

Internal Audit and Counter Fraud Quarter 1 Progress Report 2022/23

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1. Summary of Completed Audits

General Ledger (21/22)

- 1.1 The General Ledger (GL) is a key financial system which supports internal accounting and the production of the annual financial statements. With the change from SAP to Unit 4 impending, and high levels of assurance from past audits, this audit had a higher-level scope, outlined below.
- 1.2 The purpose of our audit was to provide assurance that key controls were in place to meet the following objectives:
- Established processes are in place to monitor changes and amendments to system processes, financial planning, and administration of council finances;
 - Suspense, control and holding accounts are being effectively managed; and
 - Established processes are in place to keep data secure and free from errors in both the Council's ledger and feeder systems.
- 1.3 Overall good practice was observed and effective controls were assessed to be in place. Key findings from the audit included:
- The organisation had a master data policy in place which included controls to provide accurate and appropriate reporting of the council's financial position;
 - The maintenance of master data followed an agreed process with only approved officers able to request amendments, with a clear separation of duties in place;
 - Our testing provided assurance that adequate controls were in place to ensure that adjustments to the ledger had been authorised and input by approved officers only, that bank reconciliations were undertaken, and that control and suspense accounts were regularly reviewed; and
 - A framework was in place to monitor interfaces to the ledger, and sample testing in this area provided assurance that interfaces were operating as expected.
- 1.4 As a result, we were able to give an overall opinion of **Reasonable Assurance** in this area. We agreed one medium priority action with management to address historic suspense account balances, which will be resolved as part of the transfer to Unit 4.

Capital Programme (21/22)

- 1.5 The Council's capital budget for 2021/22 was £184.9million. In-year the capital budget was reset twice: in M4 to £202m and then again at M10 to £171m, with approvals being in line with governance arrangements. At year-end actual expenditure was £157.2m, a variance of 8%.

- 1.6 We determine the Capital Programme to be a key financial system and therefore it is subject to regular review. The purpose of this audit was to provide assurance that controls were in place to meet the following key objectives:
- Projects in the Capital Programme were based on realistic costings, timescales and/or realisable benefits, delivering value to the council;
 - Effective governance arrangements ensured that the Capital Programme delivered the expected outcomes;
 - The Council met the requirements of external funding providers' grant conditions;
 - Capital receipts were received in full and in a timely manner;
 - The Capital Programme was accurately reflected in the accounting system; and
 - Agreed actions from our previous audit had been implemented.
- 1.7 Controls and internal governance processes were identified that gave assurance that the expected controls were in place and operated broadly as expected.
- 1.8 Our audit did identify some areas for improvement that led to three medium and one low priority actions being agreed with management. These areas included:
- Improvements for maintaining the evidence base for projects over their lifetime;
 - Strengthening mechanisms for the identification and recording of risk within projects;
 - Increased transparency in how grant funding is identified within the ledger.
- 1.9 Following our review, we were able to give an overall opinion of **Reasonable Assurance**.

Treasury Management (21/22)

- 1.10 Treasury Management is the management of the Council’s cash flows, borrowing and investments, and the associated risks. The successful identification, monitoring and control of financial risk is therefore central to the Council’s prudent financial management. At the time of audit the Council held £719m of borrowing (£434m of long-term borrowing, £273m of short-term borrowing and £12m for Surrey Police) and £59m of cash investments.
- 1.11 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- The Council had an approved Treasury Management Policy & Investment Strategy;
 - All borrowing decisions were based on robust cash-flow forecasting;
 - Investments were made with approved counterparties, were correctly paid, authorised and repaid with the correct amount of interest;
 - Borrowings were made only from approved organisations, were correctly authorised, and repaid with the correct amount of interest; and

- There was regular and independent reconciliation between the Treasury Management record, the Bank Account, and the General Ledger;

1.12 Our testing established that key controls were in place:

- A Treasury Management Strategy, compliant with the CIPFA Code, was in place and was approved by the Audit and Governance Committee;
- The service had up-to-date procedures that were consistent with the Strategy and was supported by an external advisor who provided specialist advice and training;
- Cashflow was adequately managed throughout the financial year, and the council’s cash position was reviewed daily, with any significant variances being investigated;
- Borrowing decisions were made in line with the Strategy and are only made from approved counterparties, with correctly authorisation and repayment; and
- There was independent reconciliation between the Treasury Management record, the bank account, and the General Ledger. However, reconciliation was not a regular occurrence.

1.13 As a result of our audit we were able to give an overall opinion of **Reasonable Assurance** in respect of this audit. We agreed one action with management, which was to reinstate quarterly reconciliations to strengthen this control.

Pension Fund Investments (21/22)

1.14 The Council is the designated statutory administering authority for the Surrey Pension Fund (the fund). The fund annually collects circa £180m in contributions from members and their employers and makes pension payments annually of circa £130m to scheme members. The latest triennial actuarial valuation of the fund reported assets of £4,286m against liabilities of £4,465m resulting in a funding level of 96%.

1.15 The purpose of our audit was to provide assurance that controls were in place to meet key objectives, including:

- To obtain assurance that the fund had a suitable statement of objectives linked to measurable targets and performance indicators;
- To ensure that the fund's investment strategy was robust and strategic decisions were implemented correctly and in a timely manner; and
- To review the assurance that fund managers and custodians provide to the Council over their internal control arrangements.

1.16 Our testing identified that controls were in place and operating as expected. In particular:

- The performance of the fund continues to be scrutinised by the Surrey Pension Fund Committee on a quarterly basis;
- The fund's risk register had an appropriate level of detail and was aligned with its Business Plan;

- A sample of partner agreements and control statements were reviewed and found to be complete and as expected; and
- A sample of drawdowns found identified that transactions were within agreed commitment levels, had been approved appropriately, and supporting documents had been retained.

1.17 We were able to give an opinion of **Reasonable Assurance** following our audit. We agreed three actions with management to improve the control environment, which included actions around the quarterly reconciliation process of fund assets to SAP; around training provision for Surrey Pension Fund Committee members; and to update the Investment Strategy to reflect newly agreed asset allocation targets for private equities and bonds.

Financial Assessments and Income Collection (21/22)

1.18 The Care Act 2014 provided a framework for local authorities for charging for care and support services. The Financial Assessment and Income Collection (FAIC) team are responsible for calculating the charges for residential and community-based services provided by Adult Social Care (ASC), throughout Surrey, assessing the appropriate charge, and providing welfare benefits advice and assistance.

1.19 As a result of the Covid-19 pandemic, Surrey adopted the Discharge to Assess model, where people who were clinically optimised and did not require an acute hospital bed were provided with short term, funded support to be discharged to their own home or another community setting. Since our last audit the number of new financial assessments had doubled, with c.28,000 assessments, including reassessments and annual reviews, being completed in 2021/22.

1.20 The primary objective of our review was to provide assurance that appropriate controls were in place and operating as expected to manage key risks, which included:

- Client contributions were correctly calculated, received in full, and accurately recorded;
- Quality checks were undertaken to ensure potential errors were identified and amended;
- A robust benefits calculation process was in place;
- Debt was monitored effectively and pursued promptly, with write-offs authorised in line with the scheme of delegation;
- Credit notes/refunds were issued with appropriate authorisation; and
- Actions from the previous audit had been implemented.

1.21 Overall, we concluded that effective controls were in place and robust governance arrangements were observed:

- The majority of financial assessments were completed via telephone calls or online and the implementation of a reminder text messaging service had increased customer engagement;
- Robust benefit calculation processes were in place, ensuring accurate calculations;
- Regular quality checks were undertaken to ensure data received and recorded were correct;

- There was a robust process in place for the identification and monitoring of debt;
- All refunds due to client accounts were subject to review and appropriate sign-off; and
- The two agreed actions from the previous audit had both been implemented.

1.22 We agreed one area for improvement relating to the progression of online assessments to aid in the achievement of one KPI target.

1.23 As a result of our findings, we were able to issue an opinion of **Substantial Assurance**.

Home to School Transport (21/22)

1.24 Home to school transport is provided by the Council to eligible pupils in order to facilitate attendance at school. Eligibility for home to school transport is defined in the council's Transport Policy, and the eligibility criteria are set by the Department of Education.

1.25 At the time of our review the service had approximately 7,000 eligible pupils using the service. Of these, around 3,000 were special educational needs and disabled (SEND) pupils. The budget for the provision of this service was in the region of £40 million (£32million SEND and £8million mainstream), and there was a forecast overspend of £1m. By the conclusion of our audit the forecast overspend was in the region of £4.5 million.

1.26 The purpose of the audit was to provide assurance that controls were in place to meet the following key objectives:

- Policies and procedures ensured that all statutory requirements were met;
- Adequate governance arrangements were in place across the service, including the processes for assessing eligibility and determination of need, tendering and letting of contracts, and the framework in place for reporting and monitoring;
- Management of home to school transport providers was robust, ensuring value for money;
- Adequate service provider checks were undertaken to ensure the safety of children; and
- Budgets were properly set, monitored and reported.

1.27 Whilst we recognised ongoing measures being taken to improve this service, our audit identified further improvements to strengthen the overall control environment. Key findings arising were:

- Where high volumes of applications were received, these were not always reviewed (with an outcome letter sent to parent or guardian) within the statutory time period;
- The dual impacts of Brexit and Covid-19 had created a risk in the supply chain for transport provision with the potential to increase costs;
- Transport providers submitted bids on route contracts through the 'adam' portal. However, the process in 'adam' did not always facilitate value for money because where a transport

provider was the sole bidder they could increase their bid amount, ultimately driving up overall costs;

- If no bids were submitted on a route, contracts were directly awarded. There was no formal record of this or a formal procedure to ensure consistency and transparency;
- The appeals process mirrored the two-stage process outlined in the Statutory Guidance. However, in some instances the same officer could be responsible for successive stages so there was not always appropriate separation of duties;
- The Transport Policy did not define and clarify the eligibility and provision for those in post-16 years education; and
- Newly introduced systems had not been fully documented.

1.28 As a result of our audit we agreed 14 actions with management to improve both the control environment and processes within it. One of these actions was of high priority (concerning the failure to meet statutory targets), whilst the remainder were of medium priority.

1.29 The final opinion given for this audit was one of **Partial Assurance**. A follow-up audit is therefore scheduled to take place in quarter three of 2022/23.

Post-Brexit Information Governance Requirements (21/22)

1.30 On 31st January 2020 the UK withdrew from the European Union (EU). This was followed by a transition period until 31st December 2020, during which time the UK remained subject to EU laws. These laws included regulations relating to information governance.

1.31 Our audit sought to provide assurance that Council data was being stored appropriately and in line with relevant legislation, following the end of the transition period. We reviewed processes to ensure that controls were in place to meet the following objectives:

- Changes to data protection regulations as a result of Brexit were known, understood and adhered to within the Council;
- Appropriate guidance was provided to ensure compliance with Regulations;
- Processes were in place to monitor and identify subsequent changes to Regulations; and
- There was a record of where Council data was stored and processed.

1.32 In the event the pre-Brexit EU GDPR regulations have been kept in UK law, called "UK GDPR". Additionally, the EU had confirmed an adequacy agreement with the UK relating to GDPR and the Law Enforcement Directive. The Information Commissioner’s Office (ICO) stated that this agreement meant that data could continue to flow as it did before in the majority of circumstances. This adequacy agreement is anticipated to be in place until at least 2025.

1.33 Our audit identified that:

- The Council’s Data Protection Officer was aware of this agreement and implications therein;

- The ICO website and news bulletins were monitored to ensure that any amendments to Regulations were quickly identified, and any necessary action implemented; and
- The Council had begun to future-proof arrangements in the event that changes happen, with actions being undertaken including the updating of contract clauses and privacy notices

1.34 The final opinion given for this audit was one of **Substantial Assurance** with no management actions required.

Network Access Management (21/22)

1.35 Network access management is the process by which users' network accounts and associated access is controlled to maintain a secure data environment, preventing unauthorised access to systems and data. Our audit was undertaken to understand the control environment for managing such access and changes across the council.

1.36 The purpose of the audit was to provide assurance that controls were in place to meet the following key objectives:

- Staff accounts were up to date and only had the correct network access permissions relevant to their job role;
- The Active Directory was regularly reconciled, and all leavers had been removed;
- Users' permission changes were completed efficiently and accurately for internal movers; and
- New starters network accounts were set up correctly.

1.37 Our audit established that the expected controls were in place and operating effectively. Key findings from our review included:

- The Access Management team utilised the One Identity system to support creation, amendments and disabling of accounts, providing a constant syncing between the Active Directory and SAP;
- Our testing identified prompt disabling of leavers' accounts;
- Requests for new network accounts and amendments to accounts were robustly managed;
- Network accounts were created using a 'copy user' functionality which assisted Access Management in assigning appropriate permissions; and
- General maintenance of the Active Directory was effective;

1.38 We identified one process weakness, which would allow a single manager to request, approve and log into a new user's account, with the only deterrent being a reminder to the requestor that using the password to log in would be a breach of the ICT Policy. We agreed a medium priority action with management to address this.

1.39 As a result of our findings, and the medium priority action agreed, we were able to give an overall opinion of **Reasonable Assurance**.

PLANON Phase 2 Advice and Support (21/22)

1.40 The Planon project is focussed on transferring all functions carried out on the legacy property system (Atrium) onto a new asset management system (Planon). Phase 2 of the project is in progress and covers Capital Delivery, CAD Integration/Building Occupancy, Acquisitions and Disposals, Valuations, and Surplus Property Management.

1.41 The purpose of this audit was to provide assurance that controls were in place to meet the following objectives:

- Testing of system security controls was robust and outcomes had been reviewed, assessed, and reported to the Project Board;
- Testing of user access restrictions had been done, including positive and negative testing;
- User access levels had been defined and authorised appropriately;
- Results of workflow authorisations testing had been adequately reviewed and assessed; and
- Any remedial action arising from testing processes were addressed prior to 'go live'.

1.42 Our findings identified that a high level of assurance could be placed over the project:

- A security risk assessment had been undertaken by IT&D, shared with the Planon Board, and recommendations had been appropriately actioned;
- External assurance regarding security of the Planon system was also in place as it was compliant with IT security standards;
- Testing demonstrated that user access and functional profiles were allocated appropriately;
- Approval levels to pay invoices were in line with procurement limits and the scheme of delegation;
- Separation of duties were enforced within Planon; and
- Appropriate user acceptance testing had taken place for functions that were live within Planon, with further testing planned.

1.43 Overall, we came to a final opinion of **Reasonable Assurance** over this stage of the project, and agreed three actions with management (one of medium priority, and two of low priority) to improve controls around the recording of risks and user acceptance testing outcomes.

Other Audit Activity

School Audits

1.44 It has been nearly a year since we began delivering a comprehensive programme of school audits to provide assurance both to Council and school management that the control environment

within maintained schools was robust. We continue to improve our level of engagement with stakeholders through liaison meetings to ensure we are selecting the right schools for our audits.

- 1.45 We have a standard audit programme for all school audits. The scope of our work is designed to provide assurance over key controls within the control environment, including:
- 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;
 - 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.
- 1.46 At the time of writing, school audits are being carried out under remote working arrangements although this continues to be kept under review, with tentative plans to restart physical visits from the autumn term.
- 1.47 A total of ten school audits were delivered in quarter one. The table below shows a summary of schools we have audited, together with the final level of assurance reported to them.

Name of School	Audit Opinion
Ashford Park Primary School - Ashford	Substantial Assurance
North-West Surrey Short Stay School - Kingsway & Pyrford Centres, Woking & Pyrford	Substantial Assurance
Winston Churchill School - St John's, Woking	Substantial Assurance
Audley Primary School - Caterham	Reasonable Assurance
Beacon Hill Primary School - Hindhead	Reasonable Assurance
Brooklands School - Reigate	Reasonable Assurance
Royal Alexandra & Albert School - Gatton Park, Reigate	Reasonable Assurance
St Michael's C of E (A) Infant School - Dorking	Reasonable Assurance

Name of School	Audit Opinion
Walton on the Hill Primary School - Walton-on-the-Hill	Reasonable Assurance
Witley C of E Primary School - Witley, Godalming	Reasonable Assurance

1.48 We aim to undertake follow-up audits at all schools with Minimal and most schools with Partial Assurance opinions. As none of the above school audits falls in these categories, no further action is planned at this stage.

1.49 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 date to the end of quarter one have included:

- Governors should be given the opportunity to declare their interests to be published on the school website;
- Monitoring reports on ring-fenced expenditure such as Pupil Premium need to be prepared and published per DfE guidance;
- Purchase orders are not raised for every order made with suppliers;
- Schools are not requiring staff to complete a declaration of relevant business interest(s);
- The accessible location and use of purchasing cards was often contrary to the issuing bank’s terms and conditions of use;
- Evidence of appropriate Public Liability Insurance should be in place and retained for contractors providing services to the school; and
- Detailed reports from the FMS system, such as the Cumulative Expense Analysis report, are not always made available to Governors.

Grant Claim certification

1.50 During quarter one, we successfully certified four grant claims in accordance with Central Government and/or European Union requirements:

- Troubled Families (first claim of 2022/23), £154,400
- EU IMAGINE grant (second claim of 2021/22), €41,495
- EU Digitourism grant (first claim of 2022/23), €23,950
- EU Urban Links to Landscape grant (first claim of 2022/23), €8,542

DB&I Programme Support

- 1.51 We have continued to support the Programme Board throughout the period as this project reaches a critical juncture ahead of go-live. In order to free up the capacity of the programme managers to continue with their work we have not undertaken any specific position statement reviews as we had in previous quarters, but have remained vigilant in flagging emerging risks to the Board.
- 1.52 Late in quarter one we began a piece of work based around the review of process maps of certain Unit 4 key financial systems, from which we have started to identify the key controls present. This work continued into quarter two and will be reported to this Committee when completed through our usual progress reporting cycle.

2. Counter Fraud and Investigation Activities

Counter Fraud Activities

- 2.1 The team continue to monitor intel alerts and share information with relevant services when appropriate.

Summary of Completed Investigations

SFRS Device Security

- 2.2 Following receipt of a confidential disclosure, we were asked to undertake an independent review of Airwave Device security in SFRS. The review found a number of weaknesses in the guidance and storage of the Airwave devices. Following the review, a control report was agreed with management to identify the concerns raised and we are able to confirm that significant progress has already been made to improve device security.

Theft of IT Assets

- 2.3 Following completion of a long-standing audit investigation into missing IT assets, an employee resigned whilst under disciplinary investigation. The case has been reported to Surrey Police and is under active police investigation. A control report has been agreed with management to address weaknesses identified during the investigation.

Surrey Fire & Rescue Service (SFRS) Suspension Risk Assessment

- 2.4 Following the conviction of a serving firefighter for a serious criminal offence, we were asked to undertake an independent review of the suspension risk assessment decision making in SFRS. Following the review, a number of recommendations were made to address weaknesses in the

governance and oversight of the suspension process, all of which have been agreed with management.

Secondary Employment

- 2.5 Following receipt of a whistleblowing report that alleged a recently resigned social worker had been working concurrently at a second authority, an investigation was carried out that confirmed that the worker had been employed through an agency with SCC while also employed as bank staff at another county council. A referral was made to Social Work England alerting them to this matter and the employing authority were advised to report through to the Police.

Conflict of Interest

- 2.6 We were asked to review a number of concerns relating to conduct and external relationships of care staff following receipt of a complaint from a parent. The investigation found no case to answer.

Cash Security

- 2.7 We provided advice and support to a management investigation following the loss of a small amount of cash from a library till. Management performed a reconciliation of the tills and improved controls to prevent future occurrences.

Bank Mandate Fraud

- 2.8 We undertook an investigation following reports of a bank mandate fraud at a school. The investigation found that agreed procedures were not followed which led to the payment of £3k to a fraudulent account. The payment was recovered by the bank and actions agreed with the school to improve awareness and compliance with procedures.

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 one 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
Planning Service	This was a management request arising from a service liaison meeting that arose after the submission of the draft annual plan to Audit and Governance Committee. The risk profile of the request, which involves a review of the governance around the service in regard to statutory responsibilities and effective reporting mechanisms, was such to merit inclusion as new assignment.
Watts Gallery	This was a review commissioned by the Deputy Chief Executive and Executive Director for Resources in Q1, with reference to specific aspects of the council’s financial relationship with the Watts Gallery, near Compton.
Be Heard	This audit was added to the plan after a request from the Deputy Leader and Cabinet Member for Finance and Resources to review the processes in place. ‘Be Heard’ is the name of the complaints process within Children’s Services.

- 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 To date there have been no audits removed from the plan in the quarter. However, we will 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 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 28 March 2022

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
	Annual Audit Report and Opinion	By end July	G	2021/22 Annual Report and Opinion approved by Committee on 13 June 2022
	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 23% of the annual plan to draft report stage (pro-rata target 22.5%).
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>Apr 2022 - Updated self-assessment against the standards within the PSIAS underway and preparations for the full independent external assessment in progress.</p> <p>Jun 2022 - Quality Review identified no major areas of non-conformance</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	100%

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Our staff	Professionally Qualified/Accredited	80%	G	94% 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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