

# Internal Audit and Counter Fraud Quarter 3 Progress Report 2022/23

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## 1. Summary of Completed Audits

### Social Value in Procurement

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- 1.1 The Public Services (Social Value) Act 2012 requires public authorities to factor in economic, social and environmental well-being in connection with public services contracts. In practice, social value can be a cost-saving tool, as additional benefits can be delivered as part of the awarded contract.
- 1.2 Our audit, part of the agreed 2022/23 plan, set out to provide assurance that controls were in place to meet the following key objectives:
- Value for money was achieved through successful social value outcomes;
  - Robust contract management ensured that social value outcomes were achieved;
  - Social value was embedded throughout the Council's contracts, commissioning and procurement practices.
- 1.3 We recognised that social value only represented an element of the procurement and contracting landscape and therefore related to a medium-value, low-risk area in terms of the Council's overall operations, albeit an important one. Our key findings were:
- There was a disconnect between the procurement processes and contract management systems, which made it difficult to obtain information on social value delivery on a contract-by-contract basis. This reduced transparency and inhibited reporting of data;
  - Due to this issue, whilst the social value committed per contract was known there was no single mechanism to identify what was actually being delivered;
  - There was no clear guidance to officers about how to report the delivery of social value either within directorates, or corporately;
  - In some cases we had difficulty in establishing who the contract manager was, and were unable to establish if social value was being consistently monitored and delivered; and
  - Formal arrangements for maintaining and updating guidance to officers had not yet been established.
- 1.4 Overall, we gave an opinion of **Partial Assurance** following this audit. We identified and agreed four actions with management, one of which was high priority and three of medium priority. We will undertake a follow-up of this audit as part of our 2023/24 annual plan to ensure agreed actions have been implemented.

### CFL Panel Process

- 1.5 Following Ofsted inspection in 2018 Children, Families and Lifelong Learning (CFL) introduced series of 'panels' to function as a gateway to scrutinise and agree proposed care packages and

provisions before being commissioned. In late 2021, following rising costs of care, the Council Leadership asked us to review the current panel landscape within CFL.

- 1.6 The audit was undertaken over an extended period, in part to facilitate ongoing consideration of changes to the control environment given the direction and pace of developments within the panel framework, and in part in recognition of significant system changes within CFL, namely the implementation of a new education management system, EYES, and payment system, LIFT.
- 1.7 The purpose of this audit was to provide assurance that controls were in place to meet the following key objectives:
- A strong governance framework existed around developments within the existing panels;
  - Processes surrounding how cases were identified and brought to the relevant panel for decision were robust, clearly communicated, and followed;
  - Panel control processes were sufficiently rigorous to ensure that decisions were based on both the best care outcome and achieving value for money;
  - Panel decisions about packages were taken with sufficient awareness and approval within the available budget, and long-term financial liabilities were transparent;
  - There was clarity over roles, responsibilities, and accountabilities of all those involved in the various aspects of the process; and
  - Financial monitoring and accountability were transparent.
- 1.8 Overall, based on the audit work carried out, we were able to provide **Reasonable Assurance** over the controls operating within the panels landscape. This reflected both the level of progress made in improving internal governance arrangements, and improved working practices offered by the new IT systems.
- 1.9 Our audit identified and agreed six actions with management, one of high priority (around correctly recording panel outcomes within the new IT framework), four of medium priority, and one of low priority.

### Compensatory Added Years (CAY)

- 1.10 Although no longer available to active scheme members, CAY was a discretionary benefit awarded by employers to employees, often in cases of compulsory redundancy: once awarded, payments remained payable initially in full to the pensioner and (potentially) to their dependent(s). At the time of our audit there were 839 former Council employees in receipt of CAY payments.
- 1.11 CAY payments are not part of the Local Government Pension Scheme: costs for the Council amount to circa £2m per annum and represent an ongoing liability falling on the General Fund.

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- 1.12 The audit was undertaken to provide assurance over the following key controls:
- There were robust processes in place to ensure eligibility for CAY was established;
  - Proof of entitlement was in place prior to payments being made;
  - Recharging processes were in place to ensure the correct allocation of costs; and
  - Reporting arrangements were transparent in respect of ongoing liabilities.
- 1.13 We were able to provide assurance over the control environment and the specific controls identified though due to the historic nature of the cases reviewed certain records were incomplete. However, we were satisfied that the sign-off of the cases we sampled between 1990-2000 was appropriate.
- 1.14 Overall we concluded that the opinion in this area should be of **Reasonable Assurance** and we agreed three actions with management (two of medium priority, one of low priority) to secure improvements in respect of reporting arrangements and payment mechanisms.

#### **Officer Code of Conduct follow-up**

- 1.15 Following the publication of a Partial Assurance opinion on the Officer Code of Conduct in 2021/22, we worked with HR&OD in the updating of this key governance policy.
- 1.16 The policy refresh was completed in the third quarter, culminating in Full Council approving the revised Code of Conduct policy on 13 December 2022. In supporting the refresh, our advice and input was sought over the policy wording to ensure that it robustly reflected the requirements on officers, and contained all expected elements of content. We also provided input into new sections of the policy, in particular elements around new remote working practices and the sponsorship of Council events.
- 1.17 Delays in the go-live of MySurrey meant that anticipated work to review the live control environment for related processes (such as the online declaration of interests, or of gifts and hospitality) will now be deferred until our 2023/24 plan.
- 1.18 Overall, allowing for the improvements put in place since our last review, we were able to give this area an overall opinion of **Reasonable Assurance**.

#### **Your Fund Surrey**

- 1.19 Your Fund Surrey (YFS) is a Surrey County Council-led grants initiative, with a five-year plan to award capital funding to benefit communities across Surrey. The online application process opened in March 2021 and by October 2022 a total fourteen applications had been approved, totalling over £3.9m.

- 1.20 The purpose of our review was to provide assurance that controls were in place to meet the following key objectives:
- Applications were processed, assessed and approved in line with scheme policies;
  - Monitoring arrangements were in place and were proportionate to the funding awarded;
  - and
  - Management information was available and used to assess the efficacy of the process.
- 1.21 We concluded that the governance arrangements in place within the application process were robust , and we found that the sample of applications reviewed were subject to sufficient management oversight and scrutiny in line with the expected processes.
- 1.22 In the course of our review the team was receiving support from the Transformation Programme to streamline the current application process. Given the advanced status of this work and to minimise the risk of duplication we did not propose separate actions aimed at process efficiency, instead co-ordinating with Transformation colleagues to share our findings.
- 1.23 Overall, we were able to give an opinion of **Reasonable Assurance**.

#### **Public Sector Accessibility Regulations follow-up**

- 1.24 The Public Sector Bodies (Website and Mobile Applications) Accessibility Regulations came into force in September 2018. They required public sector bodies to make their websites and mobile applications more accessible to the public. This follow-up audit was undertaken following a previous review in 2021/22 which gave an opinion of Partial Assurance.
- 1.25 The purpose of our audit was to provide assurance that management had implemented the five previous agreed actions as expected. Where areas assessed in the previous audit were evaluated as being well controlled, they were not been re-tested during this review.
- 1.26 Since the previous audit, we concluded that work to ensure compliance with the regulations has progressed positively:
- A post of Project Manager (Digital Accessibility) had been recruited, with responsibility to progress the Council's compliance with the regulations;
  - The Council's main website content pages had been audited for compliance, with sufficient budget set aside to maintain this;
  - Adequate guidance and training was available on the intranet for web authors;
  - The introduction of the Accessibility Machine 'bot' ensured that new uploads to the website would comply with requirements; and
  - A separate review undertaken by the Cabinet Office also found that the Council had made good progress towards improving compliance with the regulations.

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- 1.27 Further work is ongoing to mitigate the risks in relation to the websites of third-party suppliers to the Council. Based on the progress made, we were able to increase the level of assurance following this review to **Reasonable Assurance**. We agreed one new medium priority action with the service in respect of the third-party supplier issue.

### Surrey Highways Lane Rental Scheme

- 1.28 From April 2021 the Council introduced the Surrey Lane Rental Scheme (SLRS). This scheme allows the Council to charge companies undertaking street or road works up to £2,500 per day for delays during the planning and execution of works on the most critical parts and peak times of Surrey's highway network.
- 1.29 The purpose of the audit was to provide assurance that controls were in place to meet the following key objectives:
- Robust processes were in place to ensure the Scheme was applied consistently;
  - There were effective controls in place to ensure income generated was managed in line with the regulations; and
  - There were effective monitoring and reporting arrangements in place.
- 1.30 Our audit identified that in all respects the control environment around the current arrangements was robust. Governance and reporting mechanisms were in place and operating effectively, and monitoring of the scheme (both internally, and for the Department of Transport) were robust.
- 1.31 Based upon the completed review, we were able to give our highest level of assurance, **Substantial Assurance**. Two actions were agreed with management, one of medium priority and one of low priority, around charging mechanisms and operational documentation respectively.

### Other Audit Activity

#### *Support to the Digital Business & Insights (DB&I) Programme*

- 1.32 Internal Audit support to the DB&I Programme continued in the quarter with ad-hoc advice, guidance and challenge provided to the both the Board and the Programme Director.
- 1.33 As part of this, we continue to work with key officers to ensure our independent review of the design of the key controls operating within the new system is completed prior to go-live. This work is designed to augment the Board Members assurance over the effectiveness of the control environment to support go-live decision making.
- 1.34 Continued testing of the proposed control environment for the key financial systems within MySurrey is scheduled for quarter four of 2022/23.

### *Trading Standards Cash-Handling*

- 1.35 We were asked to provide advice to Trading Standards over the process outlined in the service's 'Receipt of Money' guidance. The advice given was in context of the management and checking of opened mail and money received, and appropriate thresholds for monies stored in safes before banking.

### *Delegations and Authorisations within the Leadership Team*

- 1.36 During the quarter we carried out some unplanned advisory activity in relation to the arrangements by which senior officers work with PAs/support staff to undertake approval activities, including those in relation to things such as the authorisation of payments, annual leave etc.
- 1.37 As part of this work we sought to help identify practical and efficient solutions whilst maintaining an effective level of internal control and accountability. Officers from the Leadership are now implementing improvements although some of these may be dependent on the eventual implementation of the MySurrey system.

### *Proactis*

- 1.38 A planned application audit of Proactis (a system to help control and manage procurement and expenditure) was deferred. Instead we provided advice to management in respect of an unmanaged issue that had uncoupled Proactis from the overall Unit 4 (the new ERP solution) contract management. We determined this had been done as a pragmatic response to accommodate the earlier go-live of Proactis. However, the consequence of this led to an absence of any clear accountability for contract management and system ownership.
- 1.39 Management are addressing the identified issues, and further assurance work in this area will be scheduled within our 2023/24 annual plan.

### *Additional Data Template (ADT) Process Review*

- 1.40 We were asked by management to provide advice regarding controls around the submission of data to change school staff bank details and prevent mandate fraud. At present the ADT process allows schools to action these changes and update the Council's Payroll team, though this tool is not used by all schools who buy-back payroll services.
- 1.41 Following our review of the system and discussions with key teams, we determined that controls within the ADT process were sufficiently robust. However, controls for the transfer of data for

schools without ADT could be further strengthened through the use of alternative secure transfer mechanisms such as Egress. Written advice to management was provided in this regard.

## School Audits

- 1.42 We continue to provide assurance over individual school control environments and to improve our level of engagement with key stakeholders through periodic liaison meetings.
- 1.43 We have a standard audit programme for all school audits, designed to provide assurance over the control environment, including:
- Governance structures ensure there is independent oversight and challenge by the Governing Body;
  - Decision-making is transparent, well documented and free from bias;
  - The school is able to operate within its budget through effective financial planning;
  - Unauthorised or inappropriate people do not have access to pupils, systems or the site;
  - Staff are paid in accordance with the schools pay policy;
  - All unofficial funds are held securely and used in accordance with their agreed purpose; Expenditure is controlled and funds used for an educational purpose; and
  - Security arrangements keep data and assets secure.
- 1.44 At the time of writing, school audits are being carried out through a combination of remote working and physical visits.
- 1.45 A total of five school audits were delivered in quarter three. The table below shows a summary of the schools audited together with the final level of assurance reported to them.

Name of School	Audit Opinion
Godstone Primary and Nursery School	Reasonable Assurance
Guildford Nursery and Family Centre	Reasonable Assurance
Chennestone Primary School (Sunbury-on-Thames)	Reasonable Assurance
Claygate School	Reasonable Assurance
North-East Surrey Short-Stay School (Hersham)	Partial Assurance

- 1.46 We aim to undertake follow-up audits at all schools with Minimal and most schools with Partial Assurance opinions. Arrangements will be made in respect of the school so identified above.

1.47 Where common themes arise across a number of schools, these areas are flagged for subsequent inclusion in School Bulletins so that all schools can be advised of potential areas of weakness and of potential improvements to their control environments. A selection of common themes identified to the end of quarter two has included:

- Governors should be encouraged to declare any relevant interests via the school website;
- Reports on ring-fenced funding (e.g. Pupil Premium) should be published per Department for Education guidance;
- Schools are not requiring staff to complete a declaration of relevant business interest(s);
- The location and use of purchasing cards was often contrary to the issuing bank's conditions;
- Purchase orders are not raised for every order made with suppliers; and
- Evidence of Public Liability Insurance should be in place for visiting contractors.

#### *Grant Claim Certification*

1.48 During quarter three, we successfully certified two grant claims in accordance with Central Government requirements:

- Greener Homes Grant - £1,208,861
- Troubled Families (third claim of 2022/23) - £226,400

## **2. Counter Fraud and Investigation Activities**

### *Counter Fraud Activities*

2.1 A fraud awareness bulletin focussing on emerging fraud risks was produced and published on the Council's intranet as part of International Fraud Awareness week in November 2022.

2.2 The team continue to monitor intel alerts and share information with relevant services.

### *Summary of Completed Investigations*

#### *Conflict Of Interest*

2.3 Initial enquiries were conducted following a concern being raised regarding a potential conflict of interest within Adult Social Care. It was alleged that a member of staff had set up their own care provider business and registered it with the Care Quality Commission (CQC), the independent regulator of health and social care in England.

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- 2.4 Initial searches found the employee was registered as a director of a company and also the registered manager with CQC. However, whilst a potential conflict of interest existed, the Council had not made any payments to the company. The member of staff resigned during the initial enquiries and no further action was pursued.

#### *Mandate Fraud*

- 2.5 Advice was provided to Business Operations following concerns regarding several email requests to amend a company bank mandate. The request was verified as genuine, and no further action was required.
- 2.6 We were also alerted by Business Operation to an attempt to change the bank details of an individual for payroll purposes. The attempt was prevented by internal controls and we reported the incident to Action Fraud.

#### *Abuse Of Position*

- 2.7 We conducted initial enquiries following an allegation that a member of staff had accessed and shared information that they should not have viewed. No evidence of wrongdoing was found, and the case closed.

### **3. Action Tracking**

- 3.1 As part of our quarterly progress reports to Audit and Governance Committee we seek written confirmation from services that all high priority actions due for implementation are complete. Where follow-up audits are undertaken, we reassess the progress of all agreed actions (low, medium and high priority). Periodically we may also carry out random sample checks of all priority of actions.
- 3.2 All high-priority actions due to be implemented by management by the end of quarter three had been implemented, or rescheduled dates for their implementation had been agreed.

### **4. Amendments to the Annual Audit Plan**

- 4.1 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 this quarter:

Additional Audit	Rationale for Addition
Greener Homes grant certification	An unexpected grant claim in ETI that required Chief Internal Auditor certification within quarter three.
SFRS Contract Management Arrangements	A review requested by the new Chief Fire Officer to obtain assurance over arrangements in place within Surrey Fire & Rescue.
SFRS Inspection Readiness Review	A request by the new Chief Fire Officer ahead of Surrey Fire and Rescue being reinspected in 2023 by His Majesty’s Inspectorate of Constabulary and Fire & Rescue Services.
Quadrant Court – Land & Property process validation	Senior Management requested a review of the contractual arrangements in place between the Council and its contractors in light of flooding at Quadrant Court.
Solar Together	A review requested by management to examine the governance arrangements in place between the Council and its delivery partner in a scheme to allow residents to purchase solar panels.
ADT Process Review	Advice and assurance work looking at the exchange of sensitive and confidential payroll data between schools and the Council.
HMRC Statutory Maternity Pay (SMP) support	Audit support was requested in the resolution of a system error that led to mis-payment to HMRC in relation to SMP.

4.2 All of the new additions to the plan have been resourced through a combination of available contingencies and time recouped from reprioritised audit work, including cancelled audits.

4.3 The following audits were removed from the plan in this quarter:

Planned Audit	Rationale for Deletion
COVID Bus Service Support Grant	This anticipated audit was not required in year after all.
COVID Home to School Transport Grant	This anticipated audit was not required in year after all.
ASC Charging Reforms	Following a change in Central Government policy around Adult Social Care charging reforms, this planned audit has been deferred.
Kofax Application Audit	This audit was deferred on a risk-basis to prioritise other ICT audits.
Key Financial Systems (various, see narrative)	With a number of Key Financial Systems audits from our 21/22 annual plan being reported in Q1 and Q2 of the current financial year and the delay in the go-live of Unit 4, there was no value in repeating these audits again in 22/23. Time saved from the

	postponement of the audits of Payroll, Capital Budget Monitoring, Revenue Budget Monitoring, Treasury Management and Financial Assessments and Income Collection will be reallocated in quarter four, in part to our ongoing support to the DB&I Programme.
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4.4 We will continue to keep the resources available under review as the year progresses as current vacancies within the overall service structure may negatively impact on available days to deliver planned audits.

## 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 of 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 2022	<b>G</b>	Approved by Audit Committee on 28 March 2022
	Annual Audit Report and Opinion	By end July 2022	<b>G</b>	2021/22 Annual Report and Opinion approved by Committee on 13 June 2022
	Customer Satisfaction Levels	90% satisfied	<b>G</b>	100% satisfaction for surveys received in the period
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	Annual: 90% Q3: 67.5%	<b>G</b>	At Q3 we have achieved delivery of 70.5% of the annual plan to draft report stage (pro-rata target 67.5%).
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	<b>G</b>	Dec 2022 - External Quality Assurance completed by the Chartered Institute of Internal Auditors (IIA). Orbis Internal Audit assessed as achieving the highest level of conformance available against professional standards with no areas of non-compliance identified, and therefore no formal

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
				<p>recommendations for improvement arising. In summary the service was assessed as:</p> <ul style="list-style-type: none"> <li>• <b>Excellent in:</b> Reflection of the Standards Focus on performance, risk and adding value</li> <li>• <b>Good in:</b> Operating with efficiency Quality Assurance and Improvement Programme</li> <li>• <b>Satisfactory in:</b> Coordinating and maximising assurance</li> </ul>
	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 agreed in response to audit findings	95% for high priority agreed actions	<b>G</b>	100%
Our staff	Professionally Qualified/Accredited	80%	<b>G</b>	90% <sup>1</sup>

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

## Audit Opinions and Definitions

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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.