

Internal Audit and Counter Fraud Quarter 2 Progress Report 2021/22

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1. Summary of Completed Audits

LAS LiquidLogic Application Controls (follow-up)

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- 1.1 The LiquidLogic Adult's Social Care System (LAS) is a key system within the Council, used for recording and processing information relating to adult social care client care needs, including the management of contacts, referrals and support plans, as well as safeguarding issues. Our previous audit in 2020/21 evaluated the adequacy and effectiveness of the key controls within LAS and due to weaknesses in the control environment could only give an opinion of Partial Assurance.
- 1.2 The objective of this follow-up audit was to review the actions agreed from the previous audit and to provide assurance that these had been implemented and that key controls were in place and operating effectively.
- 1.3 We found that all of the previously agreed actions had been fully implemented, and the control environment had significantly improved. In particular:
- System access has been restricted to appropriately authorised individuals and the permissions provided to those users are in line with job functions;
 - Roles and responsibilities for the system have been clearly defined and documented;
 - Controls over data passing through interfaces help ensure this is authorised, accurate, complete, and securely processed;
 - Improved data field parameters have improved accuracy of data entry;
 - Outputs produced by the system were found to be complete, accurate, reliable and confidential;
 - System updates and enhancements are performed in a consistent manner and subject to sufficient testing and authorisation before implementation; and
 - Robust business continuity and disaster recovery arrangements are in place to minimise disruption to service provision.
- 1.4 As a result of these improvements, we were able to revise our opinion to one of **Substantial Assurance** in respect of this system.

Department for Work and Pensions (DWP) 'Searchlight' System

- 1.5 In February 2021, the DWP wrote to all local authority chief finance officers (S151 officers) for support in addressing an upward trend in the number of suspected data breaches involving the inappropriate access, by local authority staff nationally, to the DWP & HMRC personal customer data held within the DWP's Searchlight system.

- 1.6 The letter set out and asked the S151 Officers for specific assurances over the controls for managing access to the DWP data. The data held within Searchlight enables Surrey County Council staff within the Crisis Fund, Blue Badge and Adult Social Care teams access to service user's confidential benefit information held by the DWP. Surrey employs 54 staff with access to this data, along with six members of staff with administrator rights.
- 1.7 In carrying out our review, we found the overall level of compliance with the DWP expectations set out within the letter to be satisfactory. However, two actions were agreed with management in respect of areas where the Council was not yet fully compliant with requirements, as follows:
- Ensuring all users of the Searchlight system had a Baseline Personal Security Standard (BPSS) check completed prior to being given access to the system (this was a new requirement from the DWP in April 2021 and is of a higher level of security than the DBS check the Council had been using); and
 - Improving the communication within the cohort of system users around any lessons learned from data breaches when they do occur.
- 1.8 Following our review, we were able to give an overall opinion of **Reasonable Assurance**, allowing the Council's S151 Officer to respond to the DWP letter accordingly.

Risk Management Arrangements

- 1.9 As part of our 2021/22 annual plan, we undertook an initial review of the Council's revised and refreshed risk management framework to ensure the process was both effective and in line with good practice.
- 1.10 The specific scope of this audit sought assurance that key governance arrangements and controls were in place with the following objectives being met:
- The revised risk management framework and associated process was robust, taking into account risk management standards and best practice;
 - Roles and responsibilities in relation to risk management were clearly defined;
 - The revised framework detailed the Council's approach to risk identification, assessment, control and reporting to ensure consistent principles were applied across the authority;
 - The revised Corporate Strategic Risk Register considered the diverse and complex environmental factors and organisational objectives, allowing risks to be promptly identified, assessed, recorded and addressed, reviewed and monitored;
 - Company risk registers (where the council has a shareholding in a local authority trading company) were adequate to ensure that the Council was aware of its exposure;
 - Revised service risk registers met service needs and allowed risks to be efficiently identified, assessed, recorded, and addressed, reviewed, and monitored; and
 - There was a robust plan in place to embed the revised framework and risk registers within the organisation.

1.11 Our audit identified that the key aspects of best practice had been considered and effectively addressed in the creation of the new risk management framework. Since the completion of our audit, we note that the revised Risk Management Strategy, corporate risk register, and risk heat map were taken to and approved by Audit and Governance Committee on 20th September 2021.

1.12 We agreed four actions with management in respect of further improvements to the evolving processes. These actions addressed:

- The need to update the Constitution of the council in respect of the preceding risk management strategy, which still sits under Part 5 ('Rules of Procedure'), but which is now superseded;
- The need to formally define the corporate and directorate 'risk appetite' (the level of risk that an organization is prepared to accept in pursuit of its objectives, before action is deemed necessary to reduce the risk);
- Formalising the arrangements for the communication, engagement and embedding of the revised risk management strategy with staff; and
- Establishing a timetable for the completion and implementation of service risk registers.

1.13 We were able to give an overall opinion of **Reasonable Assurance** in respect of this audit. Further work will be undertaken by Internal Audit later in this financial year to review the effectiveness of the new processes as they are embedded.

Information Governance (Remote Working)

1.14 Information Governance sets out the way the Council processes information, covering both personal information (relating to service users and employees) and corporate information (financial records, for example). Where data breaches occur, the Information Commissioner's Office can issue fines of up to 4% of annual turnover, or £20 million (whichever is greater) for the worst offences.

1.15 Working arrangements have changed dramatically since to the Covid-19 pandemic and more staff continue to work remotely. Because of this increased risk we undertook this review to assess the effectiveness of controls in place to ensure information governance compliance.

1.16 The objectives of the review were to ensure:

- Staff were aware of policy/procedure changes related to remote working;
- Service directors/managers were confident in their team's knowledge of the reporting processes for data breaches and were compliant with information governance policies and procedures;
- Processes were in place to ensure data breaches were being investigated and reported;

- New software/processes worked smoothly with minimal information governance issues;
- Council equipment was being used for official business only; and
- Digitised data was only accessible to authorised personnel and was held securely.

- 1.17 The audit also included a review of the controls over printing, confidentiality of data, use of communication and 3rd party 'cloud' tools. Additionally, we sought to ensure that there are sufficient arrangements in place to undertake the investigation and reporting of data breaches.
- 1.18 Our findings showed that policies and guidance were readily accessible to all staff via S:Net, albeit that some of the policies had not been updated for four years and were therefore in need of refreshing.
- 1.19 Information Governance arrangements had been supported throughout the pandemic by the Data Protection Officer (DPO) and Information Governance team, who have proactively and reactively worked with services and the wider authority. The Council has an official Information Governance and Risk Board in place that is attended by senior managers from services, information governance officers and is chaired by the Head of Legal Services. This has continued to operate throughout the pandemic.
- 1.20 The data breach reporting system was found to be easily accessible to staff through the intranet to log any data breaches. Through review of the annual breach report, we did not identify any significant increase in breaches as a result of increased remote working. This is, however, only reflective of breaches that are reported and, therefore, we were unable to provide assurance that there hadn't been an overall increase of (unreported) breaches as a result of greater remote working.
- 1.21 Overall, we were able to give an opinion of **Reasonable Assurance** following our audit, agreeing two low priority actions with management to further improve the control environment.

Unofficial School Funds

- 1.22 Unofficial School Funds (USFs) are any funds from non-public sources which exist for a school to use and are established under the authority of the school governors. These are distinct from official 'Delegated Funds', which derive from Central Government funding and are passed onto schools via the Local Education Authority.
- 1.23 A review of the governance arrangements around USFs was identified for the 2021/22 annual audit plan because their stewardship had been identified as a potential financial risk during the pandemic and such funds could therefore be susceptible to financial irregularity.
- 1.24 Whilst our testing covered 20% of SCC's maintained schools, we were unable to physically visit schools due to pandemic lockdown measures still in place at the time of our fieldwork. Given

that this review focussed on the governance framework around USFs, without detailed testing at a school-level, our report was issued without an opinion, recognising that further work is to come at individual schools as part of our future programme of schools' assurance work. However, our report did identify to management those areas where assurance can be given, and where weaknesses in the control environment were present, and has informed our future schools audit activity.

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- 1.25 The scope of the audit was to provide assurance that an appropriate control framework is in place to help meet the following key control objectives:
- There were clear and robust policies and/or guidance in place, available to school staff and governors;
 - Banking and transactional processes for USFs were appropriate and include segregation of duties; and
 - There was effective stewardship of USFs including proportionate and effective governance, reporting and scrutiny of the funds.
- 1.26 Assurance was able to be taken from the evidence reviewed, including schools' own analysis of their control environment around USFs within the Schools Financial Value Standard (SFVS) return. However, we identified a number of areas of potential weakness in arrangements.
- 1.27 The main source of guidance to schools from the council for the stewardship of these funds was Section X of the School Finance Manual. This had last been updated in September 2019 and may not reflect all of the current Department for Education guidance in this area.
- 1.28 The Council should be able to satisfy itself that funds held by schools, even those deemed 'unofficial', are not being misused. Schools are required to make available on request copies of the independent 'audit' certificates they obtain in respect of USFs they hold, which should be annually reviewed by the Governing Body. However, such certificates have not been obtained by the Council's Schools Finance Team since 2018. If controls were to break down at local level and USF were not being audited, there is an increased risk of fraud, and currently this risk is not visible to the Council.
- 1.29 We agreed two medium priority actions in respect of these findings with management. Additionally, our programme of school audits commenced at the start of term in September and after this audit had reported, so the findings of this review have been shared to inform the school testing programme.

Digital Business & Insights (DB&I) Position Statement: Report-writing Requirements

- 1.30 Orbis Internal Audit has been working closely with the DB&I Programme Board to provide on-going advice and assurance to the project for replacing SAP with a new ERP solution. As part of

our support, a number of position statements have been issued to provide stakeholders with an update of our findings and conclusions over various aspects of the programme.

- 1.31 The first of two position statements issued in the quarter covered the system report-writing requirements, seeking to provide assurance that effective controls were in place to generate service user reports and that risks and issues, identified throughout the delivery and testing phase, are known, managed, suitably controlled. The scope of the audit did not provide assurance over the accuracy of the reported data.
- 1.32 Overall, we found that errors in the initial estimation for planning of resources and time, compounded by the poor quality of data, has resulted in significant delivery delays.
- 1.33 At the time of our testing, 77 of the 125 pre 'go-live' reports (based on the original go-live date of December 2021) were in development. The workstream also has a post go-live plan for the delivery of 267 additional reports, but as the go-live date has now been revised to April 2022, alignment to this new timeline is needed.
- 1.34 We concluded that the original plan had underestimated both the time and resource necessary to deliver the required reporting functionality. Our findings have been shared with the Programme Board in order for appropriate remedial action to be taken.

Digital Business & Insights (DB&I) Position Statement – Testing Arrangements

- 1.35 Testing is critical to ensure the new system operates as designed. Delivery of such testing involves the use of automated 'robotic' tools, as well as more traditional manual testing. The objective of our audit was to provide assurance that the testing arrangements in place are fit for purpose, robust and cover all expected key control mechanisms.
- 1.36 The scope of our review focused on examining progress made in developing a well-defined testing programme, to assess whether this provided a basis for testing to be performed in a consistent manner, and to consider whether the planned testing would provide assurance to the Council that the system performed as anticipated, including whether key controls work as intended.
- 1.37 Overall, we identified that the testing workstream had suitable governance arrangements in place to allow for a well-controlled testing programme, with a well-defined strategy and training and support for those staff involved.
- 1.38 However, issues in relation to both data quality within the test system, and the system build in some of the functional areas, have had a negative impact on the workstreams overall progress and success. Delays in the testing workstream have impacted upon other workstreams within the DB&I programme (e.g., reporting, user access, system security, etc.), as they are reliant on the build and testing being completed before they are able to make progress themselves.

- 1.39 We concluded that the revised implementation timeline should provide sufficient opportunity to resolve the ongoing issues prior to go-live in April 2022, allowing that all relevant stakeholders are consulted.

Surrey Fire and Rescue Service Automatic Fire Alarm Policy

- 1.40 Some premises within the national incident types that are listed as ‘commercial’, and which have no known sleeping risk, have a service agreement with a Fire Alarm Monitoring Organisation (FAMO) to monitor the premises’ fire alarm system. Upon receipt of a fire alarm signal, the FAMO notify Surrey Fire and Rescue Service (SFRS), who attend and investigate. SFRS data shows that attending non-incident related/unwanted fire signals over the last five years has resulted in a total of 1,353 hours of frontline appliance activity, equating to a total cost of £854,395.
- 1.41 SFRS are in the process of reviewing their current arrangements in relation to attendance of Automatic Fire Alarms (AFA) as it was found by Her Majesty’s Inspectorate of Constabulary and Fire and Rescue Service in 2018/19 that the service was inadequate at making the best use of its resources to manage risk effectively. Not only does this place a significant burden on SFRS’ resources and capacity to attend the more serious cases, but it also impacts on the service’s ability to deliver business and community safety activities, as well as undertake training.
- 1.42 The primary objective of our audit was to support SFRS by reviewing the analysis they had conducted in order to inform their decision-making around future AFA policy, with the specific scope of our work to provide assurance that:
- All stakeholders were identified, engaged and consulted during SFRS’ review;
 - Detailed research was undertaken to ensure compliance with statutory regulations; and
 - There was accurate and timely information available to properly inform policy decisions.
- 1.43 We reviewed stakeholder engagement (both within council, for example with Health & Safety and Legal Services, and outside of it) and we also reviewed sources of guidance SFRS had consulted, including from the National Fire Chiefs’ Council. Further, we reviewed the policies and approaches from a sample of other Fire and Rescue Authorities who had already adopted a similar approach to that proposed by SFRS. Finally, we examined the source of the data used by the service in this exercise and assessed it for quality and timeliness.
- 1.44 Whilst this audit did not result in an opinion due to the consultative nature of our role in an ongoing process, we were content that SFRS had undertaken diligent steps during the formulation of their revised policy. We agreed with management a number of additional actions that could be taken to further enhance the process, including re-engaging with stakeholders to

obtain feedback as plans evolve, and to develop an effective communications strategy to explain the changes when implemented.

Other Audit Activity

School Audits

1.45 In late quarter two, we began delivery of a comprehensive programme of school audits to provide assurance both to council and school management that the control environment within maintained schools was robust. This work, drawing upon knowledge and experience across the Orbis Internal Audit partnership, will be ongoing throughout the remainder of 2021/22 and into the following years' plans.

1.46 There is a standard audit programme in place for all school audits, with the scope of our work designed to provide assurance over key controls in relation to:

- Governance structures are in place and operated to 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;
- Expenditure is controlled and funds used for an educational purpose;
- Value for money is achieved on contracts and for larger purchases;
- All income due to the school is collected, recorded and promptly banked;
- All Unofficial Funds are held securely and used in accordance with their agreed purpose; and
- Security arrangements keep data and assets secure and are in accordance with data protection legislation.

1.47 By the end of quarter two, two school audits had been completed with eight more underway.

Chandlers Field Primary School, West Molesey

1.48 We were able to give an overall opinion of **Reasonable Assurance** following the completion of this audit.

1.49 The control environment was assessed to be robust, particularly around safeguarding and governance arrangements, and also in upskilling of the Governing Body with additional training.

- 1.50 Our audit agreed 13 actions with the school (9 medium priority and 4 low priority) across a range of areas, the most significant of which centred around the need to keep key policies up to date; to implement more robust processes around members of staff who leave; improving arrangements to enable potential conflicts of interest to be declared and recorded; and ensuring IR35 checks are completed for off-payroll consultants being employed.

St Pauls Church of England Primary School, Tongham

- 1.51 We were able to give an overall opinion of **Reasonable Assurance** following the completion of this audit.
- 1.52 The control environment was assessed to be robust, particularly around overarching governance arrangements.
- 1.53 Our audit agreed 10 actions with the school (4 medium priority, 6 low priority) key of which were the need to ensure public liability insurance was in place for all providers; the need for an independent authorisation of the monthly payroll reconciliation by the headteacher; provision of Cumulative Expense Analysis data to the Governing Body to enable more detailed scrutiny of finances; and enhancing the data held within the contracts register.

Grant Claim certification

- 1.54 During quarter two, the following grant claims have been successfully certified by Internal Audit in accordance with Government and/or EU grant requirements, and relate to income previously received in financial year 2020/21:
- Local Transport Capital Funding grant – 4 x highways-related grants totalling £33,531,000;
 - Bus Services Operators grant – supporting bus services, £1,125,405;
 - Troubled Families (second claim) – supporting Surrey families, £97,600;
 - IMAGINE (half-year claim) – EU project funding, €35,015; and
 - Urban Links 2 Landscape (half-year claim) – EU project funding, €66,735.

2. Counter Fraud and Investigation Activities

Counter Fraud Activities

- 2.2 During quarter 2, three Fraud Awareness sessions have been delivered to Business Operations focussing on the risks to the Council of bank mandate fraud and cyber fraud.
- 2.3 In addition, the Council's Counter Fraud Strategy has been reviewed and will be presented to Audit and Governance Committee in November 2021. The Fraud Risk Assessment has also been reviewed to ensure that the current fraud threats to the Council have been considered and appropriate mitigating actions identified.

- 2.4 Internal Audit is continuing to liaise with the services to ensure that matches from the National Fraud Initiative are being reviewed and processed.
- 2.5 Finally, the team continue to monitor fraud intelligence alerts and share information with relevant services when appropriate.

Summary of Completed Investigations

Misconduct and Safeguarding concern

- 2.6 We provided Adult Social Care with support following an allegation relating to the professional conduct of a social worker. The employee has now left the employment of the Council. The matter has also been referred to the police and Social Work England.

Cheque Fraud

- 2.7 We provided Business Operations with advice and support following notification from HSBC of an attempted cheque fraud. Business Operations are continuing to monitor the situation.

Insolvency Arrangements

- 2.8 Finally, we also provided advice to the Payments Team in relation to invoices due to a supplier following their liquidation.

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 been implemented except one, which was partially implemented.
- 3.2 The sole part-implemented high priority action was in Land and Property in relation to an audit completed in March 2021, regarding lessons learned following a court judgement against the council in the tendering of a contract for flat-roofing. The outstanding element of the action is not fundamental to internal control and consists of the completion of an internal process within the department to alert Business Intelligence officers to any outstanding complaints in the service. The revised timeframe for this action to be completed by is the end of October 2021.
- 3.3 We remain engaged in follow-up audits of Local Enterprise Partnerships, and of the Officer Code of Conduct, both previously Partial Assurance audits. Once these audits are completed, we will report the outcome to this Committee as part of our quarterly progress reporting cycle.

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 the year:

| Planned Audit | Rationale for Addition |
|---|--|
| LGPS Pension Fund Banking Controls | This audit was requested by management as part of our ongoing assurance work over pension administration arrangements. The audit will review the arrangements in place for the appropriate management and control of the Fund bank account, including the timely recording and reconciliation of receipts and payments and management of the suspense account. |
| Cash Collection Contract | This audit was added to the plan in the wake of the Council's contracted provider to collect cash from Council premises going into administration. The focus of the audit was to provide assurance around the mitigation of risks and implementation of temporary arrangements during the interim period before a new provider was selected, and to provide advice to Business Operations over governance arrangements moving forward as part of a wider lessons-learned exercise. |
| Your Fund Surrey (YFS) – Governance Processes | Part of our ongoing support for this £100m programme, this audit was added to the plan to review governance practices for the YFS programme to ensure they are sufficiently robust to prevent the inappropriate awarding of funds to projects that do not align with the council's priorities or scheme criteria. |
| River Thames Flood Alleviation Scheme | This audit will consider SCC's governance arrangements for this high-value, multi-agency project and seek assurance that risk management processes protect the council's financial, operational, and reputational interests. |
| Tree Management | Requested by service management, this audit will consider the effectiveness of the tree management policies and working practices within ETI, as well as the partnership to manage trees along the Basingstoke Canal. |
| Infection Control Grant | This review will consider the robustness of arrangements in place to distribute infection control funding, which supported additional lateral flow testing of staff in care homes, and |

| Planned Audit | Rationale for Addition |
|-------------------------|---|
| | enabled indoor, close contact visiting where possible. ICF allocations distributed by the Council to date from Central Government grant total £45,429,219. A main focus of the work will be to provide assurance that funding has being used as expected by providers, in light of issues identified nationally in this area. |
| School Purchasing Cards | An additional review to complement the school audit programme work, which will seek to provide additional assurance over arrangements for the control and use of purchasing cards in schools, in particular context of the increased risks in their use during the pandemic. |

- 4.2 All of the new additions to the plan have been resourced through available contingencies.
- 4.3 Audits that have been removed from the plan in the quarter are shown in the table below. Changes to the plan 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.

| Planned Audit | Rationale for Removal |
|--|---|
| Norwell Case Management System - Application Audit | This planned audit has been removed as the procurement of the new system has been delayed. We will engage with management to determine if there is a need to defer this audit into the 2022/23 plan, based on risk. |
| Parking Review Process | This audit has been deferred following a discussion with management and a revision to audits in the ETI Directorate, allowing for emerging risks and key priorities for assurance work. |

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 23 March 2021 |
| | Annual Audit Report and Opinion | By end July | G | 2019/20 Annual Report and Opinion approved by Committee on 18 June 2021 |
| | 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 | 90% | G | We have achieved delivery of 45.3% of the annual plan to draft report stage (pro-rata target 45%) |
| 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>July 2021 - Internal Self-Assessment completed, no major areas of non-compliance with PSIAS identified.</p> <p>June 2021 - 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 |
| Outcome and degree of influence | Implementation of management actions agreed in response to audit findings | 95% for high priority agreed actions | G | 97.5% |

| Aspect of Service | Orbis IA Performance Indicator | Target | RAG Score | Actual Performance |
|-------------------|-------------------------------------|--------|-----------|--------------------|
| 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. |

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