

# Internal Audit and Counter Fraud Quarter 3 Progress Report 2021/22

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## 1. Summary of Completed Audits

### Direct Payments

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- 1.1 Individuals with eligible care needs have the option of receiving care services provided by the local authority or, receiving payments via the Direct Payments scheme to pay for the care services they need and have had approved. Clients have the option to manage their own Direct Payment account or may choose to have the account managed by the council. During 2020/21, approximately £37 million was paid out in Direct Payments, and circa £5 million was reclaimed in Direct Payment surpluses.
- 1.2 The purpose of our audit was to provide assurance that key controls were in place to meet the following objectives:
- Guidance on the process for the administration and payment of Direct Payments was available and consistently applied across the localities;
  - Reviews of Direct Payment accounts were undertaken to ensure that money is recovered from accounts with excess funds, and payments made were used for their intended purposes; and
  - Client contributions were received in full.
- 1.3 Overall good practice was observed and effective controls were assessed to be in place. As a result, we were able to give an overall opinion of **Reasonable Assurance** in this area.
- 1.4 Some opportunities for improvement were observed, for which actions have been agreed with management to improve controls:
- There was no consistent process in place to ensure that clients who are paid a net direct payment (where the client is only paid the value owed by the council towards the cost of their care and any client contribution value has been deducted from this) are paying their assessed contribution; and
  - Case notes were not always recorded on Liquidlogic Adult Social Care (ASC) System (LAS), or in documentation saved centrally in Wisdom (the document storage system linked to LAS). This may hinder Social Care Teams being aware of activities undertaken by the Area Finance Team.

### Cash Collection Contract

- 1.5 On 10 September 2021, the Finance & Purchasing Team were advised that the council's cash collection provider, Contract Security Service (CSS), had ceased trading without warning as of 9 September 2021. CSS was responsible for collecting cash and cheque income from 161 council sites including schools, libraries, and registration offices, with a total average value of £1,200 per month. In addition, the contract included income collection from a further 140 sites across five borough councils (Epsom & Ewell, Guildford, Reigate & Banstead, Runnymede, and Spelthorne), including council offices and car parks.

- 1.6 Business Operations requested support from Internal Audit to help ensure appropriate action had been taken following the failure of CSS. The specific scope of our work was to:
- Support the Finance & Purchasing Operations Manager to ensure operational and financial risks were appropriately managed in the interim ahead of another provider being contracted to run the service;
  - Identify potential lessons to inform future cash collection arrangements; and
  - Contribute to guidance to assist officers in future should a supplier unexpectedly cease trading.
- 1.7 We were satisfied that the council's response was well managed, with operational and financial risks identified in a timely manner, and managed or mitigated where possible. We were also able to provide assurance that financial administration tasks were completed promptly, including blocking CSS' vendor account on SAP, and checking both cash and cheque income had been banked for all councils, and that Procurement and Legal Services were appropriately involved in the process to let a new contract.
- 1.8 We undertook a 'lessons learned' exercise, the results of which have been used as the basis of a 'Checklist' to guide officers should a similar event recur in respect of one of the council's suppliers.
- 1.9 Following our review, we were able to give an overall opinion of **Reasonable Assurance**.

#### **Email Communication (personal and sensitive encryption)**

- 1.10 Email encryption is used to secure confidential data shared by email and can prevent email hijacking, as well as stop authorised recipients taking unintended actions with sensitive information. It is important to maintain email protection given the risk of cyber threats that target organisations via email. Additionally, securely encrypted emails help to prevent data breaches.
- 1.11 Our audit provided assurance over the effectiveness of the arrangements for email communication involving personal and sensitive information, and considered the methods used to encrypt emails, the training/awareness of staff, and a high-level review of compliance across the Council. The specific scope of this audit sought assurance that:
- Clear policy and training was available to council officers in relation to the communication of personal and/or sensitive information;
  - A system was in place to allow for the sharing of personal and/or sensitive information via email;
  - Personal and/or sensitive information was only sent to appropriate and validated recipients; and
  - Support was provided to service users to enable them to access secure email protocols.

- 1.12 We were able to give an overall opinion of **Reasonable Assurance** in respect of this audit and agreed three low priority actions with management in respect of improving guidance around large file attachments, protective marking of emails, and bulk email distribution.

### Altair Application Controls

- 1.13 Altair is a pension administration platform, provided by Aquila Heywood, that is used for both the back-office administration of the Surrey Pension Fund, as well as allowing members to self-serve through the Pension Portal.
- 1.14 The purpose of the audit was to provide assurance that controls were in place to meet key objectives, including:
- There was a clear system owner in place to oversee application controls, patching and access;
  - System access controls and permissions prevented unauthorised users from accessing confidential information, reducing the risk of fraud and malicious damage to data;
  - Roles and responsibilities for system ownership, data input and processing were clearly defined;
  - Outputs produced by the system were complete, accurate, and reliable;
  - System updates and enhancements were performed in a consistent manner and were subject to sufficient testing and authorisation before implementation;
  - Personal and/or sensitive information was only extracted from the system when there was a legitimate business need, and appropriate authorisation has been granted; and
  - Business continuity arrangements were in place and had been tested.
- 1.15 Our testing determined that the control environment was robust and that key controls were in place and operating as expected. We agreed 6 medium priority and 2 low priority actions with management to make improvements to controls, covering areas such as external access to Altair by developers; determining access levels for users; ensuring completeness of User Acceptance Testing after system upgrades; and seeking evidence from the system supplier about compliance with security protocols.
- 1.16 We were able to give an opinion of **Reasonable Assurance** following our audit.

### Public Sector Bodies Accessibility Regulations

- 1.17 We undertook a review of the application of the Public Sector Bodies (Website and Mobile Applications) (No.2) Accessibility Regulations 2018 (the 'regulations') within the Council as part of our agreed annual plan.
- 1.18 The regulations came into force in September 2018 and build on obligations to people who have a disability. The regulations mean that the Council has a legal duty to ensure that all its websites and applications meet accessibility requirements to ensure they can be used by as many people

as possible. To help achieve the vision that ‘no one is left behind’ accessibility should be embedded and embraced across the whole organisation.

1.19 The primary objective of our review was to provide assurance that appropriate controls were in place and operating as expected to manage key risks to the achievement of objectives.

1.20 Key findings arising from this review included:

- Although the regulations have been in existence since 2018, work towards accessibility compliance at the Council was still very much work in progress;
- Governance arrangements continued to lack sufficient formality, priority, and oversight;
- The required Accessibility Statement was in place and regularly updated on the Council website but acknowledged that the website is not fully accessible;
- The Council’s web-authors felt they would benefit from further communication and training to ensure they remain up to date in their roles and responsibilities and their output meets current regulations; and
- New sites and applications created by service areas and third parties may not always comply with the regulations, particularly if there was no prior engagement with Communications, IT&D, and/or the Information Governance Team.

1.21 As a result of our findings, we were only able to issue an opinion of **Partial Assurance**. We have agreed 5 medium priority actions with management to improve the control environment to address the identified weaknesses.

### OSHENS Application Controls

1.22 The OSHENS system is a corporate online reporting portal wherein all workplace health and safety incidents are recorded. System reports are used to establish whether the organisation needs to implement additional precautions to keep colleagues safe at work.

1.23 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- System access was restricted to appropriately authorised individuals and the permissions provided to those users were in line with job functions;
- Data processed through interfaces was authorised, accurate, complete, securely processed and written to the appropriate file;
- Outputs produced by the system were complete, accurate, reliable, distributed on time and with confidentiality where appropriate;
- System updates and enhancements were performed in a consistent manner and subject to sufficient testing and authorisation before implementation; and
- Appropriate support arrangements were in place to manage changes within the system.

1.24 Our audit concluded that key controls were in place and operating as expected. We were able to agree 4 medium priority actions with management to improve the control environment, which

covered areas including undertaking a formal Security Risk Assessment on the system, and also incorporating a separate action to periodically enforce password changes to the system. A further action was to ensure that GDPR requirements were applied to data within OSHENS.

- 1.25 The final opinion given for this audit was one of **Reasonable Assurance**.

### **Management of a Consultant in Land & Property**

- 1.26 Land and Property management asked us to review the arrangements for the engagement and retention of a specific contractor within the service to provide them with assurance that transparent processes had been followed and that any potential conflict(s) of interests were identified and mitigated. Time had elapsed and changes in management since the original appointment had obfuscated the governance arrangements in place.
- 1.27 Our conclusion was that initial concerns that the contractor may have been improperly retained, or that they had stayed beyond their initial terms of engagement, were unfounded. We found no evidence of any actual conflict of interest though were able to provide advice to management that helped to make more robust the processes for declaration of interests and recording of mitigating actions. We also agreed further actions with management to strengthen processes around the use of Council IT equipment, and records management.
- 1.28 Due to the nature of this audit there was no final opinion given. Actions agreed with management will be followed-up as part of our 2022/23 planned work.

### **Procurement Processes in Land & Property**

- 1.29 In conjunction with the specific review above, we also conducted a review of the procurement processes more generally in operation within Land & Property in relation to the use of consultants and the awarding of contracts by the service. The review focussed on ensuring that appropriate appointment processes were followed in the procurement of external consultants as well as ensuring that there was compliance with PCSO's and EU regulations when awarding contracts.
- 1.30 No issues were identified in the appointment process for external consultants. However, a number of control issues were identified following the review of a sample of contracts awarded by the service. These included occasions where Procurement Standing Orders had not been fully complied with, or where non-compliant practice had been identified by the Procurement Team without an effective response. Examples of this non-compliant behaviour included the direct award of low value (£25k) contracts, or the failure to publish on the Council's contracts register all contracts of a value above £5000.

- 1.31 We agreed five high priority actions with management to address the issues identified and gave an overall opinion of **Partial Assurance** in this area. A follow-up audit will be scheduled as part of the 2022/23 annual plan.

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

- 1.32 An audit of the Officer Code of Conduct was completed in 2019/20 for which an overall audit opinion of Partial Assurance had been given. As part of our planned work for 2020/21, we had agreed with management to undertake a follow up review in this area. However, due to the impacts of the pandemic on the capacity of both HR&OD and Internal Audit, it was agreed to defer the review until the 2021/22 plan.
- 1.33 The primary objective of the audit was to assess and provide assurance on the progress made in implementing the agreed actions from the original review, specifically around improvements to the control environment for declarations of interest, and gifts and hospitality.
- 1.34 Many of the actions agreed by management in the original audit were predicated on a new system of control being designed and built within the Unit 4 ERP solution. At the commencement of our audit, the ERP programme was still working to a go-live date of December 2021. However, whilst our fieldwork was in progress the go-live date was amended to April 2022 and – as such – the launch of the proposed new control environment was delayed. Whilst we have received verbal assurance that the ‘build’ of the HR&OD control environment had been completed, user acceptance testing had not been completed on it and we have been unable to see or test this environment to confirm processes and controls are robust.
- 1.35 With the move to remote working during the pandemic, we also noted that there remained a need to update the Officer Code of Conduct Policy to reflect the current working environment, covering specific aspects around information governance and data management, and to provide clarity over secondary employment and GDPR-related issues.
- 1.36 We did, however, accept that legacy processes did allow for some level of officer declaration to occur (albeit in a manner no more improved than from our original audit), and that the onset of the pandemic has somewhat mitigated the issues around gifts and hospitality due to the lessening of contact between officers and third parties.
- 1.37 Overall, we came to a final opinion of **Partial Assurance** following our review. We agreed two medium priority actions with management in respect of the weaknesses still present in the control environment and will both follow-up this audit again in 2022/23 as well as work with management to provide advice in the redrafting of the Code of Conduct itself.

## Digital Business & Insights (DB&I) Programme

### *Overall summary of work*

- 1.38 In addition to individual position statements issued to the Programme Board, which we summarise below, during quarter 3 we also provided an overall position statement to the board covering all of our to date against our initial plan.
- 1.39 Our work on DB&I has sought to provide specific assurance in the following areas for Board members to use to support critical decisions, such as cutover and go-live:
- Governance/Risk Management
  - Data cleansing and migration
  - Business processes/internal control environment (both on and off system)
  - System security
  - User access, authentication and authorisations
  - Testing arrangements
  - Interfaces
  - Disaster recovery and business continuity
- 1.40 With the exception of our work on Programme Governance and Risk Management arrangements (a summary of which has previously been provided to the committee), we have not yet been able to provide the full extent of our planned assurance to the Board. This is due to delays in the Programme, which has meant that elements of our assurance work remain incomplete.
- 1.41 Whilst we will continue to work with the Board and hope to provide further assurance (particularly on the internal control environment prior to go-live), this activity carries the risk of diverting management resources away from programme delivery and is therefore something we invited the Board to consider. In the meantime, we were able to advise the Board on the nature and detail of assurances it should be receiving prior to cutover and go-live decisions.

### *Position Statements summary*

- 1.42 Our ongoing work supports the Programme Board through the provision of position statements that cover different aspects of the programme and which provide advice and commentary over the proposed control environment and progress against project milestones.
- 1.43 These position statements are written in real-time environment and as such do not have audit opinions ascribed to them, given the constant change and flux within the programme. They are, however, a vital aspect of the assurance arrangements provided to the Programme Board and have been a key part of our ICT plan for the entirety of 2021/22.
- 1.44 In quarter three the following position statements were issued:
- DB&I Training;

- DB&I Integration Arrangements;
- DB&I Data Governance and Migration;
- DB&I Business Processes;
- DB&I Security Systems and Authorisations; and
- DB&I Disaster Recovery and Business Continuity.

1.45 Our support to the DB&I Programme continues in quarter 4 as we approach the revised go-live date of April 2022.

## Other Audit Activity

### *School Audits*

1.46 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.

1.47 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 within the control environment in place:

- Governance structures were in place and operated to ensure there was independent oversight and challenge by the Governing Body;
- Decision making was transparent, well documented and free from bias;
- The school was able to operate within its budget through effective financial planning;
- Unauthorised or inappropriate people did not have access to pupils, systems or the site;
- Staff were paid in accordance with the schools pay policy;
- Expenditure was controlled and funds used for an educational purpose;
- Value for money was achieved on contracts and for larger purchases;
- All unofficial funds were 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.

1.48 A total of 11 schools audits were delivered in quarter three. The table below shows a summary of which schools we have audited, together with the final level of assurance reported to them. Of the 11 schools, only one had an audit of Partial Assurance and some of the key areas for improvement identified at each of this schools is identified in more detail at the end of the table.

1.49 At the time of writing, schools audits are still being undertaken under remote working arrangements. 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. Common themes identified to date have included:

- The need to ensure purchase orders are raised prior to orders being made with suppliers, and that invoices are paid within payment terms;
- More robust processes are implemented around the handling and use of purchasing cards, to ensure compliance with the terms and conditions of their issue;
- Both new and existing staff and governors should complete, and update as necessary, returns for declarations of interest;
- Monitoring reports on ring-fenced expenditure such as Pupil Premium are prepared and published per DfE guidance; and
- Evidence of appropriate Public Liability Insurance should be in place and retained for contractors providing services to the school.

Name of School	Audit Opinion
<b>Ashford Primary School</b>	Reasonable Assurance
<b>Clandon Church of England Primary School</b>	Reasonable Assurance
<b>Epsom Downs Primary School</b>	Reasonable Assurance
<b>Hythe Community School</b>	Reasonable Assurance
<b>Kings International College</b>	Reasonable Assurance
<b>Newdigate Church of England Endowed School</b>	Reasonable Assurance
<b>Riverview Primary School</b>	Reasonable Assurance
<b>Stepgates Community School</b>	Reasonable Assurance
<b>Walsh Church of England Junior School</b>	Reasonable Assurance
<b>West Ashstead Primary School</b>	Reasonable Assurance

1.50 For the single school receiving an opinion of Partial Assurance, a summary of key areas for improvement is shown below:

Name of School	Audit Opinion	Areas Requiring Improvement
<b>St Jude's Junior School</b>	Partial Assurance	<p>The audit identified that:</p> <ul style="list-style-type: none"> <li>• DBS checks must be in place prior to an employee commencing employment, or that appropriate interim risk assessments are undertaken;</li> <li>• Verification of the DBS status of regular visitors to the school needs to be undertaken;</li> <li>• Discussions held that inform decision-making outside of Governing Body meetings need to be adequately recorded to aid oversight;</li> <li>• All current and new employees must complete a declaration of interests return;</li> <li>• a process to record assets issued to staff should be implemented to ensure that these are returned if they leave the employment of the school; and</li> <li>• IR35 assessments need to be undertaken when engaging consultants.</li> </ul>

1.51 At the end of quarter three, a further seven schools audits were either booked or underway, with more being planned before the end of March.

*Grant Claim certification*

1.52 During quarter three, one grant claim was successfully certified by Internal Audit in accordance with Central Government requirements:

- Troubled Families (second claim of 2021/22) – supporting Surrey families, £131,200

**2. Counter Fraud and Investigation Activities**

*Counter Fraud Activities*

2.1 During the quarter, the team have been conducting proactive work in partnership with the Blue Badge Team, which has included a number of trial enforcement days to gauge the scale of potential Blue Badge misuse in the County. The first of these trial enforcement days was conducted in December 2021 and resulted in the seizure of six badges that were being misused without the badge holder present, including one where the badge holder had passed away months prior. Internal Audit will monitor the results of these trials throughout quarter 4 and provide reactive advice on instances of potential irregularity.

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- 2.2 Advice and guidance has also been provided to the Your Fund Surrey Team over a significant grant application where concerns have been raised over the applicant's preferred supplier.
  - 2.3 In addition, the team have been working to develop a Fraud Manual that documents the processes for progressing investigations and joint working with other services and are continuing to liaise with services to ensure that matches from the National Fraud Initiative are being reviewed and processed.
  - 2.4 The team continue to monitor intel alerts and share information with relevant services when appropriate.

### *Summary of Completed Investigations*

#### *Community Interest Companies*

- 2.5 We supported a management investigation following a referral that an officer had set up two community interest companies (a type of company designed for social enterprises that want to use their profits and assets for the public good), which were undeclared and represented a potential conflict of interest with their substantive role. Following the investigation, which was conducted in collaboration with an independent investigating manager, disciplinary action was taken against the officer concerned.

#### *Secondary Employment*

- 2.6 We were alerted to the potential overlap in employment of an individual engaged on an interim contract with SCC. Following investigation, the contract with the Council was terminated, and compensation agreed with the employment agency. The second employer (who had a direct contract of employment with the individual) were advised to refer the matter to the police.

### **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 three had been implemented.

### **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:

Planned Audit	Rationale for Addition
Safe & Inventory Review	This audit was added to the plan following our identification of risks associated with the decommissioning of County Hall, and regarding the general management of council assets and inventory.
Children’s Services Panel Process	A new review requested by senior management to provide assurance over the governance and processes underpinning the Panel landscape operating within Children’s Services, through which certain SEND and social care packages are determined.

- 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 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
Income Loss (C-19 related)	The unfolding events of the pandemic meant that the impact upon the Council was not as severe as expected due in part to the receipt of emergency funding from Central Government.
Road Safety	A lower priority/risk audit in the original 2021/22 annual plan, which has been replaced in-year as emerging risks and ad hoc pieces of work have superseded it. This will be an area for consideration within the 2022/23 annual plan.
Public Health Funding	A lower priority/risk audit in the original 2021/22 annual plan, which has been replaced in-year as emerging risks and ad hoc pieces of work have superseded it. This will be an area for consideration within the 2022/23 annual plan.
Pavement Horizon	A lower priority/risk audit in the original 2021/22 annual plan, which has been replaced in-year as emerging risks and ad hoc pieces of work have superseded it. This will be an area for consideration within the 2022/23 annual plan.

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	<b>G</b>	Approved by Audit Committee on 23 March 2021
	Annual Audit Report and Opinion	By end July	<b>G</b>	2019/20 Annual Report and Opinion approved by Committee on 18 June 2021
	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	90%	<b>A</b>	We have achieved delivery of 53.3% of the annual plan to draft report stage (pro-rata target 67.5%). This under-delivery was largely the result of both carrying a vacancy in the team structure and periods of staff sickness, along with some larger audits still being work in progress at the end of the quarter.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	<b>G</b>	<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	Conforms	<b>G</b>	No evidence of non-compliance identified

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
	and Criminal Evidence Act, Criminal Procedures and Investigations Act			
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>	91% <sup>1</sup>

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

## Audit Opinions and Definitions

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.

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