Arrangements for protecting council information systems, data and services, and the approach to responding to identified incidents have been considered, with a view to providing assurance that controls were in place to meet the following objectives:

- All cyber security incidents, including threats and both successful and unsuccessful attacks are recorded;
- Anomalous activity is detected in a timely manner and reviewed appropriately;
- User security policies are in place, and all staff have received cyber security training to provide awareness of their role in supporting the council in managing cyber security threats;
- Controls are in place to respond to identified cyber security incidents in an effective and timely manner; and
- Security measures are in place to minimise the likelihood and impact of cyber security incidents.

1.17 We were able to provide an opinion of **Reasonable Assurance** over the arrangements in place, concluding that revised working practices had little direct impact on the council's technical cyber security arrangements.

1.18 Specifically, our audit provided assurance that:

- Protective measures such as firewalls, web filtering and spam filtering have continued to function;
- Detection methods, including vulnerability detection and patching, also continued as prior to Covid-19;
- Penetration testing, whilst not yet undertaken following the change in working arrangements, was being scheduled at the time of our audit; and
- Users have been kept informed about cyber security risks, both specific to the current period, and more generally.

1.19 Some higher risk activities such as the permitting of WhatsApp on corporate devices and allowing access to systems on users' personal devices via Citrix have been implemented as a result of quickly introduced working from home arrangements. However, these have been subject to appropriate decision-making processes.

GDPR follow-up (2019/20)

1.20 This audit was a follow-up of the previous General Data Protection Regulation (GDPR) audit to ensure actions had been implemented as agreed and to identify any further work required to comply with the requirements of the GDPR. In doing so, adherence to the provisions of the existing Data Protection Act 2018 (DPA) were also assessed.

- 1.21 We identified that three of the six actions agreed in the 2018/19 GDPR audit had been fully implemented. Recording and reporting of Subject Access Requests (SARs) was in place, with the backlog of such requests now reduced and no longer subject to monitoring by the Information Commissioner's Office (ICO). Updated guidance for staff around data breach reporting is also now in place, and the corporate Privacy Notice has been recently updated.
- 1.22 Improvement was also been seen in other areas: key documentation such as the Data Protection Policy and IT Security Policy had been updated to reflect the latest data protection legislation, although it was noted that some policies and retention schedules still refer to obsolete legislation.
- 1.23 We agreed three actions with management in respect of the part-completed elements from the previous audit, which included aspects of data protection awareness training and communicating privacy information. In so doing, we were able to provide an opinion of **Reasonable Assurance** regarding this audit.

Other Audit and Assurance Activity

Grant Claims

- 1.24 In the third quarter of 2020-21 we completed three grant certification audits on behalf of the council:
- Troubled Families grant (Oct-Dec 2020) - £259,200;
 - COVID-19 Additional Home-to-School Transportation grant - £944,952; and
 - Disabled Facilities Grant - £8,950,616 (disbursed to Surrey's district and borough councils)

SEND Panel Gateways

- 1.25 During the quarter we lent support to an exercise jointly undertaken with Finance to document a comprehensive process map of SEND Panel placements at independent settings. We worked directly with several Team Managers, Commissioning Teams, and Specialist Placement Teams across Children's Services to understand reasons for placements, the controls and gateways around authorisation, inconsistencies across regional areas, and actual and potential bottlenecks within the process.
- 1.26 This led to the documentation of process maps, illustrated with actual examples from casework, for use and reference by both Children's Services and the Finance community. Internal Audit

skills were used to help document and assess these processes, ensuring appropriate controls are in place, although no compliance testing was undertaken as this was not required in the specification of the work completed.

Your Fund Surrey

- 1.27 Surrey County Council is giving local communities up to £100m over the next five years to spend on projects that improve their local area. This is money put aside to empower Surrey residents within the community with the stated aims of:
- Connecting - residents and community groups to build ideas
 - Stimulating - local engagement and involvement
 - Providing - the financial backing for community-led projects
 - Delivering - benefits that match local need
 - Build - local resilience and sustainability by helping people help themselves
- 1.28 As part of setting up the governance arrangements and processes through which grant applications will be invited, received and reviewed, Internal Audit has worked closely with the project team to offer advice on appropriate and proportionate controls and checks to build into the live process.
- 1.29 We will continue to support this project in quarter 4 of 2020/21 and into the following year as the scheme goes live, and applications are received and processed.

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Schools Advice

- 1.30 Whilst the ongoing pandemic has hampered our planned reinstatement of a school audit programme, we have continued to respond to ad hoc requests for advice and support from maintained schools and from Strictly Education throughout quarter three. Areas in which advice has been sought includes appropriate controls for the use electronic signatures; authorisation of payments under remote working arrangements; and how to process charitable funds received for families in need.

DB&I Programme Board

- 1.31 The Digital Business & Insights Programme (DB&I) aims to deliver a transformation programme by either upgrading or replacing the existing SAP system in place at the council. The DB&I

Programme looks to implement a new Enterprise Resource Planning (ERP) system, that will help the council's drive to deliver efficiencies through their transformation agenda.

- 1.32 The current SAP ERP system was implemented in 2004 and will no longer be supported beyond 2025. The overall cost of the DB&I programme is expected to be circa £40m with the new system(s) expected to be implemented in 2021.
- 1.33 Whilst we have not undertaken any specific audit reviews in this quarter, we continue to support the programme through attendance at the Programme Board and Working Groups and the provision of ad-hoc advice, challenge and support.
- 1.34 A programme of audit work has been agreed with the Programme Board to support the programme going forward and work currently in progress includes providing assurance over data quality and archiving. Work to review the effectiveness of the proposed control environment is also planned to begin shortly.

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2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

- 2.1 Internal Audit delivers 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 We coordinated the recent submission of council datasets to the biennial NFI exercise. Results from the data matching will be provided to the council on 31 January 2021 at which point Internal Audit will liaise with the relevant departments to ensure that flagged matches are investigated and actioned appropriately. Results from the exercise will be shared with CLT and the committee in future progress updates.

Fraud Risk Assessments

- 2.3 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat for the council has been considered and appropriate mitigating actions identified. We have updated the risk assessment to include new and emerging threats as a result of the COVID19 pandemic. This includes potential threats to payroll, staff frauds relating to home working and cyber frauds.

Fraud Response Plans

- 2.4 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. The Fraud Response Plans include a pilot data analytics programme for key financial systems. Work on the key financial data analytics that includes creditors, debtors and payroll commenced in quarter three.

Fraud Awareness

- 2.5 The team has published fraud bulletins raising awareness of emerging threats, particularly relating to recent risks from the pandemic. These were published on the intranet and shared with high risk service areas. In addition, the team continue to monitor intel alerts and work closely with neighbouring councils to share intelligence and best practice.

Reactive Counter Fraud Work - Summary of Completed Investigations

Impersonation of a Council Officer

- 2.6 We were made aware of an incident where an individual, impersonating a council officer through a spoofed email account, had obtained keys to a council property and fraudulently sublet the property. Our subsequent investigation identified that procedures that had been relaxed by a letting agent acting on the council's behalf, allowing an individual to take advantage and commit fraud. The procedures had been relaxed as a result of COVID workplace restrictions. The letting agents were not able to confirm who the keys had been issued to, or what documents had been checked to confirm their identity. This allowed an unknown individual to gain access and subsequently sublet the property.
- 2.7 The property was recovered and secured with limited financial loss (one month rent at £1000). A referral was made to the Police through Action Fraud. The investigation identified areas for improvement including contacting the council to confirm email correspondence and prior to signing out any keys, and these were actioned immediately. Given the property was recovered with limited financial loss, and the difficulty identifying the perpetrator, it was deemed uneconomical to pursue the case further.

Bank Mandate Fraud

- 2.8 During the quarter we investigated an attempted bank mandate fraud whereby a bogus instruction was received requesting a change of bank account for one of the council's major suppliers. During the investigation of the bank mandate fraud and as part of this it was identified that procedures for the independent verification of bank account changes had not been

followed. Additional control improvements were agreed as a result of the investigation. A referral was made to Action Fraud and a live police investigation is underway. A further update will be provided on conclusion of the police investigation.

3. Action Tracking

- 3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. All high-priority actions due to be implemented by management by the end of quarter two had at least been partially implemented.
- 3.2 High priority actions relating to the audit of Pension Fund Administration for both Fire Pensions and LGPS Pension Funds remain a work in progress in terms of their implementation. Our audits of these areas commenced in quarter three and are due to report in quarter four, which will update progress made against the actions accordingly.

4. Amendments to the Audit Plan

- 4.1 In November we presented to this committee an audit plan for the period September 2020 to March 2021 to incorporate amendments to planned work following the first lockdown. Since the November committee met, the country has been subject to yet another lockdown and measures continue across Surrey at the time of writing this report.
- 4.2 Accordingly, we are maintaining a flexible approach to the completion of planned work in order remain responsive to emerging risks and not to burden already stretched front line services with intrusive audit activity. However, we aim to continue to complete core audit and assurance work (for example key financial systems and grant certification audits) in order to be able to still provide an annual opinion for 2020/21 year.

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 22 May 2020 (April's committee was postponed due to COVID)
	Annual Audit Report and Opinion	By end July	G	2019/20 Annual Report and Opinion approved by Committee on 28 August (delayed due to COVID)
	Customer Satisfaction Levels	90% satisfied	N/A	No surveys received in the period
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	N/A	During the COVID-19 pandemic, the audit plan has been suspended to allow the organisation to respond to the emerging pandemic.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	<p>January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings</p> <p>June 2020 - Internal self-assessment completed, no major areas of non-compliance with PSIAS identified.</p> <p>June 2020 - Internal Quality Review completed, no major areas of non-compliance with our own processes identified.</p>
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified

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Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
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	92.9% ¹

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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.

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