

Internal Audit and Counter Fraud Quarter 3 Progress Report 2023/24

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1. Summary of Completed Audits

Schools Alliance for Excellence (SAfE) Contract

- 1.1 In 2019 Schools Alliance for Excellence (SAfE) was commissioned by the Council to deliver the Council's statutory school improvement function, working in partnership to identify schools who need support and challenge. The original contract value was £2.89m, extended by one further year with an additional cost of c.£722k.
- 1.2 The aim of our audit was to provide assurance that controls were in place and operating as expected to manage key risks, in particular that:
- Governance arrangements to manage the contract were robust;
 - Performance management ensured that the contract specification was delivered;
 - Procedures were in place to ensure that all payments were made correctly in accordance with contract terms; and
 - Contract variations were agreed and processed correctly.
- 1.3 Key findings from our audit were that:
- Activity to monitor supplier payments was not routinely undertaken to ensure the accuracy of payments made to the supplier for core contractual spend;
 - A process did not exist to record variations to the contract;
 - There was no risk register or other means of identifying and managing risk;
 - There was no contract segmentation in place to ensure that activities to manage the contract were proportionate;
 - No robust Key Performance Indicators (KPIs) were in place; and
 - An effective means for the secure transfer of data between the Council and the provider needed to be developed to protect against data breaches.
- 1.4 We did identify that a robust assessment of all schools was undertaken termly, and that it was evident that there was a focus on maintaining a strong relationship with the supplier to ensure that a continuing level of service was provided.
- 1.5 Based on our findings, we were only able to provide an opinion of **Partial Assurance**. We have agreed nine actions with management (seven of medium priority, two of low) to address the weaknesses identified. We will undertake a follow-up audit in this area in our 2024/25 plan to check that the expected improvements have been implemented.

Unofficial School Funds

- 1.6 Unofficial school funds (USFs) include donations from parents and money raised by a school that are completely independent of delegated funds received through the Council. This review complemented our programme of school audits in which a number of schools had received recommendations relating to the management of their USF.

- 1.7 The purpose of the audit was to provide assurance that controls were in place to meet the following objectives:
- There were clear and robust policies and/or guidance in place to manage USFs;
 - Schools adhered to the policies and guidance in place, thereby managing financial risk and reducing the risk of inappropriate use or fraud; and
 - There was effective governance in place, with mechanisms to enable adequate oversight of the funds by those charged with that responsibility.
- 1.8 Whilst recognising that there is a policy for managing USF defined within the Schools Finance Manual, we concluded that the level of assurance that these processes give the Council is limited even where schools are compliant with them.
- 1.9 Our key findings included:
- Whilst schools instruct independent examiners to conduct an annual review of USF accounts, in practice there is little assurance gained from current processes;
 - After presenting the resultant certificate of inspection to their Governing Board, a sample of schools are then required to return this certificate to Schools Finance for review. The process for following up on non-compliant schools is not robust, and such schools may be left unchallenged;
 - In addition, schools submit no further supporting evidence than the certificate. This offers little assurance as it does not identify balances, nor detail how the inspection has been conducted;
 - Wording within the current guidance is ambiguous in places and could lead to individual interpretation that circumvents proper control; and
 - The level of oversight within the Council of current USF balances is lacking. At the most basic level the Council is unaware of how many USF accounts exist across maintained schools and as such their respective values are also unknown.

Whilst the responsibility for maintaining USFs rests with maintained schools, the reputational risk when funds are mismanaged is still borne by the Council. There may also be associated costs with supporting investigations and potential court action that fall onto the Council in the event that a criminal investigation is required.

- 1.10 The output of our audit was to suggest more robust processes, supported by redesigned templates and returns, to improve controls within this area and give far greater accountability and transparency over these balances.
- 1.11 Overall, we concluded our review with an opinion of **Partial Assurance**, agreeing three actions with management (two of high priority, one of medium priority). We will follow-up this audit to assess the impact of these implemented actions on the control environment.

Surrey County Council Companies - Governance Arrangements

- 1.12 Local Authority Trading Companies (LATCOs) are bodies that are free to operate as commercial companies but remain wholly owned and controlled by the parent council. The Council has four wholly owned LATCOs; Hendeca Group Limited, Surrey Choices Limited, Halsey Garton Residential Limited, and Halsey Garton Property Limited.
- 1.13 The purpose of the audit was to provide assurance that controls were in place to meet the following objectives:
- Robust governance arrangements were in place for each LATCO;
 - Roles and responsibilities for those charged with governance were defined, appropriate and enacted;
 - The Council holds sufficient influence to ensure that the LATCOs continue to operate in line with its strategic interests and objectives; and
 - Performance information was provided and scrutinised effectively.
- 1.14 Key findings from our review included:
- The operations of the LATCO are overseen by the two governance boards, Shareholder Investment Panel (SHIP) and a member-led Strategic Investment Board (SIB);
 - A review of recent activity of both of these boards provided assurance that they were operating as expected in terms of their scrutiny and oversight of activity;
 - A review of key company documentation provided assurance that the expected Articles of Association were in place for each LATCO;
 - A review of the composition of LATCO boards found that they all included a representative from Council, as required. We also concluded that these officers had the appropriate skills and experience to undertake this role effectively; and
 - A review of recent board minutes for our sample of LATCO's provided assurance that decision-making was compliant with the agreed process.
- 1.15 We noted that there was no formal guidance in place to support officers in undertaking their roles, and that said officers had not completed declarations of interest for their board roles.
- 1.16 Overall, we formed a final opinion of **Reasonable Assurance**, agreeing 1 medium priority action with management to improve the control environment.

Surrey Fire & Rescue Service (SFRS) Contract Management Arrangements Follow-Up

- 1.17 An original audit of SFRS Contract Managements Arrangements was completed in April 2023, which gave an audit opinion of Partial Assurance. In line with our follow-up protocol we undertook a follow-up review to examine progress made since actions were agreed.
- 1.18 We raised three high priority action during the previous review relating to;
- The contracts register;

- Supplier financial checks; and
- Spend against contracts.

Together with five medium priority actions relating to;

- Contract manager training;
- Contract management plans;
- Review of performance and progress reports;
- Social value; and
- Contract documentation.

1.19 We were able to improve our opinion to **Reasonable Assurance** over the controls operating within this area because our review established that the previously agreed actions have been implemented. We have not given a higher level of assurance as, whilst the direction of travel is positive, there remain ongoing actions to secure all of the anticipated improvement, including regular training for contract managers.

Pension Fund Cyber Security Arrangements

1.20 The objective of this audit was to provide assurance that the Surrey Pension Fund has sufficient controls in place and complies with the Pension Regulator's cyber security principles for pension schemes, which provides guidance over the following areas:

- Governance;
- Control;
- Incident response; and
- Managing evolving risk.

1.21 This audit was carried forward from the 2022/23 audit plan to allow the service time to move its pension system hosting arrangements to the cloud.

1.22 After considering all the current cyber security measures in place for the Pension Fund, we concluded that there was a high level of compliance with the principles set out by the Pension Regulator. Among the key findings, we found that:

- There were adequate business continuity arrangements in place to manage an incident, currently using the Finance Business Continuity Plan, but with a Pension specific plan being developed;
- Frequent backups are made to both online and offline servers to help ensure that if an attack were to occur, members and the funds data would still be accessible;
- Cyber security risks within the pension fund are reviewed every quarter to ensure that they are up to date; and
- There are controls in place to help prevent unauthorised access to the Pension Fund's systems and data.

- 1.23 However, we also identified that there could be improvement to the cyber security training offered to Pension Fund staff, which occurs during initial induction but not on a recurring basis.
- 1.24 Overall, we concluded our review with an overall opinion of **Reasonable Assurance**, with one medium priority action being agreed with management to address the identified weakness.

SFRS Customer Relationship Management (CRM) System

- 1.25 SFRS have recently procured a CRM system ('Infographics') to store all information relating to service-related visits to sites across the county.
- 1.26 The purpose of our audit was to provide assurance over governance of the project to implement the new system and specifically that controls were in place against the following objectives:
- Project documents clearly defined the objectives of the project;
 - The roles and responsibilities of all key stakeholders were defined;
 - An assessment had been undertaken to identify, evaluate and manage risks;
 - Effective quality and cost controls were in place; and
 - Reporting and communication accurately reflected the position of the programme.
- 1.27 A summary of key findings identified:
- A review of governance processes found that stakeholders were consulted as part of project development, with roles and responsibilities clearly defined;
 - There were clear processes in place for the escalation of project developments and changes, with technical support available from the solutions provider;
 - A risk register had been established;
 - A communication plan was in place as part of the Project Initiation Document; and
 - The budget was subject to effective financial monitoring.
- 1.28 We also identified areas for improvement, including the need for all formal documentation to be put through the correct approval mechanisms, and revision to the way that owners of, and mitigating actions for, risks were being recorded.
- 1.29 Overall, we concluded a final opinion of **Reasonable Assurance**, with three medium priority actions being agreed with management to address the issues noted above.

Adult Social Care Data Handling

- 1.30 It is important for organisations to ensure that data is retained, handled, and held securely over its entire life cycle. Adult Social Care staff use a number of tools to obtain

records relating to the service users in a digital format, including audio recording and video recording, photographs, etc.

- 1.31 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- Clear roles and responsibilities were in place to ensure accountability for data;
 - There were documented retention and disposal procedures to include provision for permanent preservation of archival material, and secure disposal of information at the end of its life;
 - Processes and procedures existed to ensure information was safe from accidental alteration or erasure, and to support management in decision-making; and
 - Clear policy, guidance and training was available to officers relating to the handling of personal and/or sensitive information.
- 1.32 Our review found evidence that existing controls and processes largely addressed the expected control objectives. Our audit identified some areas for improvement, however, including:
- The need to identify a responsible officer to delete data held digitally at the end of its retention period; and
 - Updating guidance to staff explaining how to manage geolocation within photos and videos, which has the potential of putting service users at risk if their location is shared within photos or videos through Freedom of Information or Subject Access Requests.
- 1.33 Overall we were able to give an opinion of **Reasonable Assurance**, agreeing two actions with management (one of medium priority, one of low priority) to address these issues.

Other Audit Activity

Jointly Commissioned Expenditure

- 1.34 We supported management in the review of expenditure incurred during the delivery of a number of projects forming part of the transformation programmes for Mental Health and Learning Disability & Autism, delivered across the Surrey Heartlands Integrated Care System.
- 1.35 Questions about the transparency of decisions to commit elements of these funds had arisen, and it was unclear whether existing contractual arrangements with the provider covered this work sufficiently. Our work identified no impropriety but did identify potential weaknesses in the governance arrangements for the joint commissioning of work between the NHS and the Council that existed at this time.

1.36 These joint arrangements had since been updated, and it was agreed that there would be value in Orbis Internal Audit reviewing them as part of our 2024/25 plan.

School Audits

1.37 We continue to provide assurance over individual school control environments and improve our level of engagement with key stakeholders through liaison meetings.

1.38 We have a standard audit programme for all school audits, designed to provide assurance over key aspects within the control environment, including:

- Good governance ensures oversight and challenge by the Governing Board;
- Decision-making is transparent, well documented and free from bias;
- The school is able to operate within its budget through effective financial planning;
- Unauthorised 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 appropriately;
- All income due to the school is collected, recorded, and banked promptly.
- Expenditure is controlled and funds used for an educational purpose; and
- Security arrangements keep data and assets secure.

1.39 School audits continue to be carried out through a combination of remote working and physical visits.

1.40 A total of nine school audits were delivered in quarter three, and the table below shows a summary of the final level of assurance reported to them.

Name of School	Audit Opinion
Thames Ditton Infant School [Thames Ditton]	Partial Assurance
Horsell Church Of England Aided Junior School [Woking]	Reasonable Assurance
Dormansland Primary School [Lingfield]	Reasonable Assurance
Trinity Oaks Church of England Primary [Horley]	Reasonable Assurance
Chertsey Nursery School [Chertsey]	Reasonable Assurance
Clifton Hill Church School [Caterham]	Reasonable Assurance

Name of School	Audit Opinion
Reigate Parish Church Primary School [Reigate]	Reasonable Assurance
Bell Farm School [Walton On Thames]	Reasonable Assurance
Ash Manor School [Ash]	Reasonable Assurance

1.41 We aim to undertake follow-up audits at all schools with Minimal and most schools with Partial Assurance opinions. Only one such opinion was delivered in this quarter.

1.42 Where we identify common themes arising from school audits, and to help build awareness of those potential areas for improvement, such findings are flagged for inclusion in Internal Audit School Bulletins. Communications such as these, alongside the reports themselves, provide schools with insight and recommendations that can enable them to proactively strengthen their control environments. Common themes identified this quarter include:

- School staff should be encouraged to declare any relevant interests;
- Purchase orders should be raised in advance, to agree costs and commit the expenditure to the budget;
- Financial reports sent to Governing Boards should include Cumulative Expense Analysis, to strengthen financial oversight; and
- Contracts registers should be maintained for effective contract management.

Grant Claim Certification

1.43 During quarter three we successfully certified and returned three grant claims in accordance with Central Government auditing requirements:

- Local Authority Delivery (LAD3) Closeout Grant - £5,009,468
- Bus Operators Subsidy Grant - £1,124,405
- Supporting Families Grant (third claim of 2023/24) - £248,800

2. Counter Fraud and Investigation Activities

Counter Fraud Activities

- 2.1 We have continued to liaise with the relevant services to provide advice and support in processing the matches received as part of the National Fraud Initiative.
- 2.2 The team have carried on monitoring intel alerts and shared information with relevant services when appropriate. In addition, advice and support was provided to services in several cases that did not ultimately require internal audit investigation.

6 *Summary of Completed Investigations*

Conflict of Interest: Working Whilst Sick

2.3 Following concerns raised by management we carried out an investigation to confirm whether an employee had undertaken paid employment while signed off sick from work. The investigation identified that the employee had recently set up a football coaching business. A report summarising our findings was issued to management for them to consider whether the actions breached the guidance around expected conduct. Management determined that the coaching was not in conflict with the officer’s role, and no further action was taken.

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 against all priorities of actions.

3.2 At the end of the third quarter of 2023/24, 100% of high priority actions due had been fully implemented (or rescheduled dates for their implementation were agreed).

4. Amendments to the Annual Audit Plan

4.1 In accordance with proper professional practice, the Internal Audit plan for the year is kept under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. After discussions with management, the reviews below were added to the original audit plan during this quarter:

Additional Audit	Rationale for Addition
Disposal of Land and Property	Following an unsubstantiated allegation about undeclared conflicts of interest among staff working in this area, a full review of the disposals process for land and buildings was commissioned.
Woodhatch Secure Storage Room Access	One of the IT&D secure rooms in Woodhatch was accessed by an on-site contractor when such access should not have been authorised. We were asked to review the control environment to address any potential weaknesses.

<p>Education, Health and Care Needs Assessments (EHCNAs) Communication Protocol</p>	<p>Following the provision of information regarding the second phase of the 'Education, Health and Care Plan Timeliness Recovery Plan' in October 2023, we were asked by the Children, Families, Lifelong Learning and Culture Select Committee to audit of a sample of responses from the Council's four quadrant-based teams handling communication to professionals, parents, and schools to ensure they were compliant in terms of timeliness with the stated protocol.</p>
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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 (where appropriate) cancelled audits.

4.3 There have been four audits deferred from the plan in this quarter, as detailed below.

Postponed / Removed Audit	Rationale for Postponement / Removal
<p>Procurement Regulatory Changes</p>	<p>The expected changes have not been implemented by Government yet, so this work will be undertaken as part of our 2024/25 audit plan.</p>
<p>Integrated Care Systems Governance Arrangements</p>	<p>Following delays changes to the expected changes to arrangements, this audit has been deferred into our 2024/25 annual plan.</p>
<p>Capital Budgetary Control</p>	<p>This audit is not one of the agreed Key Financial Systems to be covered in our initial reviews within MySurrey, and has therefore been deferred into our 2024/25 annual plan.</p>
<p>PLANON Support</p>	<p>Support not deemed to be necessary in light of other risks.</p>

4.4 We will continue to keep the resources available under review as the year progresses.

5. Internal Audit Performance

5.1 In November 2023 we updated our self-assessment against the PSIAS standards and concluded we were fully compliant with 319 of the standards and partially compliant with the other 2 standards (in both cases proportionate arrangements remain in place).

5.2 We also completed our Quality Review exercise in November 2023, with no major areas of non-conformance being identified. The need to ensure consistency in the quality of the evidence contained within a small number of audit working papers was identified, and this will be addressed at auditor development days we will be running during 2024/25.

5.3 In addition to the annual self-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 2023	G	Approved by Audit Committee on 8 March 2023
	Annual Audit Report and Opinion	By end July 2023	G	2022/23 Annual Report and Opinion approved by Committee on 12 July 2023
	Customer Satisfaction Levels	90% satisfied	G	100% satisfaction for surveys received in the period
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	Annual: 90% Q3 end: 67.5%	A	At Q3 we have achieved delivery of 61.5% of the annual plan to draft report stage. Given the high volume of work in progress at the end of the quarter we remain reasonably confident of meeting our target of 90% by the end of the year.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	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 recommendations for improvement arising. In summary the service was assessed as: <ul style="list-style-type: none"> Excellent in: Reflection of the Standards

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
				Focus on performance, risk and adding value <ul style="list-style-type: none"> • Good in: Operating with efficiency Quality Assurance and Improvement Programme • Satisfactory in: Coordinating and maximising assurance
	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	91% ¹

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

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.