

Internal Audit and Counter Fraud Quarter 2 Progress Report 2023/24

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1. Summary of Completed Audits

Health & Safety Governance Arrangements

- 1.1 Health and Safety governance arrangements are a fundamental part of an organisation's governance framework. Effective governance relies on both an appropriate culture within the organisation that recognises the importance of the function, together with robust underpinning processes and procedures to facilitate the management of it.
- 1.2 We were asked by management to review arrangements and added this review to our agreed audit plan. The specific scope of our review was to ensure that:
- Effective governance structures were in place to embed health and safety within the organisation, with clearly defined roles and responsibilities;
 - Effective reporting provided senior leaders with the necessary information to scrutinise the organisation's significant health & safety risks and incidents; and
 - The Council's committee arrangements allowed for effective oversight and scrutiny of the function.
- 1.3 Key findings from our audit included:
- Refresher training had not been provided to the Corporate Leadership Team (CLT) or to Members in over twelve months;
 - Procedures for escalating serious health and safety incidents to senior management were inconsistent across directorates;
 - The absence of regularly reported key information could result in decisions being made without full oversight of relevant information;
 - Existing Key Performance Indicators had not been recently reviewed to consider if they remained useful;
 - There was minimal reporting of information on health and safety to elected members (apart from the Cabinet Member) to allow for strategic scrutiny and challenge; and
 - At the time of our audit the refreshed Health & Safety Policy had not been signed and formally ratified as expected.
- 1.4 We concluded that our final opinion was borderline between Reasonable and Partial Assurance. However, taking into account the criticality of effective health and safety management, we determined that an overall opinion of **Partial Assurance** over the controls operating within the area under review was appropriate. We agreed ten actions with management to address identified weaknesses, of which two were of high priority and eight were of medium priority.
- 1.5 We will undertake a follow-up audit in this area in due course to ensure the expected improvements have been implemented.

Home to School Travel Assistance (follow-up)

- 1.6 Home to School Travel Assistance (H2STA) is provided by the Council to eligible pupils in order to facilitate attendance at school. Eligibility is defined in the Council's Transport Policy based on criteria set by the Department for Education.
- 1.7 An audit of this function was completed in April 2022 that concluded an overall opinion of Partial Assurance. This original review identified improvements to strengthen the overall control environment, and 14 actions were agreed with management related to:
- Delays in the provision of transportation;
 - Eligibility assessments;
 - Directly awarded contracts;
 - Appeal decisions and review processes;
 - Stakeholder engagement, including complaints;
 - Procedures, policy and guidance;
 - Performance indicators and data; and
 - Budget monitoring.
- 1.8 The primary purpose of this follow up audit was to assess the progress made in implementing the 14 previously agreed actions. In so doing we recognised that the Council had invested resource in a wider H2STA turnaround programme to improve service delivery, leading to some of the previously agreed actions being subsumed within wider change and improvement deliverables focused upon achieving similar outcomes.
- 1.9 We concluded that significant positive progress had been made in addressing weakness in the control environment. The service appeared to be in a markedly better place than it was during our previous audit following the changes and progress made, including improvements in relation to governance arrangements, culture, performance reporting, management of applications, complaints and appeals.
- 1.10 Although yet to be stress-tested in the busy September period when the school year started, we determined that management had a far stronger overview of system performance and had put mitigating actions in place to manage peak-period risks.
- 1.11 Overall, we concluded our review with an opinion of **Reasonable Assurance**, agreeing six further actions with management (three of medium priority and three of low priority), principally in relation to stakeholder engagement and budget monitoring.

Procurement of IT Systems

- 1.12 Third-party services are computer systems and applications including cloud-based services. Such services can often be purchased cheaply or even used for free, leading to the risk of staff procuring and/or using them with minimal oversight from IT & Digital

Services (IT&D). This means IT&D may provide limited or no technical support, whilst the risks to the security and availability of the data held in these systems is increased.

- 1.13 The purpose of the audit was to provide assurance that controls were in place to meet the following objectives:
- Governance arrangements ensured that all systems and/or applications were subject to IT&D review to ensure they met Council standards;
 - There were clear and documented processes for the procurement of such systems;
 - Authorised patches and updates were applied in a timely manner; and
 - Council data was held in accordance with relevant legislation and sufficiently protected by the system provider.
- 1.14 Key findings from our review included:
- IT&D worked with services to provide proactive guidance and support in the procurement and implementation of new software;
 - There was a risk assessment process in place for new software being procured or used, provided by the Information Security (IS) team; and
 - Technical controls were in place preventing staff from accessing inappropriate or malicious websites, and/or installing software on devices without IT&D assistance.
- 1.15 However, our audit also identified that:
- Guidance detailed that all software requests must go through IT&D but was less clear regarding equipment purchases;
 - Signposting to already approved or available software to prevent unnecessary purchases could be more comprehensive; and
 - Purchasing card data identified several software purchases and subscriptions where the IS team had not been notified, and therefore no risk assessment had been completed.
- 1.16 Overall, we formed a final opinion of **Reasonable Assurance**, agreeing one medium priority action and two low priority actions with management to improve the identified weaknesses.

Procurement Compliance

- 1.17 All contracts over £5,000 must be registered and maintained in the electronic contract management system Proactis, overseen by Procurement. The Council is required by law to publish transparency data about its contracts on a quarterly basis.
- 1.18 The purpose of our audit was to obtain assurance that a contract valued at £25,000 or higher (this being the value above which three written quotations are required) had been recorded on the system, and that legal publication/transparency regulations were met.

We used data analytics techniques to review purchase order data from SAP to match with Proactis and against waiver reports.

- 1.19 Whilst generally positive in its findings, our review identified a number of creditors for which there was no contract data held on the Proactis. As this system is also the primary basis for information published on the Council website this identified a weakness in fully meeting the transparency requirements.
- 1.20 However, we did recognise that whilst a combined total of £4,963,592 of expenditure was identified where a contract was not recorded on Proactis, this represented under 1.5% of the total value of purchase orders raised in the 12-month period reviewed.
- 1.21 We also noted in our conclusion that both Proactis and MySurrey present an opportunity for additional preventative and detective controls around the raising of purchase orders without a contract to be explored by Procurement.
- 1.22 Overall, we were able to give an opinion of **Reasonable Assurance**, with one agreed action (of medium priority) for Procurement to investigate - with relevant services - those suppliers where no contract could be found for areas of significant expenditure.

Children's Data Handling

- 1.23 Front-line Children's Services staff have access to records relating to service users (and others) in digital format, including audio and video recordings, and photographs. It is vital that such data is retained, used, and held securely over its entire life cycle.
- 1.24 Our audit sought to provide assurance that controls were in place to meet the following objectives:
- Processes and procedures existed to ensure access to data was appropriately restricted, whilst still allowing officers to carry out their roles effectively;
 - There were clear and documented retention and disposal procedures in place; and
 - Policies and procedures existed to ensure officers had guidance about dealing with sensitive data, along with ongoing training.
- 1.25 Our audit concluded that the expected controls were in place, specifically:
- Training had to be completed by all system users, with full access only provided once it was completed;
 - A Privacy Policy was available to service users on the Council's website, detailing how their information was shared, used, and retained;
 - Guidance was available to staff for storage of data on mobile devices; and
 - A data breach policy was available for staff, though it would benefit from a refresh.
- 1.26 However, we also identified that:

- The guidance on the safe arrangements for handling data was not widely known about and staff are not required to confirm they have read and understood it;
- Although data retention policies were in place, they did not specifically reference the periods of retention for photographs or voice recordings; and
- The Record Disposal policy required a named responsible officer to maintain it.

1.27 Overall, we concluded that an overall opinion of **Reasonable Assurance** was appropriate, with three actions (two of medium priority, one of low priority) being agreed with management to address the weaknesses above.

Subject Access Requests and Freedom Of Information Reporting Arrangements

- 1.28 The Freedom of Information Act 2000 governs rights of access to information held by public authorities (other than personal information, governed by the Data Protection Act). Under this latter Act, an individual can submit a Subject Access Request (SAR) for information which they are entitled to ask for.
- 1.29 The purpose of our audit was to provide assurance that controls were in place to allow the Council to respond to all Freedom of Information (FOI), and SAR requests in a timely manner. Specific objectives were that:
- An effective governance framework existed to support compliance with requirements;
 - Policies and procedures existed to ensure requests received were handling in compliance with legislation, and that responsibilities for this were documented; and
 - Officers were aware of their responsibilities when handling requests.
- 1.30 An effective governance framework was found to be in place for the reporting of both SAR and FOI requests. We concluded that the Council's published policies were compliant against legislation, there was sufficient support and guidance to officers handling requests, and systemic controls existed to ensure replies were complete and accurate, and recorded any exemptions applied.
- 1.31 However, whilst routine performance reporting takes place, there is a lack of clarity and transparency in relation to some aspects of it. Where performance reports do not present information fully, it makes it difficult for the Council to be able to effectively monitor its performance against the Information Commissioner's Office expectations, or to take effective internal action to improve the current process.
- 1.32 Overall, we concluded a final opinion of **Reasonable Assurance**, with two medium and two low priority actions being agreed to address the findings above.

Other Audit Activity

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

- 1.33 With the go-live of the MySurrey system in June, our work supporting the Programme Board with support and advice has now largely ended. The revised focus of our activity has been to agree with management the areas for controls assurance work to be undertaken within the live environment across quarters three and four.
- 1.34 We have also become part of the Transition to Business-As-Usual Steering Group, a forum of key business owners, DB&I Programme members, and Transformation Team Members. The remit of this group includes triangulating service issues and requirements against DB&I programme plans, and monitoring the progress of service transition to successfully achieve business-as-usual status.

Selecta Catering Contract

- 1.35 In December 2020, the Council procured a 61-month vending contract with Selecta UK Limited to provide a self-service catering function for Woodhatch. Concerns over the cost and quality of the contract had been raised with management and we were asked to undertake a lessons-learned review to determine whether:
- Procurement processes were followed in line with corporate policy and procedure;
 - Financial risks and commercial considerations were effectively evaluated and managed;
 - Financial controls were in place to ensure delivery within the available budget;
 - Decision-making processes, and roles and responsibilities, were documented.
- 1.36 We concluded that the contract was issued in full compliance with the Procurement Contract Standing Orders (PCSOs) and that risks and opportunities were evaluated within a procurement option appraisal report which illustrated that the contract offered the best value to the Council at the time.
- 1.37 However, the Covid-19 restrictions added unprecedented challenge to this process as accurate footfall data for Woodhatch was unavailable which inhibited potential bidders. Also, whilst we were content that the risks associated with the contractor's failure to perform was sufficiently covered by the provisions within the contract, it appeared that these were not used to address the contractor's initial poor performance.
- 1.38 Officers also gave evidence of a perceived pressure to put arrangements in place quickly for those using the building at the time, which consequently influenced the speed at which the contract was let. Ideally, it would have been better to delay putting in place any permanent arrangements until future building occupancy levels were better understood.

1.39 Due to the anecdotal nature of some of the evidence gathered (caused in part because certain key officers had left the Council since contract was let) we reported our findings to management but without an overall opinion. There were no actions requiring agreement.

Serious Incident Escalation and Reporting Protocols

1.40 As a result of concerns being expressed by senior management about how serious incidents were identified, reported and escalated within the Council we were asked to undertake a review of the existing arrangements to ensure that key officers and Members were sufficiently sighted and fully informed as incidents arose. Our review was completed without an overall opinion being given, but with a summary of recommendations for potential improvement being presented to CLT.

1.41 Key findings included:

- The culture of the Council in regard to the identification and escalation of serious issues was neither consistent nor aligned, inhibiting embedding an effective set of escalation policies across the organisation;
- Whilst arrangements did exist for the identification and escalation of serious issues in business-critical areas, there were opportunities for strengthening these including the development of high-level principles-based guidance to achieve consistency in approach and in the definition of what type of incident qualified as ‘serious’;
- A cross-directorate group of senior officers should have a key role in the coordination, recording and oversight of records of serious incidents and in the tracking and reporting of actions so arising;
- There existed an opportunity to utilise technology more efficiently to record and track incidents;
- Refreshed communication to staff around reporting and escalation was needed; and
- A more efficient internal mechanism to receive and oversee ‘Notices to Interested Persons’ issued by the Coroner after certain incidents should be explored.

1.42 Our findings were considered by CLT on 12 September, with the principal findings and recommendations being accepted. Our report will contribute to ongoing improvement work in relevant processes that is currently in progress.

School Audits

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

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

- Good governance ensures there is oversight and challenge by the Governing Board;
- Decision-making is transparent, well documented and free from bias;
- The school is able to operate within its budget through effective financial planning;
- Unauthorised people do not have access to pupils, systems or the site;
- Staff are paid in accordance with the schools pay policy;
- All unofficial funds are held securely and used in appropriately;
- Expenditure is controlled and funds used for an educational purpose; and
- Security arrangements keep data and assets secure.

1.45 At the time of writing, school audits continue to be carried out through a combination of remote working and physical visits.

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

Name of School	Audit Opinion
Busbridge Church Of England (Aided) Primary (Godalming)	Reasonable Assurance
Kingswood Primary (Lower Kingswood)	Reasonable Assurance
Burstow Primary (Horley)	Reasonable Assurance
Manorfield Primary and Nursery (Horley)	Reasonable Assurance
St Joseph's Catholic Primary (Epsom)	Reasonable Assurance

1.47 We aim to undertake follow-up audits at all schools with Minimal and most schools with Partial Assurance opinions. No such opinions were delivered in this quarter.

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

- Governors and staff should be encouraged to declare any relevant interests;
- Reports on ring-fenced funding (e.g. Pupil Premium) should be published per Department for Education guidance;
- Purchase orders were not being raised for every order made with suppliers; and
- Evidence of Public Liability Insurance should be in place for visiting contractors.

Grant Claim Certification

- 1.49 During quarter two we successfully certified and returned three grant claims in accordance with Central Government auditing requirements:
- Local Transport Capital Block Funding - £25,150,000
 - Supporting Families Grant (second claim of 23/24) - £140,000
 - Housing Upgrade Grant (HUG2) - £50,000

2. Counter Fraud and Investigation Activities

Counter Fraud Activities

- 2.1 We have continued to liaise with relevant services to provide advice and support in processing the matches received as part of the National Fraud Initiative.
- 2.2 The team has carried on monitoring intel alerts and has shared information with relevant services when appropriate.
- 2.3 Awareness training was provided to HR&OD colleagues to reinforce the joint working protocol on corporate investigations. We provided advice and support to services in several cases that did not require specific internal audit involvement.

Summary of Completed Investigations

Expenses Claims

- 2.4 Following an allegation that an employee had made excessive expense claims, we assisted management in a joint investigation. Our analysis identified several claims that could not be validated. An investigation report was issued to management summarising our findings and following the conclusion of a disciplinary process, a control report has been issued agreeing actions to strengthen the wider control environment.
- 2.5 In a separate investigation, a review was undertaken of an individual's expense claims following management concerns. From the work undertaken neither the pattern of claims nor the level of expenses was anomalous when compared to colleagues. A report outlining our findings was issued to management.

Conflict of Interest (Sale of a Council Property)

- 2.6 We carried out a review following an allegation that an estate agent handling the sale of a Council property failed to declare a commercial interest and had not acted in the best

interests of the Council. The review found that there was no case to answer, and assurance was provided to management that correct procedures had been followed.

3. Action Tracking

- 3.1 As part of our quarterly progress reports to Audit and Governance Committee we seek written confirmation from services that all high priority actions due for implementation are complete. Where follow-up audits are undertaken, we reassess the progress of all agreed actions (low, medium and high priority). Periodically we may also carry out random sample checks against all priorities of actions.
- 3.2 At the end of the second quarter of 2023/24, 100% of high priority actions due had been fully implemented (or rescheduled dates for their implementation were agreed).

4. Amendments to the Annual Audit Plan

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

Additional Audit	Rationale for Addition
Housing Upgrade Grant (HUG2)	The second phase of this funding received by the Council required an audit sign-off before the end of September. This award (to provide energy efficiency upgrades and low carbon heating via local authority funding to Surrey households) was unknown to us when the original plan was approved.
Surrey Fire and Rescue Service Building Fire Safety	A review requested by the Service to review efficacy of, and compliance with, their risk-based inspection programme of all workplaces and the common parts of buildings containing two or more domestic premises. It will also provide assurance over the robustness of improvement plan actions arising in this area as a result of a recent HMIFRS inspection.
LIFT (Liquidlogic Integrated Finance Technology)	Following implementation of LIFT in Children’s Services, we have agreed this review with management to provide assurance that the system is operating effectively and delivering as expected in the business-as-usual environment with appropriate governance and control arrangements in place to support key objectives.

IT Asset Records Management	IT Asset Records Management is the process of acquiring, monitoring, maintaining, and documenting an organisations information technology assets throughout their lifecycle. Service management have asked us for independent assurance over the processes currently in place.
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- 4.2 All of the new additions to the plan have been resourced through a combination of available contingencies and time recouped from reprioritised audit work, including (where appropriate) cancelled audits.
- 4.3 There have been two audits deferred from the plan in this quarter, as detailed below.

Postponed / Removed Audit	Rationale for Postponement / Removal
School Basic Needs Allocation Grant	New advice received from the Department for Education defers the certification date for this grant until Autumn 2024.
Digital Data Preservation	This audit has been deferred from the current plan on the basis of being lower risk compared to emerging work that has been added. Work in this area remains possible if the risk profile changes in the future.

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

5. Internal Audit Performance

- 5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set of agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April 2023	G	Approved by Audit Committee on 8 March 2023
	Annual Audit Report and Opinion	By end July 2023	G	2022/23 Annual Report and Opinion approved by Committee on 12 July 2023

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
	Customer Satisfaction Levels	90% satisfied	G	100% satisfaction for surveys received in the period
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	Annual: 90% Q2 end: 45%	G	At Q1 we have achieved delivery of 47.2% of the annual plan to draft report stage (pro-rata target 45%).
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	<p>Dec 2022 - External Quality Assurance completed by the Chartered Institute of Internal Auditors (IIA). Orbis Internal Audit assessed as achieving the highest level of conformance available against professional standards with no areas of non-compliance identified, and therefore no formal recommendations for improvement arising. In summary the service was assessed as:</p> <ul style="list-style-type: none"> • Excellent in: Reflection of the Standards Focus on performance, risk and adding value • Good in: Operating with efficiency Quality Assurance and Improvement Programme • Satisfactory in: Coordinating and maximising assurance
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	88% 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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