

Notice of Meeting

Audit & Governance Committee



Date & time
Thursday, 6
December 2012
at 10.00 am

Place
Committee Room C,
County Hall, Kingston
upon Thames, Surrey
KT1 2DN

Contact
Helen Rankin
Room 122, County Hall
Tel 020 85419 126

Chief Executive
David McNulty

helen.rankin@surreycc.gov.uk

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9068, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email helen.rankin@surreycc.gov.uk.

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Helen Rankin on 020 85419 126.

Members

Mr Nick Harrison (Chairman), Mr W D Barker OBE (Vice-Chairman), Mr Stephen Cooksey, Mr Tony Elias, Mr Mel Few and Denis Fuller

Ex Officio:

Mr David Hodge (Leader of the Council), Mr Peter Martin (Deputy Leader), Mr David Munro (Vice Chairman of the County Council) and Mrs Lavinia Sealy (Chairman of the County Council)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 3 OCTOBER 2012

(Pages 1
- 14)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

To receive any declarations of disclosable pecuniary interests from Members in respect of any item to be considered at the meeting.

Notes:

- In line with the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, declarations may relate to the interest of the member, or the member's spouse or civil partner, or a person with whom the member is living as husband or wife, or a person with whom the member is living as if they were civil partners and the member is aware they have the interest.
- Members need only disclose interests not currently listed on the Register of Disclosable Pecuniary Interests.
- Members must notify the Monitoring Officer of any interests disclosed at the meeting so they may be added to the Register.
- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*30 November 2012*).
2. The deadline for public questions is seven days before the meeting (*29 November 2012*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER

(Pages
15 - 36)

To review the Committee's recommendations tracker.

6 BABCOCK 4S - HALF YEARLY REPORT

(Pages
37 - 76)

The annual report and financial statements of Babcock 4S (formally VT4S) for the year ended 31 March 2012 and the unaudited half year report and financial statements for period ended 30 September 2012 are presented to the Audit & Governance Committee.

7 EXTERNAL AUDIT: ANNUAL AUDIT LETTER AND FEE LETTERS

(Pages
77 - 84)

The Council's external auditors present their Annual Audit Letter for

2011/12 and present their planned audit fees for 2012/13.

- 8 PROGRESS REPORT ON CREDITOR BALANCE** (Pages 85 - 88)
- The purpose of this report is to update the Committee on progress made on the work undertaken to identify the extent of a potential overstatement of The Council's creditors, identified by the external auditor's Annual Governance Report.
- 9 PENSION FUND INVESTMENTS - SEPTEMBER QUARTER** (Pages 89 - 96)
- This report deals with the investment transactions of the pension fund during the September quarter and the position of the fund as at 30 September 2012, together with other matters considered by the Investment Advisors Group (IAG) at its quarterly meeting of 16 November 2012.
- 10 TREASURY MANAGEMENT HALF YEAR REPORT 2012/13** (Pages 97 - 112)
- This report summarises the council's treasury management activity during the first half of 2012/13, required by CIPFA's Code of Practice for Treasury Management. This report also covers the council's Prudential and Performance Indicators for 2012/13, in accordance with the requirements of the Prudential Code.
- 11 WHISTLE-BLOWING UPDATE** (Pages 113 - 116)
- This report provides an update on whistle-blowing activity for the period May – October 2012.
- 12 HALF YEAR IRREGULARITIES REPORT** (Pages 117 - 124)
- The purpose of this report is to inform Members about irregularity investigations undertaken by Internal Audit in the first half of this financial year, from 1 April to 30 September 2012.
- 13 INTERNAL AUDIT HALF YEAR REPORT** (Pages 125 - 160)
- This interim report summarises the work of Internal Audit during the first six months of 2012/13.
- 14 COMPLETED INTERNAL AUDIT REPORTS** (Pages 161 - 176)
- The purpose of this report is to inform Members of the Internal Audit reports that have been completed in the period September - November 2012.
- 15 RISK MANAGEMENT HALF YEAR REPORT (INCLUDING LEADERSHIP RISK REGISTER)** (Pages 175 - 182)
- This half-year risk management report has been produced to enable the committee to consider the risk management activity from April 2012 to date. It also presents the latest Leadership risk register.

16 GOVERNANCE UPDATE REPORT

(Pages
183 -
186)

The purpose of this report is to provide a half year update on the 2012/13 areas of focus outlined in the 2011/12 Annual Governance Statement.

17 EXCLUSION OF THE PUBLIC

That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under paragraph 3 of Part 1 of the Schedule 12A of the Act.

18 ENERGY PURCHASING CONTRACT

(Pages
187 -
208)

Confidential: Not for publication under Paragraph 2, 3

Information which is likely to reveal the identity of an individual.
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

19 PUBLICITY FOR PART 2 ITEMS

TO DECIDE IF ANY OF THE ITEMS DISCUSSED IN PART 2 OF THE AGENDA SHOULD BE MADE PUBLIC

20 DATE OF NEXT MEETING: 11 FEB 2013

**David McNulty
Chief Executive**

Published: 27 November 2012

MOBILE TECHNOLOGY – ACCEPTABLE USE

Use of mobile technology (mobiles, BlackBerries, etc.) in meetings can:

- Interfere with the PA and Induction Loop systems
- Distract other people
- Interrupt presentations and debates
- Mean that you miss a key part of the discussion

Please switch off your mobile phone/BlackBerry for the duration of the meeting. If you wish to keep your mobile or BlackBerry switched on during the meeting for genuine personal reasons, ensure that you receive permission from the Chairman prior to the start of the meeting and set the device to silent mode.

Thank you for your co-operation

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00am on 3 October 2012 at County Hall, Kingston upon Thames.

These minutes are subject to confirmation by the Committee at its meeting on 6 December 2012.

Members:

- * Mr Nick Harrison (Chairman)
- * Mr W D Barker OBE (Vice-Chairman)
- * Mr Stephen Cooksey
- A Mr Tony Elias
- * Mr Mel Few
- A Mr Denis Fuller

Ex officio Members:

Mrs Lavinia Sealy (Chairman of the Council)
Mr David Munro (Vice-Chairman of the Council)
Mr David Hodge (Leader of the Council)
Mr Peter Martin (Deputy Leader of the Council)

- * = Present
- A = Apologies

Cabinet Members:

- * Mrs Denise Le Gal, Cabinet Member for Change & Efficiency

Officers:

Cath Edwards, Risk & Governance Manager
Kevin Kilburn, Deputy Chief Finance Officer
Sue Lewry-Jones, Chief Internal Auditor
Sheila Little, Section 151 Officer
Helen Rankin, Regulatory Committee Manager
Phil Triggs, Strategic Finance Manager – Pension Fund & Treasury

PART 1

IN PUBLIC

68/12 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Mr Tony Elias and Mr Denis Fuller.

69/12 MINUTES OF THE PREVIOUS MEETING: 3 September 2012 [Item 2]

The minutes were agreed as an accurate record of the meeting.

70/12 DECLARATIONS OF INTERESTS [Item 3]

There were none.

71/12 QUESTIONS AND PETITIONS [Item 4]

There were none.

72/12 RECOMMENDATIONS TRACKER [Item 5]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. In relation to R3/11 (Social Care Debt), it was noted that updates would continue to be provided through the Committee bulletin.
2. With regards to A58/11 (pension payments), the Section 151 Officer confirmed that it was expected that regular payments would be set up by November.
3. It was noted that Babcock 4S would provide an update on A9/12 when they attend Committee in December.
4. In relation to A14/12 (distribution of audit reports), it was reported that a new Committee Management System had been procured by Democratic Services. The system would include a library/archive feature where all audit reports dated back to 21 May 2012 would be added and all future audit reports would be published. It was expected that this work would be completed in November.
5. In relation to A36/12 (new external auditors), the Section 151 Officer confirmed she had had an introductory telephone conversation with the Grant Thornton partners who would become the Council's external auditor from 31 October 2012. A face-to-face meeting had been arranged for November, however, it was noted that the current external audit team would be TUPEd across to Grant Thornton for consistency.
6. Members confirmed that they would like the opportunity to challenge the new external auditors on how they would achieve their proposed 40% audit fee saving. It was agreed that this action would stay on the recommendations tracker.
7. It was reported that A37/12 (asset register) had been assigned to an EPM manager and would be finalised ahead of the next Committee.
8. It was noted that a response for A20/12 (damage to county property) would continue to be pursued.
9. The Chief Internal Auditor advised that the Highways Contract follow up audit referred to in A33/12 was at the early stages of planning and would be published sometime after January 2013.

Actions/Further information to be provided:

- The Recommendations Tracker to be updated to reflect the action points noted above.

RESOLVED:

- The Committee noted the report and agreed that the items on page 9 of the tracker were complete and would be removed.

Committee Next Steps:

- To continue to monitor outstanding actions on the tracker at their next meeting.

73/12 LEADERSHIP RISK REGISTER [Item 6]

Declarations of Interest:

None.

Officers:

Cath Edwards, Risk & Governance Manager

Key Points Raised During the Discussion:

1. The Risk & Governance Manager introduced the register and advised there had been a number of changes since the Committee last reviewed it in June 2012. The Finance risk had been split into two elements: the Medium Term Financial Plan and the future funding, to reflect the fact that they were two distinct risks. Three risks had been deleted from the register: resource allocation in Adults Personalisation was deleted as the features of the risk were now incorporated into business as usual, and the two London 2012 risks had been deleted as the Olympic Games were now finished. It was reported that the Leadership Risk Register would go to Cabinet as part of the Quarter 2 Business Report.
2. It was noted that the Quality Board, referred to in risk L11 (Information Governance) and the Risk and Resilience Steering Group referred to in risk L3 (business continuity), were being looked at by the Council Overview & Scrutiny Committee.
3. In relation to L4 (IT Systems), consideration was given to the wording of the risk, as Members felt that it needed to emphasise that the migration of data was a key risk. The Chairman advised the Committee that a joint trip to the Data Centre, with the Council Overview & Scrutiny Committee, was being arranged for 14 November 2012. **(Recommendations Tracker Ref: A41/12)**
4. Members queried why the Medium Term Financial Plan was a high risk given the reserves and contingencies held by the Council. The Section 151 Officer advised that the Section 25 report stressed the fact that risk grows as the years in the MTFP go by. It was noted that the MTFP covered a 5 year plan, whereas budget monitoring information was reported on the current year.
5. In relation to risk L14 (Future Funding), the Section 151 Officer explained that she had close working relationships with district and borough colleagues, and met with them monthly to discuss financial matters. Conversations had been dominated by Council Tax localisation and business rate retention issues as government were about to change how funding was allocated. It was noted that conversations were ongoing to consider potential agreements for how to deal with business rates. It was noted that pooling with districts and boroughs was only beneficial if the County Council joined in on that pool. The Cabinet Member for Change & Efficiency advised that a letter of intent had been submitted to the Treasury, with the possibility of any district, borough or the County being able to pull out of the deal before finalisation. The Section 151 Officer confirmed that there was an all-Member briefing on the MTFP on 22 October.
6. During the continued discussion L14, Members stressed the importance of identifying the difference between identified savings and achieved savings. In particular, concern was raised about the knock-on effect of

Academies having their own admissions arrangements. The Section 151 Officer advised that officers were working with the Department for Education to review school funding.

7. Members queried whether the membership of the Risk & Resilience Steering Group was satisfactory. The Risk & Governance Manager explained that the membership was currently being revisited, as up to recently the focus had been around the Olympics. Now that the Olympics were over it was important to consider the focus moving forward.
8. Members queried whether risk L7 (Waste Contract) was correctly described as procurement and planning challenges had progressed. The Section 151 Officer advised she would report back at a future meeting.
(Recommendations Tracker Ref: A42/12)

Actions/Further information to be provided:

- The Recommendations Tracker to be updated to reflect the action point noted above.

RESOLVED:

- The Committee reviewed the Leadership Risk Register and determined that there were no matters they wished to draw to the attention of the Chief Executive, Cabinet, specific Cabinet Member or Select Committee.

Committee Next Steps:

- To visit the Data Centre.

74/12 FUNDING STRATEGY UPDATE REPORT [Item 7]

Declarations of Interest:

None

Officers:

Sheila Little, Section 151 Officer

Phil Triggs, Strategic Finance Manager – Pension Fund & Treasury

Key points raised in the discussion:

1. The Section 151 Officer introduced the item and advised that the Funding Strategy had been developed due to recognition that as a County Council, Surrey has been highly reliant on funding from Council Tax. In order to make the authority more resilient, it was important to diversify where funding came from. The Section 151 Officer was the Strategy's sponsor, but it was noted that it was a corporate initiative.
2. It was reported that a finance lead had been identified in teams across the service, and this was illustrated in the "mindmap" tabled at the meeting (**see Annex A**). Each circle on the mindmap represented a different workstream, and the name accompanying that workstream was the finance lead. It was noted that each workstream had its own programme of work, and the Council Overview & Scrutiny Committee would be looking at these streams in the future.
3. The Section 151 Officer introduced the newly appointed Strategic Finance Manager for Pension Fund & Treasury, who would be the finance lead for the return on investments (treasury management) workstream. An action plan, including timelines was being devised, which would be shared with the Treasury Management Task Group, before more meetings of the Group are set up.

4. In relation to partnership opportunities, a Member queried whether the example of the Strategic Director for Customers and Communities working part-time with Mole Valley District Council would have an impact on the other strategic directors. The Section 151 Officer agreed that this was an area she could explore and report back to Members. **(Recommendations Tracker ref: A43/12)**
5. Members of the Committee asked when the Audit & Governance Committee Task Group was due to report back. The Chairman advised that the Task Group had been set up around a year ago to respond to the work that the Pension Fund & Treasury team were doing. Progress had been delayed by the departure of the previous manager. As part of the new Strategic Finance Manager's induction, a decision would be made on the future role of the task group. There was no specific deadline for reporting back as it was driven by officer work, however, it was confirmed that the Task Group would report back to the Committee with their findings in due course **(Recommendations tracker ref: A44/12)**. It was noted that the Task Group had been a PVR working group until recently, but the Group would continue with the scope including a review of the Council's treasury management strategy.
6. The Section 151 Officer advised that a lot of the work illustrated in the mindmap had come out of the PVR and was about making sure that there was an awareness of cash flows across the organisation. Staff awareness was reflected in the training programme that had been set up as part of the PVR.

Actions/Further information to be provided:

- The Recommendations Tracker to be updated to reflect the action point noted above.

RESOLVED:

That the Committee:

- a) Noted the report
- b) Recognised the early progress of the Funding Strategy Programme and rationale for the programme of work
- c) Endorsed the proposal to use the task group of the Committee to provide Member engagement and scrutiny of the programme.

75/12 FINANCIAL MANAGEMENT PVR UPDATE [Item 8]

Declarations of interest:

None.

Officers:

Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. The Deputy Chief Finance Officer introduced the item and advised that the report concentrated on the part of the Public Value Review that dealt with the closing process. A more general update on the implementation of the PVR findings would be presented to the Council Overview & Scrutiny Committee in December.
2. The PVR included 4 recommendations for the closure of accounts: to perform a hard close quarterly, to configure the capital and allocation modules in SAP and to work with Babcock 4S to identify barriers and help shorten timescales.
3. A hard close had been performed on a quarterly basis since December 2010 and had helped by highlighting and identifying problems at an early stage.

The outcome was that the Committee were able to approve the accounts in early September.

4. It was reported that the capital module in SAP had now been configured. The quarter 2 hard close was the first time using this application, and it was found to provide much better information and require much less data manipulation.
5. The third recommendation was about allocations and how the Council allocated overheads and central costs for external reporting and other government returns. Unfortunately, the module in SAP has been found to not be appropriate for how the Council structures itself and manages its costs. It was reported that changes were being considered as using the module would be highly resource intensive, and it would be more straightforward to continue using spreadsheets.
6. In relation to the fourth recommendation, the Deputy Chief Finance Officer confirmed that he was working with Babcock 4S. Schools not using SAP was a significant barrier for closing the accounts and it was reported that change was necessary to help estimate capital spend in schools. Members suggested that an early close of schools accounts before the yearend might be an effective way forward (**Recommendations tracker ref: A45/12**).
7. Members asked for more information on the 'Dashboard'. The Deputy Chief Finance Officer explained that it would give officers and Members information quickly in an accessible format, using graphics rather than just numbers. It would be available via S-Net and eventually, technology allowing, through portable devices.

Actions/Further Information to be provided:

None.

RESOLVED:

The Committee

- a) Noted the progress made against the implementation plan so far and recognised the successes and achievements
- b) Determined that there were no issues to refer to Cabinet
- c) Agreed to receive further updates on progress against planned activities at future meetings.

Committee next steps:

The Committee to receive further updates on progress at future meetings.

76/12 PENSION FUND INVESTMENTS [Item 9]

Declarations of interest:

None

Officers:

Jon Evans, Senior Accountant (Pension Fund & Treasury)
Phil Walker, Interim Pension Fund & Treasury Manager

Key points raised during the discussion:

1. The Interim Pension Fund & Treasury Manager introduced the report and drew Members attention to the changing composition of the Fund shown in paragraph 5. It was noted that the Fund was in a transitional phase with Equity Investment was being reduced by 10% and moved into Diversified Growth Funds.
2. It was reported that an additional allocation of 2% to Majedie's Global Focus fund had been agreed, however, Majedie were no longer in a position to

accept the additional allocation and therefore that 2% will remain with Legal & General for the time being.

3. It was noted that the volatility of the past 3 years were demonstrated in the figures shown in the report. Western's allocation had been reduced following the transfer of index-linked gilts to Legal & General, however, it was confirmed that they were still underperforming. The Investment Advisor's Group (IAG) felt that the style of Western's approach is not necessarily a good diversifier compared to the other managers in the fund. CRBE's poor performance was based on a decision by their predecessors, ING Real Estate to invest in the European property market five years ago; a new set of staff were looking after the Fund's portfolio and a more active management approach for funds in Europe was being adopted.
4. The Committee were advised that UBS had their allocation reduced from 13% to 8% as part of the strategy review following a period of underperformance.. UBS believe that their performance will recover when markets turn around and value investing returns to favour..
5. It was reported that Newton were 'thematic investors', with a large research backup – a different style to other managers in the portfolio. It was noted that since taking on Newton in 2007 performance had been initially good before a period of underperformance. However, it was noted that performance had now picked up slightly again this year.
6. The Committee Chairman thanked officers for the comments on underperformance and drew Members' attention to the good performance of Marathon, Mirabaud and Majedie.

Actions/Further information to be provided:

None

RESOLVED:

The Committee noted the content of the pension fund report for the quarter to 30 June 2012.

Committee next steps:

To receive a further update on Pension Fund investments at the December meeting.

77/12 COMPLETED INTERNAL AUDIT REPORTS [Item 10]

Declarations of interest:

None.

Officers:

Sue Lewry-Jones, Chief Internal Auditor

Pascal Barras, Compliance Auditor (ICS Audit)

Dan Wilson, Auditor (Telecare audit)

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the item and advised that there had been 6 audit reports since her last report to the Committee. One audit (Data Quality Review for health and dental checks) had received a rating of major improvement needed and had 3 high priority recommendations.

ICS Audit

2. The Chief Internal Auditor introduced the Compliance Auditor who had completed the Integrated Children's System (ICS) audit report, and invited Members to question. The Committee noted that the recommendations were quite general and wanted to understand more about the risks and what they meant for delivering the service. The Compliance Auditor confirmed that the recommendations were general because the findings grouped together into a theme. He was not confident that the service had a firm grasp on the data that it holds. For example, the recommendation relating to chronologies had been triggered by looking at the Council's existing system and the IT provider and finding that interfaces had not been fully engaged. Risks had been identified about robotics not working (the software interface between ICS and the old Swift system).
3. In relation to the 'migration' section of the audit report, Members queried what kind of data had been involved. The Compliance Auditor advised that it was mostly dates of birth, addresses and practice issues such as meeting notes being put in the wrong place on Swift, making it difficult to transfer information to the new system.
4. The Committee noted that the MAP indicated that all issues should be addressed by the end of the month. The Compliance Auditor confirmed that he had been having conversations with Children's Services in relation to actions and would be monitoring whether the actions were implemented. Members requested an update on this matter as soon as possible.
(Recommendations tracker ref: A46/12)
5. Members queried whether the auditor felt he had free access to the information required to adequately carry out his work. The Compliance Auditor explained that Children's Services were very cooperative in terms of providing data.
6. Members asked for confirmation of how serious the situation was, in terms of how much of the information had not been transferred across correctly to the new system. The Compliance Auditor agreed to report this data back to the Committee. **(Recommendations tracker ref: A46/12)**

Mrs Denise Le Gal left the Committee at 11.35am

7. The Chief Internal Auditor advised that a further audit to look at the Fostering Module on ICS would look into this issue again. In addition, the Chief Internal Auditor would consider putting a follow up audit in next year's plan. Members asked that they receive comment from the service about how serious the consequences of this matter could be. **(Recommendations tracker ref A46/12).**

Telecare Audit

7. The Chief Internal Auditor introduced the Auditor who had carried out the review of Surrey Telecare Project Management. The Auditor explained that the estimated savings of the Telecare project had been reduced down to £350,000. His concerns were around the fact that the project was still promoted as saving £600,000.
8. The Auditor confirmed that the savings would come from providing people with equipment rather than relying on full-time staff providing care. It was noted that savings could be made by people staying in their own homes for longer; however, this could also increase the number of customers. The Auditor was concerned that the service had based their savings estimate on a total of just 20 case studies.
9. It was agreed that the Committee's surprise at the savings figures reported in the audit report be fed back to the Council Overview & Scrutiny Committee by

Members sitting on both committees. (**recommendations tracker ref: A47/12**)

Other audit reports:

10. Members noted that the targets in the Data Quality Review (Looked after Children Health and Dental Checks) audit were continuously missed and therefore considered that the way that targets were set needed to be looked into.
11. Members commented on the review of Waste Contract Management, noting the slippage in checks on credits to districts and boroughs during 2011/12. Members expressed surprise at these delays given the time the contract has been in place. The Chief Internal Auditor agreed to speak to the auditor involved and report back. (**recommendations tracker ref: A48/12**).
12. Committee Members discussed audit reports circulation to select committee chairmen. It was requested that the Chairman of the Committee write to the Leader of the Council and stress that select committee chairmen attach a greater priority to review of audit reports. (**Recommendations tracker ref: A49/12**). It was noted that all audit report opinions continued to be reported to the Council Overview & Scrutiny Committee where select committee chairmen were sometimes asked for further scrutiny. However, Members were not confident that reports were being looked at in detail. It was agreed that data would be collected about where audit reports have been looked at, where they are considered and what has been done about them. (**recommendations tracker: A50/12**).

Actions/Further information to be provided:

- Further information to be provided in relation to the ICS audit report
- Information about the consideration of audit reports by select committees to be presented to the committee at a future date
- The recommendations tracker to be updated to reflect the actions agreed during the discussion.

RESOLVED:

The Committee noted the report

Committee Next Steps:

Members to reconsider the approach to audit reports and select committees.

78/12 FIGHTING FRAUD LOCALLY [Item 11]

Declarations of interest:

None.

Officers:

Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. The Chief Internal Auditor advised that the National Fraud Authority had issued a local government fraud strategy in April 2012, entitled Fighting Fraud Locally. The document set out the background including case studies for good practice and a checklist that local authorities could use to see whether they had a good counter-fraud culture. The findings had been presented to the Quality Board in July, who supported the work Internal Audit were doing

and suggested time was invested in areas where additional work was required.

2. The Chief Internal Auditor explained that the Strategy against Fraud & Corruption had been updated and approved by the Chief Executive. The updates had largely been in response to matters raised in the document, for example, the inclusion of a fraud response plan that sets out what would be done if fraud was suspected or discovered. Further work had been undertaken on fraud risk assessment, a review of the whistle blowing policy, and conversations had been held with HR about the Council's recruitment vetting procedures. In addition, the Chief Internal Auditor had been working with the Risk & Governance Manager on fraud-proofing policies as part of the work supporting production of the Annual Governance Statement; all policy custodians would be asked a question about fraud during their annual assurance questionnaire.
3. It was reported that Ealing Council had been noted as a good practice example, as they make clear that detailed background checks, including credit checks, were carried out for all new appointments. The Chief Internal Auditor was discussing with HR about whether it was appropriate to introduce this kind of vetting for some posts. Members requested feedback at the end of conversations with HR (**Recommendations tracker ref A51/12**).
4. Members requested that the wording of the fraud response plan be updated to say that the Council **will** take civil action (as opposed to 'may consider'). The Chief Internal Auditor agreed to change the wording to read 'the Council will also consider taking civil action to recover the loss'.
5. Members queried the approval process for the strategy, the Chief Internal Auditor said that historically she had obtained Chief Executive sign off of the policy.

Action/Further information to be provided:

- The recommendations tracker to be updated to reflect the actions agreed during the discussion.

RESOLVED:

The Committee noted the contents of the report and endorsed the work of Internal Audit in countering, and raising awareness of the rise of, fraud across the Council.

Committee next steps:

The Committee to receive further updates through the six-monthly Irregularities reports

79/12 AUDIT & GOVERNANCE COMMITTEE ANNUAL REPORT [Item 12]

Declarations of interest:

None

Key points raised during the discussion:

1. The Chairman introduced the item and advised that it was CIPFA best practice to produce an annual report. The Chairman and Regulatory Committee Manager had worked together to put a draft to Members. Comments had subsequently been incorporated and it was intended that the final version be presented to County Council on 16 October.

Action/Further information to be provided:

- None

RESOLVED:

That the Committee endorse the annual report and COMMEND it to County Council.

Committee next steps:

None.

80/12 PROCESS FOR GRANTING DISPENSATIONS [Item 13]

Declarations of interest:

None

Officers:

Helen Rankin, Regulatory Committee Manager

Key points raised during the discussion:

1. The Regulatory Committee Manager introduced the report and advised that the Localism Act had abolished the requirement for a local authority to have a Standards Committee. At County Council in July 2012, a new approach to ethical standards was adopted, which included the transfer of some responsibilities of the previous standards committee to the remit of the Audit & Governance Committee. The Committee was now responsible for granting dispensations, and therefore, were presented with an updated process to reflect the changes required through the Localism Act.
2. It was confirmed that if a dispensation was to be considered by Committee, it would be placed on their next agenda or, if more appropriate, an additional meeting of the Committee would be convened. It was anticipated that the process was expected to be invoked only very rarely.

Action/Further information to be provided:

None

RESOLVED:

The Committee:

- a) Approved the process for granting dispensations
- b) Recommended to County Council that the agreed process be included in the Constitution, under section 6 – Codes and Protocols.

Committee Next Steps:

None.

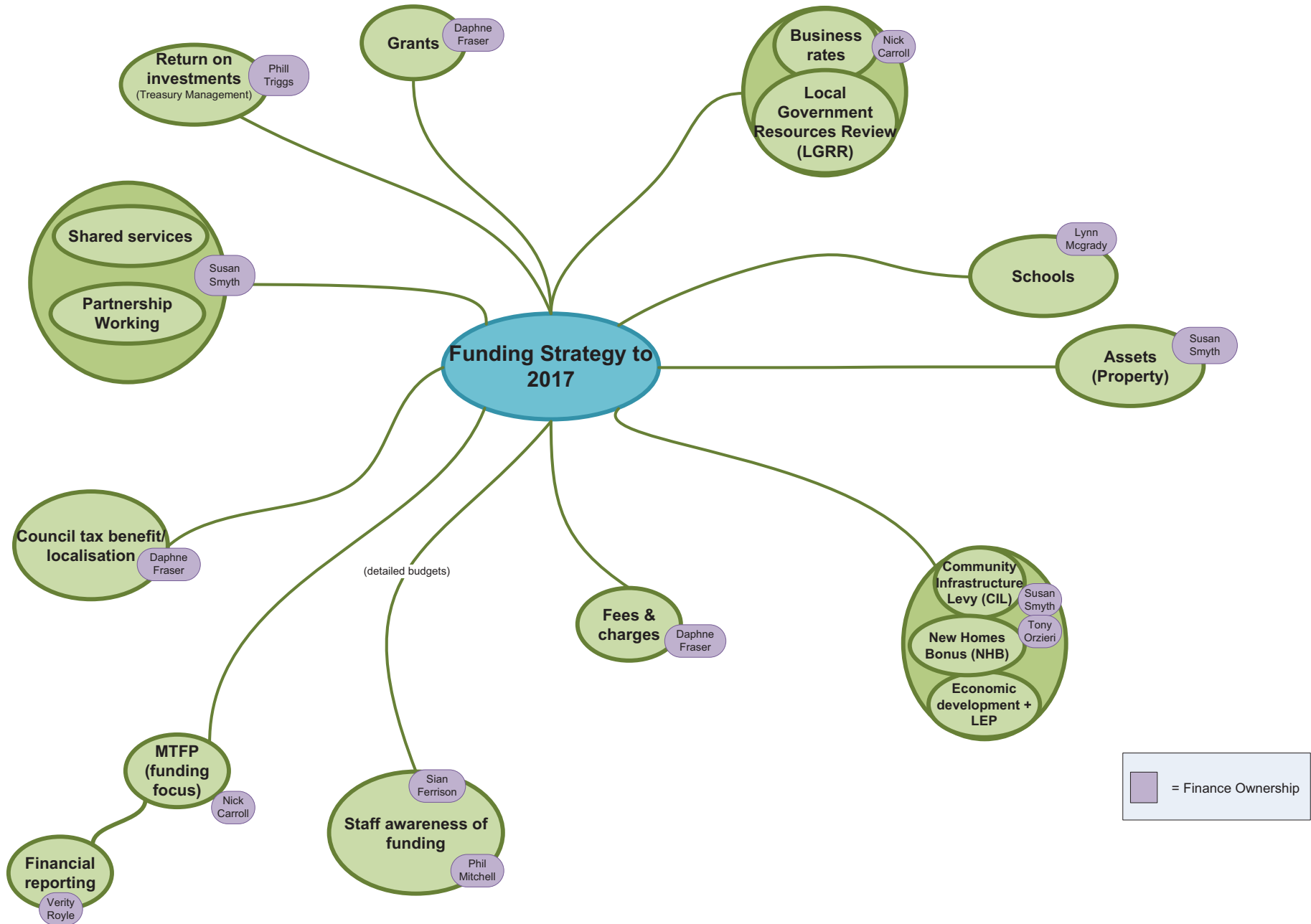
81/12 DATE OF THE NEXT MEETING: 6 December 2012 [Item 14]

The next meeting would be held at 10am on 6 December in Committee Room C.

Meeting Closed: 12:10pm

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High Level Mind Map – October 2012
Confidential – For Discussion



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**Audit & Governance Committee
6 December 2012**

RECOMMENDATIONS TRACKER

PURPOSE OF REPORT:

For Members to consider and comment on the Committee's recommendations tracker.

INTRODUCTION:

A recommendations tracker recording actions and recommendations from previous meetings is attached as **Item 5 Annex A**, and the Committee is asked to review progress on the items listed.

RECOMMENDATION:

The Committee is asked to monitor progress on the implementation of recommendations from previous meetings (Item 5 Annex A).

REPORT CONTACT: Helen Rankin, Regulatory Committee Manager
020 8541 9126
Helen.rankin@surreycc.gov.uk

Sources/background papers: None

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Audit & Governance Committee Recommendations Tracking

Recommendations (REFERRALS)

Number	Meeting Date	Item	Recommendation / Referral	To	Response
R3/11	05/10/11	(75/11)	That the audit report 'accounts receivable' be referred to the Adult Social Care Select Committee for scrutiny (with a particular focus on the finding that debts had arisen as a result of recipients of direct payments within ASC, using the money for purposes other than to meet their care needs and improvements in the dunning process).	Adult Social Care Select Committee	<p>An audit of Social Care debt was included in the 'Completed Audit reports' item on the agenda (5 April 2012) and an audit of Direct Payments is included on the 'Completed Audit Reports Item' on the 21 May 2012 agenda.</p> <p>An update on Social Care Debt was considered by the Adult Social Care Select Committee at their meeting on 4 July and is on the agenda for 30 November. The Audit & Governance Committee will be kept updated on the outcome of the Adult Social Care Committee's debate through the committee's bulletin (see Annex A).</p>
R1/12	21/05/12	(36/12) Annual Governance Statement	That the Annual Governance Statement be COMMENDED to Cabinet for publication with the council's statement of accounts.	Cabinet	The Annual Governance Statement was presented to the Cabinet on 19 June 2012. The Cabinet approved the content and authorised the Leader and Chief Executive to sign for inclusion in the Statement of Accounts. The Committee will continue to monitor progress on the implementations of the actions required and report to Cabinet where appropriate.
R3/12	21/05/12	(38/12) Completed Internal Audit Reports	<p>The Committee recommends that the Adult Social Care Select Committee:</p> <p>Review the Direct Payments audit report and monitor the situation until the policy commitment for annual reviews of the social care needs of the recipients of direct payments is met.</p>	Adult Social Care Select Committee	<p>The recommendation was forwarded to the Scrutiny Officer for Adult Social Care on 7 June 2012. An update will be provided in due course.</p> <p>An officer working group has been set up to look at this. A report is on the Adult Social Care Select Committee agenda for 30 November 2012.</p>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Referral	To	Response
R4/12	03/10/12	(80/12) Process for granting dispensation	The Committee Recommend to County Council that the agreed process be included in the Constitution under Section 6 – Codes and Protocols.	County Council	The Constitutional changes were agreed at the meeting of County Council on 16 October 2012.
R5/12	03/10/12	(79/12) Annual Report of the Audit & Governance Committee	The report be COMMENDED to County Council	County Council	The report was noted by County Council at its meeting on 16 October 2012.

Audit & Governance Committee Recommendations Tracking

Recommendations (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A58/11	08/12/11	External Audit 2010/11 Annual Audit Letter (87/11)	A note to be circulated to provide Members with an update on the enhanced payments issue that they had previously been briefed on.	Pensions Manager	The report of the external auditor, included in the agenda on 3 September dealt with this matter. The Committee will continue to be kept up to date.
A6/12	09/02/12	Whistleblowing update (11/12)	Committee to be advised when SCC website is updated to make it more 'user friendly' for public reporting issues.	Equality & Diversity Manager	The Comments, Compliments and Complaints pages have been updated to include interactive forms for feedback. The pages also link to the Council's Strategy Against Fraud and Corruption and include quarterly digests about what Surrey customers are feeding back.
A9/12	07/04/12	Recommendations tracker (17/12)	It was noted that Babcock 4S were known to have large cash balances, but taking out dividends was restricted by pension liability. It was agreed that options would be explored outside of the meeting	Section 151 Officer	At the meeting on 25 June 2012 it was reported that the Babcock 4S pension liability had been reassessed and those due dividends for 2010/11 could now be paid. An update on Babcock 4S pension liability and dividends will be provided at the meeting in December.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A14/12	07/04/12	Internal Audit Plan 2012/13 (19/12)	Consideration to be given to the wider distribution of internal audit reports.	Chief Internal Auditor/Chairman of the Committee	<p>At the meeting on 21 May, most Members agreed with the recommendation that audit reports would be published on the S-Net for use by Members.</p> <p>Democratic Services have procured a new committee management system. One of the features of the system will be a document library that can be viewed by Members and staff via the S-Net. The Chief Internal Auditor and Democratic Services have agreed that this is the most appropriate place for the internal audit reports to be published.</p> <p>The system has been implemented in October 2012 and work has started to prepare uploading audit reports backdating to 21 May 2012.</p>
A17/12	07/04/12	Completed Internal Audit Reports (21/12)	Traffic Signal Management audit report: Data to be reported to the Committee regarding the level of collection rates.	Audit Performance Manager	<p>An update was annexed to this tracker with the agenda papers for 21 May 2012. Members were concerned that recovery rates were still low and commented on the fact that action had only been taken on 50 cases out of the 71 recorded. It has subsequently been confirmed that the remaining 21 cases are those being actively pursued with companies, insurance companies and individuals.</p>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A20/12	21/05/12	Recommendations tracker (31/12)	With regards to low recovery rates in cases of damage to county property, the Chairman to write to the Portfolio Holder and ask for his comments on the matter and seek assurance that relevant action was being taken to improve collection rates for damage to county property.	Chairman of the Committee	<p>Following the response to action A17/12 (above), the Chairman determined that it was no longer necessary to write to the Portfolio holder on damage to traffic signals.</p> <p>However, the Chairman has requested further information about other damage to county property.</p> <p>The Group Manager for Projects & Contracts (Surrey Highways) has confirmed that a project is underway to achieve a 100% recovery rate for damage to county property. The project was due to be signed off in August with an update being provided to Members in September. An update will be communicated as soon as available (it has been confirmed that this will be available ahead of the December meeting).</p>
A22/12	21/05/12	External Audit: 2011/12 Audit Plan Surrey Pension Fund (32/12)	An update around internal controls at Custodian and Fund Managers to be included in a future Pension Fund Investments report.	Section 151 Officer/Senior Accountant.	This will be included in a Pension Fund Investments report on a six monthly basis (update due in December 2012).
A23/12	21/05/12	Risk Management Annual Report (33/12)	The Chairman of the Council Overview & Scrutiny Committee to ask the Chairman of the Adult Social Care Select Committee to consider reviewing the Strategic Director for Adult Social Care Risk Register.	Chairman of the Council Overview & Scrutiny Committee	This matter has been raised with the Chairman of the Adult Social Care Select Committee. It was agreed that the Committee should not review the full register as an agenda item; however, the register was drawn to the Chairman's attention. Any matters arising from the register will be reviewed as appropriate by the committee moving forward.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A33/12	25/06/12	Completed Internal Audit reports (51/12)	An update to be provided on the recommendations made in the Highways Contract audit report.	Projects & Contracts Group Manager (Surrey Highways)	A follow up audit is planned for the Autumn and this will be reported to the Committee through the usual process.
A34/12	26/05/12	Completed Internal Audit reports (51/12)	The findings of the work being carried out by the Council Overview & Scrutiny Committee relating to mapping vacancies across the organisation be reported back to the Committee.	Committee Manager	The findings will be shared with the Committee when available. It is expected that the findings will be reported to the Council Overview & Scrutiny Committee in December 2012.
A36/12	25/06/12	Future of External Audit (54/12)	When the new external auditors are in place, the Committee to challenge how the estimated 40% savings will and have been met.	Committee Members	The new external auditor will be attending the December meeting.
A37/12	3/09/12	2011/12 Surrey County Council accounts and external audit annual governance report (63/12)	A report be provided for Committee about the Council's register of assets held.	Performance Manager (EPM)	The EPM Performance Manager is working on a report to be circulated to Committee Members. It has been agreed that the report will be circulated before the end of October. A report was circulated to Members on 19 November by email.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A38/12	3/09/12	2011/12 Surrey County Council accounts and external audit annual governance report (63/12)	Updates throughout the year to be provided on the work being undertaken to identify the extent of overstatement identified in the external auditor's Annual Governance Report.	Financial Reporting Manager	An update report will be provided at the December Committee.
A39/12	3/09/12	2011/12 Surrey County Council accounts and external audit annual governance report (63/12)	Recommended that Environment & Transport Select Committee should be considering the outcome of the MAXIMO internal audit report	Projects & Contracts Group Manager (Surrey Highways)	Regular contract management updates are presented to the select committee. The next scheduled update is in January 2013. An update was provided in November 2012 (link in the Bulletin at Annex A to this tracker).
A40/12	3/09/12	Completed Internal Audit Reports (65/12)	The Committee to monitor the actions coming out of the Health & Safety Compliance Management Action Plan	Chief Internal Auditor	An update will be provided in the Internal Audit half year report, due to be presented to the Committee in December.
A41/12	03/10/12	Leadership Risk Register (73/12)	A trip to be organised to the data centre.	Regulatory Committee Manager	A visit took place on 14 November 2012.
A42/12	03/10/12	Leadership Risk Register (73/12)	An update to be provided on whether the Waste Contract risk was still 'high'.	Section 151 Officer	An update to be provided at the meeting.
A43/12	03/10/12	Funding Strategy Update Report (74/12)	Update to be provided on the impact of the Strategic Director for Customers & Communities working part-time with Mole Valley District Council, on the rest of CLT.	Section 151 Officer	An update to be provided at the meeting.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A44/12	03/10/12	Funding Strategy Update Report (74/12)	Funding Strategy task group to report findings to the Committee in due course.	Chairman	A joint meeting with the Council Overview & Scrutiny Committee Finance Sub-Group has been organised.
A45/12	03/10/12	Financial Management PVR Update (75/12)	Officers to consider whether early close of schools accounts would help overcome the barrier of schools not using SAP	Deputy Chief Finance Officer	An update to be provided at the meeting.
A46/12	03/10/12	Completed Internal Audit Reports (77/12)	An update to be provided on the actions coming out of the ICS audit report, to include: <ul style="list-style-type: none"> • The views of Children's Services in terms of how serious situation was • Detail of how much information had been transferred incorrectly from the old SWIFT system to the new ICS System 	Compliance Auditor	A written update will be circulated before the end of the year.
A47/12	03/12/12	Completed Internal Audit Reports (77/12)	Members to raise their concern about the Telecare audit at the next Council Overview & Scrutiny Committee	Chairman of the Council Overview & Scrutiny Committee	Members of the Committee who also sit on the Audit & Governance Committee to report back.
A48/12	03/12/12	Completed Internal Audit Reports (77/12)	Chief Internal Auditor to report back regarding the control and cost issues identified in the Waste Contract Management report	Chief Internal Auditor	An update to be provided at the next meeting.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A49/12	03/12/12	Completed Internal Audit Reports (77/12)	Chairman to write to the Leader of the Council to stress that select committee chairmen take audit reports more seriously when considering their work programmes	Chairman	The Chairman has raised concerns with the Leader of the Council.
A50/12	03/12/12	Completed Internal Audit Reports (77/12)	Data to be collected about where audit reports had been looked at by select committees	Regulatory Committee Manager	A question as put to Council by Stephen Cooksey at the meeting on 16 October 2012. The Committee Manager is working on a more detailed project to identify where select committees have considered items related to audit reports.
A51/12	03/12/12	Fighting Fraud Locally (78/12)	Feedback to be provided following discussions with HR about changes to recruitment vetting procedures	Chief Internal Auditor	An update will be provided in due course.

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Completed Recommendations/Referrals/Actions

Recommendations – to be deleted

R4/11	08/12/11	(87/11) External Audit 2010/11 Annual Audit Letter	That the Annual Audit Letter be COMMENDED to Cabinet, capturing the comments made by the Committee on 8 December 2011 about income generation.	Cabinet	The District Auditor presented the Annual Audit Letter to Cabinet on 20 December 2011. The Chairman of the Audit & Governance Committee attended and explained the Committee's view on income generation. Progress will continue to be reported through regular Finance Update reports to Audit & Governance Committee
A8/12	07/04/12	Recommendations tracker (17/12)	An update to be provided on the funding strategy review.	Section 151 Officer	An item was on the October agenda.

Audit & Governance Committee Recommendations Tracking

A15/12	07/04/12	Completed Internal Audit Reports (21/12)	Rental Income audit report: Up-to-date list of total debt figures to be circulated to the Committee	Technical Contracts & Development Manager	<p>A response was annexed to the recommendations tracker with the 21 May 2012 papers. The Committee requested further information about the debt recorded against 'Lambert Smith Hampton managed leases'. It has been confirmed that the title should have read 'general property leases'. These were leases put in place and managed by the external management company Lambert Smith Hampton', who subsequently relinquished responsibility for this area of the portfolio. It was handed back to EPM to run at the end of 2010. In September 2011 the aged debt for the General Property Portfolio (including houseboats) stood at £1202k. The figure at the end of April 2012 was £221k.</p> <p>At the meeting in September 2012, Members asked for further information about the circumstances that lead to EPM taking back management responsibility of general property leases in 2010. A response was circulated by email on 11 September 2012.</p>
A35/12	25/06/12	Leadership Risk Register (53/12)	The Committee's comments regarding where the capital programme for schools fitted into the risk register to be shared with the Corporate Board.	Risk & Governance Manager	Risks relating to the capital programme for schools form part of the Strategic Director for Children's Schools and Families risk register and the Head of Schools and Learning risk register, which are both monitored and reviewed by the directorate and service management teams.

Audit and Governance Committee

Committee Bulletin – Twelfth Edition

INTRODUCTION

Welcome to the Twelfth Edition of the Audit & Governance Committee Bulletin. The purpose of this bulletin is to keep Members and officers up to date with issues relevant to the Audit & Governance Committee.

UPDATE FROM PREVIOUS COMMITTEES

Comments, compliments and complaints website

The Surrey County Council website has been updated to make it easier for customers to provide feedback on services. The comments, compliments and complaints website now also includes links to quarterly 'customer feedback' digests, the policy on complaints from the public and the Council's strategy against fraud and corruption.

Internal Audit reports on the S-Net

Work is underway to upload internal audit reports to the S-Net. An internal library of reports will be available so that Members can access audit reports easily from their Surrey County Council IT equipment. A link will be sent out to all Members once the library is live.

Trip to the Redhill Data Centre

On 14 November 2012, some Members of the Audit & Governance and Council Overview & Scrutiny Committees took part in a visit to the Redhill Data Centre. Feedback has been positive, with Members commenting that the security levels at the Data Centre were impressive. If other Members are interested in visiting the data centre then please contact Helen Rankin (0208 5419 126) who will coordinate.

INTERNAL AUDIT UPDATE

Current Audits

The following audits are currently in progress:

- Direct Payments follow-up
- Teachers' Pensions
- Superfast Broadband
- Purchase Cards
- Local Sustainable Transport Fund
- Schools Basic Need Capital Programme
- Street Lighting Contract (Illuminated Street Furniture)
- Building Maintenance
- Special Schools
- Corporate Training
- School Fund Compliance

Internal Audit Staffing

One of our Lead Auditors, Bri Luscombe will be leaving us at the end of November for an Internal Audit position in the Home Office.

A small restructure of the team will see one Lead Auditor position deleted and a new IMT Auditor position created with effect from 1 December. As well as undertaking our more technical IMT audit reviews the IMT Auditor will use data interrogation techniques to assist with counter fraud work.

Internal Audit Team Meeting

Members of the Audit and Governance Committee attended an Internal Audit team meeting in October. Areas discussed included:

- examples of where Internal Audit activity has led to improvement
- how Value for Money is assessed
- how the Committee can support the work of Internal Audit
- Internal Audit opinions
- the appointment of Grant Thornton as the External Auditor
- responsiveness of Services to the audit process

It was agreed that half an hour was not long enough to discuss these matters and any future meeting should allow more time to enable a quality debate.

National Fraud Initiative

During October we provided data to the Audit Commission on all Surrey employees, members, vendors and pensioners as part of the National Fraud Initiative. In addition, we also provided data on all insurance claimants, occupants of adult private residential homes, blue badge holders and concessionary bus pass holders. This data will go through a validation process before being matched to data provided by all other local authorities, the NHS, some housing associations and central government departments. Relevant data matches identified through this process will start to be released to us in January 2013 and we will follow-up as necessary.

SOCIAL CARE DEBT UPDATE

The Adult Social Care Select Committee is due to receive an update on Social Care Debt at their meeting on 30 November 2012. The latest debt collection figures were reported as follows:

- Since August 2011 to date care debt collected totalled **£36.56m** compared to **£35.86m** charges raised – showing a **101.95%** collection rate on that billed. Levels collected are consistently over 100% of that billed which continues to reflect the ongoing work to reduce overall debt levels.
- Since the last report total unsecured debt has **increased** from **£7.03m** to **£7.38m**. Secured debt has **increased** from **£6.65m** to **£7.02m** as a number of legal charges against property have been secured.
- The campaign to increase the number of clients paying by Direct Debit as our preferred method of payment continues to show results. The latest figures show

that during September 2012, **64.86%** of payments were received by this method (down 0.61 on the 65.47% August rate reported in October). The target of 65% in the 2012/13 financial year therefore continues to be met. A new target will be set for 2013/14.

- Currently **88.64%** of unsecured social care debt is less than two years old compared to September 2011 when the position stood at **89.92%**. Although the September 2011 position was a little higher, that was still reflecting a specific aged debt exercise carried out around that time. There are always fluctuations during the year as the trend graph below. All teams continue to remain focussed on reducing debt levels.
- We continue to promote awareness and take-up of our 'e' billing option amongst clients who pay by direct debit or electronically (eg by BACS or via the Council's website). Around 22% of clients currently receive their bill by email.

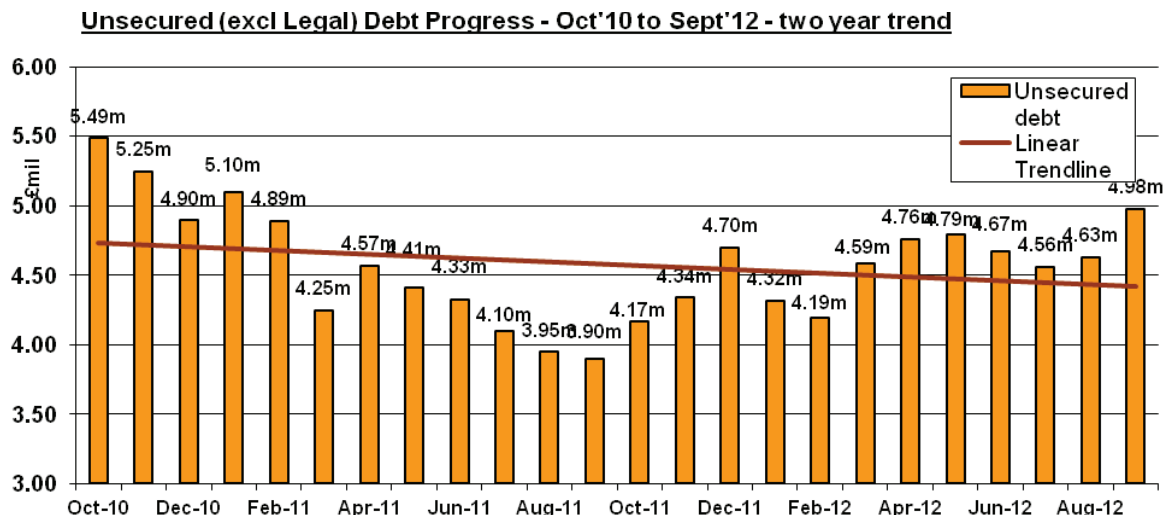
Debt Position

New debt of £3.09m was raised in September. The total debt on the system may be summarised as follows:

	£m
• Less than 30 days old (including new charges raised, not yet overdue, not otherwise covered by this report)	3.03
• Secured debt	7.02
• Unsecured debt	7.38
<u>Total</u>	17.43

Unsecured Social Care Debt currently stands at **£7.38m** of which **£2.40m** is referred to Legal Services and remains as open cases. As at 30 September, 73 accounts (with balances over £75) have been written off with a value of £280,446.

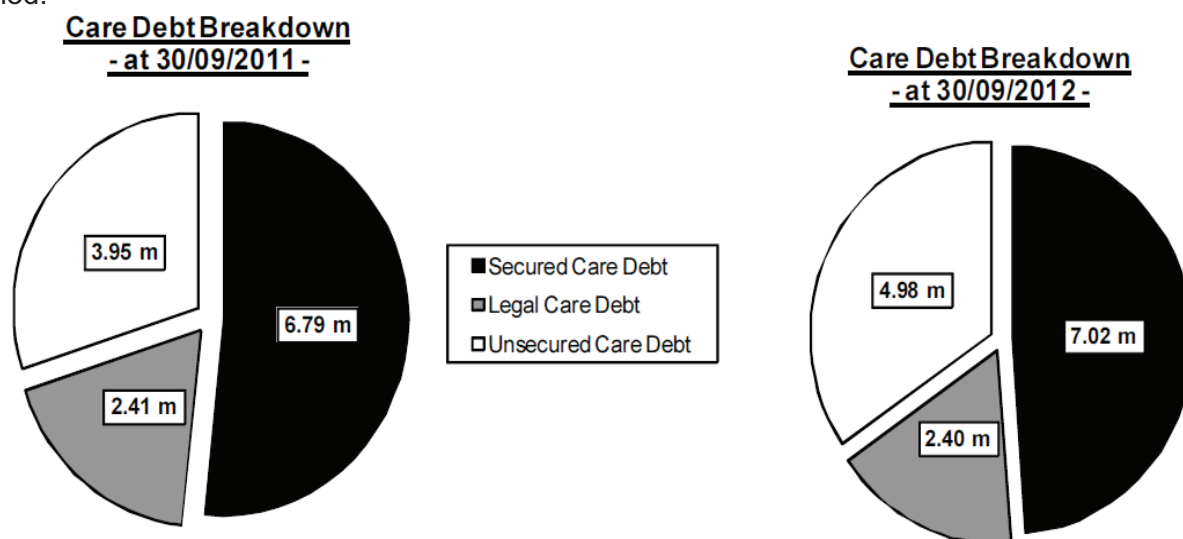
This leaves a further collectable debt of **£4.98m** of which **£4.42m** is less than 2 years old.



- As can be seen from the graph, the position has worsened during September. Whilst this may be linked to external factors, it is also possible that resourcing and system issues in Adult Social Care and Finance Shared Services have contributed to the impact on debt collection figures. Accordingly, officers from both directorates will be working together to identify potential causes and to take the necessary steps to improve the position.
- Of the collectible debt, £0.55m is monitored by the Adults Deputyship Team. This figure has reduced by over £200k from the previous report, following successful applications to the Court of Protection requesting the appointment of a solicitor in respect of 3 cases where a property needs to be sold. A further £70k is pending payment in respect of 2 cases where the team has secured funds. The remainder of the debt is either pending appointment of a Deputy by the Court of Protection, pending an application to the Court or under investigation to identify whether funds are available to settle the debt.
- A further **£7.02m** is currently secured against property.

Debt Profile – September 2011 to September 2012 comparison

The following graph demonstrates how the profile of social care debt has changed over the period.



Legal action cases: update to 30 September 2012

Since May 2008, 178 cases have been referred for legal action amounting to £4.76m at the date of referral. 62 cases are 'open' with a current debt value of £2.40m. £2.08m has been recovered and 'banked' (£1.93m net of costs), with further sums due under instalment arrangements, secured by charging order, or otherwise agreed to be paid and not 'in dispute':

Paid: £000	Due by Instalments £000	Secured by Charging Order £000	Not in dispute: £000	TOTAL (Gross) £000	TOTAL (Net) £000
2,077	68	163	386	2,694	2,546

In summary, £2.69m gross (£2.54m net) has been banked, secured or agreed to be paid.

The full report to the Adult Social Care Select Committee can be found on the Council's [website](#). The minutes of the last Adult Social Care Select Committee where Social Care Debt was discussed, are also now available on the [website](#).

EXTERNAL AUDIT

The Council's external auditors for 2012/13 has been confirmed as Grant Thornton. The key members of the audit team for 2012/13 are as follows:

Andy Mack – Engagement Lead
Kathryn Sharp – Engagement Manager
Lynn Clayton – Pensions Audit Manager
Daniel Woodcock – Audit Executive

Andy Mack and Kathryn Sharp will be attending the Audit & Governance Committee in December to present the Fee letters for 2012/13 and the Annual Audit Letter.

As with previous years, the Council's Annual Audit Letter has been circulated to all Surrey County Councillors for information.

FINANCE UPDATE

Funding Formula for Schools

Lynn McGrady, Finance Manager – Schools & Learning

The Department for Education (DfE) has required all local authorities to re-design their funding formula for schools. In Surrey this has involved replacing 37 formula factors with only 9. The Coalition Government is seeking greater simplicity in funding and more consistency nationally. This compares with the approach of the previous government which required evidence of the formula identifying and targeting funding to meet specific needs – necessarily requiring complex formula mechanisms in a low funded area like Surrey.

The changes create sizeable turbulence at individual school level in Surrey, particularly as we are no longer able to differentially target deprivation funding to schools with particularly high needs, or maintain a small schools factor to support smaller schools. The Schools & Learning Finance team has been active in providing data to the DfE, identifying potential risks to Surrey schools and has assisted the Leader, Surrey MPs and the LGA in their campaigns on this issue.

The Schools & Learning Finance Team has also worked with head teachers, teaching unions, school governors and elected members to produce a detailed consultation paper proposing different options to mitigate the impact on the funding changes on Surrey's most vulnerable schools. A total of 204 Surrey Schools responded to the consultation and the measures proposed – which included transferring an additional £27m from core

schools funding to deprivation targeting – were supported by schools, the Schools Forum and the Cabinet during October.

Recently the Director of the DfE's Education Funding Group has written to all Directors of Children's Services confirming that the Government would review the impact of their proposals during 2013. The Finance Team will continue to model adverse impacts and seek to change national prescriptions where the funding for Surrey and its schools are at risk.

Public Service Pensions Bill

The [Public Service Pensions Bill published in September, delivers final stage in halving cost of pensions.](#)

The Government has published the Public Service Pensions Bill 2013, which will implement changes that are expected to save £65bn over the next 50 years. The reforms set out in the Bill include:

- linking the retirement age for public sector workers to the state pension age;
- changing the basis of defined benefit schemes from final salary to career average earnings;
- setting an employer cost cap to ensure that public service pensions remain affordable and sustainable;
- ensuring changes cannot be made to specific elements of pension schemes for the next 25 years; and
- setting a common legislative framework and improving governance arrangements of public service pension schemes.

Other changes to public sector pensions have already been introduced by the Treasury. These include:

- changing the inflation index used to update pensions from the Retail Prices Index to the lower Consumer Prices Index; and
- increasing contributions for teachers, NHS workers and civil servants by 3.2 percentage points.

The total package of reforms followed the report of the Independent Public Service Pensions Commission in March 2011. The Local Government Pension Scheme will not be affected as changes have already been agreed by trade unions and employers. They will not increase contributions for council workers because the LGPS is funded, unlike many other public sector schemes, and has assets worth £150bn.

CORPORATE GOVERNANCE

The council has been shortlisted in the Corporate Governance category for the LGC Awards 2013. The entry submission detailed how the council's corporate governance arrangements contribute to the achievement of objectives, local challenges, key governance achievement and successes.

The next stage is a presentation to the judging panel at the end of January. The winners will be announced at the awards ceremony on 13 March in London.

USEFUL LINKS & FURTHER INFORMATION

- Local Government Association webpage with information on sector-led improvement regarding audit and inspection:
http://www.local.gov.uk/web/quest/sector-led-improvement-/journal_content/56/10171/3485131/ARTICLE-TEMPLATE
- Local Government Chronicle article regarding deficit reduction targets and the Autumn statement:
<http://www.lgcplus.com/finance/fears-grow-over-reopened-settlement/5049820.article?blocktitle=Latest-Local-Government-News&contentID=2249>
- The Financial Times featured a letter from Cabinet Member for Change & Efficiency, Denise Le Gal about savings made by Surrey County Council:
<http://news.surreycc.gov.uk/2012/10/10/ft-features-letter-from-denise-le-gal/>
- An LGA press release about funds recovered from Icelandic Banks:
http://www.local.gov.uk/web/quest/media-releases-/journal_content/56/10171/3738726/NEWS-TEMPLATE
- The LGA have shared a national map of shared services, showing where 219 councils across the country are engaged in shared service arrangements:
http://www.local.gov.uk/web/quest/productivity-/journal_content/56/10171/3511353/ARTICLE-TEMPLATE
- www.parliament.uk have updated their website to show the progress of the Local Government Finance Act to 2012-13:
<http://services.parliament.uk/bills/2012-13/localgovernmentfinance.html>
- The Guardian website published an article by the Cabinet Member for Assets and Regeneration Programmes on running local government like a plc:
<http://www.guardian.co.uk/local-government-network/2012/oct/31/local-government-public-services-plc>

UPDATE FROM OTHER COMMITTEES

Listed below are a number of committee reports that may be of interest to the Committee, as they cross into the Committee's remit or they relate to matters recently discussed at Audit & Governance Committee, or that the Committee have shown an interest in:

Adult Social Care Select Committee

At the meeting on 30 November 2012, the Committee will consider the following reports:

- [Direct Payment Review Group](#)
- [Social Care Debt Update](#)
- [Completed Internal Audit Reports](#)

Children & Families

The Committee considered the following report shortly after the publication of the Local Safeguarding Boards 2012-13 audit. The audit report was circulated to the Committee ahead of the meeting.

- [Surrey Safeguarding Children Board Annual Report](#)

Environment & Transport Select Committee

At the meeting on 8 November, the Committee considered the following report:

- [Highways Transformation Briefing](#)

People, Performance & Development Committee

At the meeting on 28 November 2012, the Committee will be considering the following report:

- [Local Government Pension Scheme – Introduction of a flexible retirement scheme](#)

UPCOMING AGENDA ITEMS FOR AUDIT & GOVERNANCE COMMITTEE

The next meeting of the Audit & Governance Committee is on 12 December 2012. The following items are on the agenda:

Babcock 4S – Half yearly report
External Audit – Annual Audit Letter and Fee Letters
Finance Update Report
Pension Fund Q2
Treasury Management Mid Year Review
Whistle-blowing
Half year irregularities report
Internal Audit Half Year report
Completed Internal Audit Report
Risk Management half yearly report
Governance Update Report
Energy Purchase Contract

CONTACT DETAILS

For further information on the Audit & Governance Committee please contact:

Helen Rankin – Committee Manager

Please contact on 419126, or helen.rankin@surreycc.gov.uk for committee support.

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AUDIT & GOVERNANCE COMMITTEE
6 December 2012

**BABCOCK 4S LIMITED – DIRECTORS’ REPORT AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH
2012 AND HALF YEAR REPORT AND FINANCIAL
STATEMENTS (UNAUDITED) FOR THE PERIOD ENDED 30
SEPTEMBER 2012**

SUMMARY:

The annual report and financial statements of Babcock 4S (formally VT4S) for the year ended 31 March 2012 and the unaudited half year report and financial statements for period ended 30 September 2012 are presented to the Audit & Governance Committee.

RECOMMENDATIONS:

The Committee are asked to note the contents of the attached statements (Annex A and Annex B) and consider whether they have any further questions.

BACKGROUND:

At the Audit & Governance Committee meeting on 7 April 2011, during consideration of the Pension Fund Investments (December Quarter 2010), Members queried whether the Council received financial statements from Babcock 4S (formally VT4S Ltd). The Deputy Leader of the Council (now Leader) suggested that the Committee inspect the Babcock 4S financial statements and it was agreed by the Committee that they would be included on their agenda when publically available.

In February 2012, the Committee noted the directors’ report and financial statements for the year ended 30 March 2011. It has subsequently been agreed that Babcock 4S would attend an Audit & Governance Committee meeting twice a year.

IMPLICATIONS:

Financial

There are no direct financial implications of this report.

Equalities

There are no direct equalities implications of this report.

Risk management

There are no direct risk management implications of this report.

CONTACT DETAILS: Helen Rankin – Regulatory Committee Manager, 020 85419 126, Helen.rankin@surreycc.gov.uk

Sources/background papers: N/A

Babcock 4S Limited
Annual report and financial statements

For the year ended 31 March 2012

Company registration number:

04889149

The directors present the annual report and audited financial statements of the company, for the year ended 31 March 2012.

Principal activities

The principal activity of the company is the provision of school support services.

Results and dividends

The company's results for the year are set out in the profit and loss account on page 8 showing a profit for the financial year after taxation of £2,366,000 (2011: £847,000). At 31 March 2012 the company had net assets £4,156,000 (2011: £3,307,000).

No interim dividends were paid in the current year and the directors do not recommend a final dividend (2011: interim dividend paid of £3,804,000).

Business review

	2012 £'000	2011 £'000
Turnover	34,110	40,235
Operating profit	3,006	1,305

The company successfully completed its eighth year of operation. The restructuring programme in 2011 and close resource monitoring resulted in a beneficial impact on operating profit in 2012. The Surrey Connexions contract ended in December 2011 and the Waltham Forest contract came to a close in March 2012. These two contracts contributed £2.1m and £7.5m respectively to turnover during the current year.

Going forward the company faces a number of operational risks in delivering its main contracts. All the major contracts are subject to performance measurement via the use of a large number of key performance indicators. Regular meetings are held with our clients to manage this process and to date there have been no significant contract delivery issues.

Future developments

The directors are confident about the future growth of the business. Whilst in the short term the company will continue to be adversely affected by local authority spending cuts, in the longer term the company is well placed to benefit from increased levels of local authority outsourcing.

Key performance indicators

The company's activities are managed on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the company. The growth and performance of Babcock Support Services, a division of Babcock International Group PLC, which includes the company, is discussed on pages 32 to 34 of the Group's report, which does not form part of this report.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks and uncertainties. These are managed through the operational review process at board level supplemented at Babcock Group level by independent challenge and review by the Audit and Risk Committee.

The key risks and uncertainties affecting the company are considered to be related to contractual performance and the political and regulatory environment. The company's business is susceptible to individual contract performance. All of the company's contracts are affected by changes in government policy, budget allocations and the changing political environment. The directors manage this risk by maintaining regular discussions with the relevant customers and controlling both direct and indirect expenditure as necessary.

Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 40 to 43 of the annual report of Babcock International Group PLC, which does not form part of this report.

Financial risk management

The company's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk and interest rate cash flow risk. The company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the company.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are managed by the group finance department. The department has a policy and procedures manual that sets out guidelines to allow it to manage financial risks and this is applied by the company.

Price risk

The company is exposed to price risk as a result of its operations. This risk is mitigated by specific functions which assess pricing in respect of both selling and procurement activities.

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The company also monitors existing customer accounts on an ongoing basis and takes appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk

The company retains access to pooled cash resources to ensure it has sufficient available funds for operations. The company also has access to longer term funding from its ultimate parent undertaking if required.

Interest rate cash flow risk

The company has interest bearing assets in the form of cash balances and interest bearing intercompany receivables. It also has interest bearing liabilities in the form of pension scheme liabilities. Interest bearing assets and liabilities earn and attract interest at a floating rate. The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Directors of the company

The directors who held office during the year and up to the date of signing the financial statements were as follows:

JA Fisher	
AP Khan	(resigned 26 April 2012)
AS Lewis	(appointed 26 April 2012)
KR Thomas	
S West	

Qualifying third party indemnity provisions

Under the company's respective Articles of Association, the directors of the company are, and were during the year to 31 March 2012, entitled to be indemnified by the company against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

Political and charitable donations

During the year the company made no donations (2011: £nil) to charitable or political organisations.

Employment of disabled persons

The policy of the company is to give full consideration to disabled applicants for employment, having regards to their particular aptitudes and abilities, and they share in the opportunities for training, career development and promotion. If an employee becomes disabled, our objective is the continued provision of suitable employment either in the same or an alternative position, appropriate training being given if necessary.

Employee involvement

It is the policy of the company to communicate regularly with its employees in briefings and discussions, by written communications on specific topics and on more general issues through the bulletin 'The Big Picture'. The company routinely discusses issues affecting its employees directly.

Supplier payment policy

It is the policy of the company to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice.

Trade creditors days based on creditors at the end of the year was 48 days (2011: 59 days).

Statement of directors' responsibilities in respect of the annual report and financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors and the disclosure of information

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of this information.

Independent auditors

The company has dispensed with the requirement for an Annual General Meeting and the need to appoint auditors annually.

By order of the Board | October 2012.



S West
Director

Independent auditors' report to the members of Babcock 4S Limited

We have audited the financial statements of Babcock 4S Limited for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

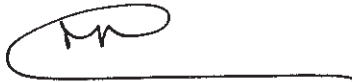
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Babcock 4S Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Michael Coffin (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton, United Kingdom

2 October 2012

	Notes	2012 £'000	2011 £'000
Turnover	2	34,110	40,235
Cost of sales		<u>(27,058)</u>	<u>(34,635)</u>
Gross profit		7,052	5,600
Administrative expenses		<u>(4,046)</u>	<u>(4,295)</u>
Operating profit		3,006	1,305
Interest receivable and similar income	3	716	50
Interest payable and similar charges	4	<u>-</u>	<u>(49)</u>
Profit on ordinary activities before taxation	5	3,722	1,306
Tax on profit on ordinary activities	8	<u>(1,356)</u>	<u>(459)</u>
Profit for the financial year	17	<u>2,366</u>	<u>847</u>

There is no difference between the profit on ordinary activities before taxation (*2011: profit*) and the profit for the financial year (*2011: profit*) stated above and their historical cost equivalents.

The above results all relate to continuing activities.

Statement of total recognised gains and losses

For the year ended 31 March 2012

	Notes	2012 £'000	2011 £'000
Profit for the financial year		2,366	847
Actuarial (loss)/gain recognised in the pension scheme	24	(2,049)	8,005
Movement on deferred tax relating to pension scheme	15	532	(2,241)
Total recognised gains and losses relating to the financial year		849	6,611

	Notes	2012 £'000	2011 £'000
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	3	21
		<u>3</u>	<u>21</u>
Current assets			
Debtors	12	16,456	6,512
Cash at bank and in hand		6,110	12,865
		<u>22,566</u>	<u>19,377</u>
Creditors – amounts falling due within one year	13	<u>(14,293)</u>	<u>(12,621)</u>
Net current assets		<u>8,273</u>	<u>6,756</u>
Total assets less current liabilities		<u>8,276</u>	<u>6,777</u>
Provisions for liabilities	14	(2,448)	(2,274)
Net assets before pension liability		<u>5,828</u>	<u>4,503</u>
Pension liability	24	<u>(1,672)</u>	<u>(1,196)</u>
Net assets after pension liability		<u>4,156</u>	<u>3,307</u>
Capital and reserves			
Called-up share capital	16	1	1
Share premium account	17	1,999	1,999
Profit and loss account	17	2,156	1,307
Total shareholder's funds	18	<u>4,156</u>	<u>3,307</u>

The financial statements on pages 8-29 were approved by the board of directors and signed on its behalf by:



S West
Director

| October 2012

Cash flow statement

	<i>Notes</i>	2012 £'000	2011 £'000
Net cash inflow from operating activities	19	5,173	170
Returns on investment and servicing of finance			
Interest received		80	50
Taxation		(2,008)	-
Capital expenditure and financial investment			
Intercompany loan issued		(10,000)	-
Equity dividends paid		-	(3,804)
Decrease in cash	21	(6,755)	(3,584)

1. Accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. A summary of the more important company accounting policies which have been consistently applied is set out below.

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

Turnover from services rendered is recognised by reference to the stage of completion of the transaction or as the company fulfils contractual obligations. Turnover from services provided on a short-term or one-off basis is recognised when the service is complete.

Long-Term Contracts

Turnover from long term service provision contracts is recognised by reference to the stage of completion of the contract. The stage of completion is determined by the costs incurred on the contract to date, to the extent that such costs represent progress made on the project. A prudent level of profit attributable to the contract activity is recognised if the final outcome of such contracts can be reliably assessed. An expected loss on a contract is recognised immediately in the profit and loss account.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic cost less accumulated depreciation and any provision for impairment in value. Cost includes the original purchase price of the asset and the costs attributable to bring the asset to its working condition for its intended use.

Depreciation is provided on a straight line basis to write off the cost of all tangible fixed assets over their estimated useful lives or contract period if shorter, to their estimated residual value as follows:

Leasehold improvements	7 years
Computer equipment	3 years
Office equipment	7 years

Intangible fixed assets

Intangible fixed assets are stated at cost after amortisation. The intangible fixed assets are amortised on a straight line basis as follows:

(i) Goodwill

Purchased goodwill, (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired), arising in respect of acquisitions, is capitalised. Purchased goodwill is amortised to nil by equal annual instalments over its estimated useful life to a maximum of 20 years. The goodwill capitalised on the company balance sheet is being amortised over 7 years. It is reviewed for impairment at each and every financial year-end and if events, or changes in circumstances, indicate that, the carrying value may not be recoverable.

1. Accounting policies (continued)

(ii) Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at cost. The intangible fixed assets are then amortised to nil on a straight-line basis over their economic useful lives.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred tax'. Deferred taxation assets are recognised only to the extent that in the opinion of the directors, there is a reasonable probability that the asset will crystallise in the foreseeable future. Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been substantively enacted by the balance sheet date.

Pensions costs and other post retirement benefits

The company participates in a number of pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company, being invested with independent trustee administered funds. The company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis for all but one of the pension arrangements and therefore, as required by FRS 17 'Retirement benefits', accounts for these schemes as if they were defined contribution arrangements. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

For the scheme where the company is able to identify its share of the underlying assets and liabilities, pension scheme assets are measured using market values and pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme deficit is recognised in full. The amounts charged to operating profit are the current service costs and gains and losses on settlements. They are included as part of staff costs. The interest cost and expected return on assets are shown net as other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The company also operates a number of defined contribution pension schemes. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

Leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

1. Accounting policies (continued)*Dividends on shares presented within shareholders' funds*

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle an obligation and a reliable estimate can be made of the amount of the obligation.

2. Turnover

Turnover represents the amounts, excluding value added tax, derived from the provision of services to customers and is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

3. Interest receivable and similar income

	2012 £'000	2011 £'000
Bank interest	80	50
Net expected return on pension scheme assets (note 24)	600	-
Loan interest receivable from group undertaking	36	-
	716	50

4. Interest payable and similar charges

	2012 £'000	2011 £'000
Net expected return on pension scheme assets (note 24)	-	(49)
	-	(49)

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2012 £'000	2011 £'000
Depreciation – owned fixed assets (note 11)	18	208
Goodwill amortisation (note 10)	-	100
Amortisation of other intangible assets (note 10)	-	8
Auditors' remuneration		
- audit fees	28	27
- other services	-	-
Operating lease rentals		
- other	1,108	1,162

Fees paid to the company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than statutory audit of the company, are disclosed on a consolidated basis in the financial statements of Babcock International Group PLC.

In the year ended 31 March 2011, £1,917,000 of redundancy costs were incurred as a result of the restructuring activities.

6. Staff costs

The average monthly number of employees (including directors) was:

	2012 Number	2011 Number
Operations	335	383
Sales	1	1
Administration and management	45	47
	381	431

Their aggregate remuneration comprised:

	2012 £'000	2011 £'000
Wages and salaries	13,912	15,856
Social security costs	1,358	1,460
Other pension costs (note 24)	1,257	2,109
	16,527	19,425

7. Directors' remuneration

The remuneration of the directors paid by the company was as follows:

	2012 £'000	2011 £'000
Aggregate remuneration	-	127
Contributions to defined contribution pension schemes	-	8
	-	135

No directors received remuneration from the company in the current year (2011: one).

All of the directors of the company are subject to service agreements with, and are remunerated by, other group or related party companies. It is not possible to make an accurate apportionment of their emoluments resulting to services provided to the company.

In the current year, no directors were members of a defined benefit pension scheme (2011: nil).

8. Tax on profit on ordinary activities

	2012 £'000	2011 £'000
Current tax		
UK Corporation tax on profits of the period	512	800
Current tax charge for the year	512	800
Deferred tax:		
Origination and reversal of timing differences	463	(457)
Adjustment in respect of prior years:	319	35
Impact of change in UK tax rate	62	81
Total deferred tax (credit)/charge	844	(341)
Tax on profit on ordinary activities	1,356	459

Factors affecting the current year tax charge

The tax assessed for the year is lower (2011: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2012 of 26% (2011: 28%). The differences are explained below:

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	3,722	1,306
Tax on profit on ordinary activities at standard UK corporation tax rate of 26% (2011: 28%)	967	365
Effects of:		
Timing differences	(463)	391
Expenses not deductible for tax purposes	8	44
Group relief claimed for nil consideration	-	-
Current tax charge for the year	512	800

Factors affecting current and future tax charges

The Finance Act 2011 was substantively enacted on 19 July 2011 and included legislation to reduce the main rate of corporation tax from 28% to 26% with effect from 1 April 2011 and to 25% with effect from 1 April 2012. This was reduced further to 24% with effect from 1 April 2012 via a Parliamentary Resolution passed on 26 March 2012. Closing deferred tax balances are valued at 24%.

The March 2012 Budget Statement also announced an intention to continue to reduce the main rate of corporation tax by 1% per annum to 22% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, the effects of these are not included in these financial statements.

9. Dividends

	2012 £'000	2011 £'000
Interim dividends paid	-	3,804

There are two classes of ordinary shares. A shareholders and B shareholders were paid dividends of £3,325 and £5,735 per share respectively in the prior year. See note 16 for further details.

10. Intangible fixed assets

	Purchased goodwill £'000	Other intangibles £'000	Total £'000
Cost			
At 1 April 2011 and 31 March 2012	700	298	998
Accumulated amortisation			
At 1 April 2011 and 31 March 2012	700	298	998
Net book value			
At 31 March 2011 and 31 March 2012	-	-	-

11. Tangible fixed assets

	Leasehold improve- ments £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2011 and 31 March 2012	866	1,168	526	2,560
Accumulated Depreciation				
At 1 April 2011	866	1,168	505	2,539
Charge for the year	-	-	18	18
At 31 March 2012	866	1,168	523	2,557
Net book value				
At 31 March 2012	-	-	3	3
At 31 March 2011	-	-	21	21

Notes to the financial statements (continued)

12. Debtors

	2012 £'000	2011 £'000
Due within one year:		
Trade debtors	660	932
Amounts owed by group undertakings	12,260	1,880
Amounts owed by other related parties	1,268	1,748
Prepayments and accrued income	1,937	1,249
Deferred tax (note 15)	220	639
Other debtors	111	64
	<u>16,456</u>	<u>6,512</u>

At the year end the amounts owed by group undertakings include a short term loan repayable within one year of £10,000,000 (2011: £nil). Interest on the loan is payable at the base rate +1.5%. The remainder owed by group undertakings are unsecured, interest free and repayable on demand.

13. Creditors - amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	742	519
Amounts owed to group undertakings	3,849	340
Amounts owed by other related parties	-	151
Accruals and deferred income	7,521	8,308
Other taxation and social security	1,334	1,101
UK corporation tax payable	512	2,008
Other creditors	335	194
	<u>14,293</u>	<u>12,621</u>

The amounts owed to group undertakings are unsecured, interest free and repayable on demand.

14. Provisions for liabilities

	Contract Provisions £'000	Reorganisation Provisions £'000	Other Provisions £'000	Total £'000
At 1 April 2011	-	1,374	900	2,274
Charged to the profit and loss account	1,609	-	81	1,690
Reclassification	352	(258)	(94)	-
Transfer to Accruals	-	-	(191)	(191)
Released during the year	-	(505)	(209)	(714)
Utilised during the year	-	(611)	-	(611)
At 31 March 2012	<u>1,961</u>	<u>-</u>	<u>487</u>	<u>2,448</u>

14. Provisions for liabilities (continued)*Contract provisions*

The main element of this balance is a provision for redundancy costs on contracts which are coming to an end and other legal and professional costs associated with those contracts. The majority of the provision is expected to be utilised within a year from the balance sheet with the remainder expected to be settled over within three to four years.

Re-organisation Provisions

The brought forward re-organisation provisions, which are contract related were re-classified to Contract provisions during the year.

Other provisions

Other provisions comprise Dilapidation provisions on leasehold properties. These provisions are made where the liability can be reasonably estimated. It is expected that the provisions will unwind within a three to eight year period.

15. Deferred taxation

The major components of the deferred tax asset recorded and the potential asset are as follows:

	2012 Provided £'000	2011 Provided £'000	2012 Full potential £'000	2011 Full potential £'000
Decelerated capital allowances	81	106	81	106
Other short term timing differences	139	533	139	533
	220	639	220	639

The movement on the deferred tax asset is as follows:

	Deferred tax on pension scheme (note 24) £'000	Other deferred tax £'000	Total £'000
At 1 April 2011	421	639	1,060
Charged to the profit and loss account (note 8)	(425)	(419)	(844)
Recognised in the statement of total recognised gains and losses	532	-	532
At 31 March 2012	528	220	748

16. Called-up share capital

	2012 £'000	2011 £'000
Allotted, issued and fully paid		
801 (2011: 801) "A" ordinary shares of £1 each	1	1
199 (2011: 199) "B" ordinary shares of £1 each	-	-
	<u>1</u>	<u>1</u>

Shares classified as equity

The ordinary A and B shares rank pari passu except for;

- In the event that any resolution is put to the shareholders to remove any Director appointed by B shareholders it shall be deemed that each B shareholder carries 1,000 votes on such resolution, and;
- Under the shareholder agreement, B shareholders are entitled to 30% of any dividends declared.

17. Reserves

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2011	1	1,999	1,307	3,307
Profit for the financial year	-	-	2,366	2,366
Actuarial loss recognised in the pension scheme	-	-	(2,049)	(2,049)
Deferred tax arising on loss in the pension scheme			532	532
At 31 March 2012	<u>1</u>	<u>1,999</u>	<u>2,156</u>	<u>4,156</u>

Impact of pension scheme:

	2012 £'000	2011 £'000
Profit and loss reserve excluding pension liability	3,828	2,503
Pension liability	(1,672)	(1,196)
Profit and loss reserve including pension liability	<u>2,156</u>	<u>1,307</u>

18. Reconciliation of movements in shareholder's funds

	2012 £'000	2011 £'000
Profit on ordinary activities after taxation	2,366	847
Dividends paid	-	(3,804)
Actuarial (loss)/gain recognised on pension scheme (net of taxation)	(1,517)	5,764
Net increase in shareholder's funds	849	2,807
Opening shareholder's funds	3,307	500
Closing shareholder's funds	4,156	3,307

19. Reconciliation of operating profit to net cash inflow from operating activities

	2012 £'000	2011 £'000
Operating profit	3,006	1,305
Depreciation and amortisation	18	316
Increase in debtors	(363)	(1,411)
Increase/(decrease) in creditors	3,204	(429)
Increase in provisions	174	197
Difference between pension contributions paid and amount recognised in the profit and loss account	(866)	192
Net cash inflow from operating activities	5,173	170

20. Reconciliation of net cash flow to movement in net funds

	2012 £'000	2011 £'000
Decrease in cash in year	(6,755)	(3,584)
Net funds at beginning of year	12,865	16,449
Net funds at end of year	6,110	12,865

21. Analysis of net funds

	At 1 April 2011 £'000	Cash flow £'000	At 31 March 2012 £'000
Cash at bank	12,865	(6,755)	6,110

22. Guarantees and financial commitments*a) Contingent liabilities and capital commitments*

The company at the year end had joint and several liabilities for drawn bank overdraft facilities of other group companies of £nil (2011: £4,500,000).

As at 31 March 2012 the company had no contracted capital commitments (2011: nil).

b) Operating lease commitments

	2012		2011	
	Land and	2012	Land and	2011
	buildings	Other	buildings	Other
	£'000	£'000	£'000	£'000
Annual commitments under non-cancellable operating leases expiring as:				
- within one year	481	42	9	2
- between two and five years	-	123	719	285
- after five years	-	-	-	-
	481	165	728	287

23. Related party disclosures

During the year the company entered into transactions with related parties. These consisted of subsidiaries of Babcock International Group PLC and also with Surrey County Council. All transactions were on an arm's length basis. Transactions during the year and the balances outstanding at 31 March 2012 with these related parties are set out below.

The following amounts were charged to the company for services received relating to head office costs and other recharges:

23. Related party disclosures (continued)

	2012 £'000	2011 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	20	2
Surrey Careers Services Limited	51	231
Babcock Careers Management Limited	807	1,124
Babcock Communications Limited	66	90
Babcock Education and Skills Limited	36	1,191
Babcock Marine (Clyde) Limited	2	-
VT Flagship Limited	-	23
Babcock Corporate Services Limited	482	886
Babcock International Group PLC	3	-
Babcock Support Services Limited	2	-
VT (UK) Limited	2	-
Babcock Lifeskills Limited	-	2
Babcock Nuclear Limited	-	3
Surrey County Council	828	742
Babcock Critical Services Limited	-	3
Babcock Infrastructure Services Limited	25	39
Babcock West Sussex Careers Limited	-	-
Babcock Training Limited	917	272

The following amounts were charged by the company for services rendered in connection with the company's principal activities and recharge of costs:

	2012 £'000	2011 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	121	121
Surrey County Council	20,277	23,238
Babcock Careers Management Limited	7	140
Babcock Critical Services Limited	16	-
Babcock Education and Skills Limited	10,308	9,330
Babcock International Group PLC	55	-
Babcock Land Limited	3	-
Babcock Support Services Limited	43	-
Babcock West Sussex Careers Limited	1	2
Guidance Services Limited	3	1
VT Flagship Limited	2	57
Babcock Training Limited	792	96

In addition to the transactions above, the company paid a fellow Babcock subsidiary (Babcock Education and Skills Limited) £2,008,000 in respect of the company's 2011 tax liability. This amount will be paid to a Babcock group company who will then settle this tax liability on the company's behalf.

23. Related party disclosures (continued)

The following balances were owed to related parties at the year-end:

	2012 £'000	2011 £'000
Babcock Careers Management Limited	(53)	(89)
Babcock Education and Skills Limited	-	(11)
Babcock Corporate Services Limited	(386)	(161)
Surrey County Council	-	(151)
Babcock Infrastructure Services Limited	(25)	-
Babcock International Support Services Limited	-	(2)
Babcock Training Limited	(3,385)	(24)

The following balances were owed by related parties at year-end:

	2012 £'000	2011 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	55	28
Guidance Services Limited	1	-
Babcock Critical Services Limited	3	-
Babcock International Group PLC	23	-
Babcock Support Services Limited	43	-
Babcock Land Limited	1	-
Babcock Education and Skills Limited	2,133	1,848
Surrey County Council	1,268	1,748
VT (UK) Limited	-	-
VT Flagship Limited	1	4

In addition to the balances above, Babcock Education and Skills Limited owed the company £10,036,000 for a short term loan (including accrued interest) put into place in the current year (see note 12).

24. Pension commitments**Teachers Pension Scheme**

The company participates in TPS (a national teachers pension scheme providing benefits based on final pensionable pay). The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement Benefits' the scheme is accounted for by the company as if the scheme was a defined contribution scheme.

The total cost of pension contributions for employees of the company during the year was £234,000 (2011: £301,000) and there was a creditor of £26,000 (2011: £33,000) in the balance sheet.

24. Pension commitments (continued)

Local Government Pension Scheme – Waltham Forest Pension Fund

The company also participates in the Local Government Pension Scheme (LGPS), a centralised defined benefits scheme with the assets held in separate trustee-administered funds. On 1 April 2008 a number of employees of the London Borough of Waltham Forest transferred to the company, but continued to be members of the Waltham Forest Pension Fund. The company's liability is capped at the payments actually made and the funding risk remains with the local authority accordingly this scheme is accounted for by the company as if the scheme is a defined contribution scheme. The total cost of pension contributions for employees of the company during the year was £184,000 (2011: £298,000) and there was a creditor of £18,000 (2011: £25,000) in the balance sheet.

Shipbuilding Industries Pension Scheme – Defined Contribution Scheme

The company also participates in the Shipbuilding Industries Pension Scheme (SIPS), a defined contribution pension scheme. The pension cost charge for the year includes contributions made by the company to that fund amounting to £312,000 (2011: £293,000) and there was a creditor of £nil (2011: £3,000) in the balance sheet.

Group wide pension schemes

The company, as at 1 April 2008, became a member of two larger group wide pension schemes providing benefits based on final pensionable pay. The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the schemes have been accounted for, in these financial statements as if they were defined contribution schemes.

Group wide pension scheme – CITRUS (formerly LAWDC)

The latest full actuarial valuation was carried out as at 31 March 2009 by a qualified independent actuary. This valuation showed a funding shortfall of £4.1million. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company.

The pension charge for company in the year was £92,000 (2011: £164,000) and there was a creditor of £nil (2011: £11,000) in the balance sheet at the year end.

Group wide pension scheme – Shipbuilding Industries Defined Benefit Scheme

The latest full actuarial valuation was carried out as at 31 March 2010 by a qualified independent actuary. This valuation showed a funding shortfall of £87.9million. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company. The pension charge for the year was £35,000 (2011: £99,000) and there was a creditor of £2,000 (2011: £nil) in the balance sheet.

Babcock International Group ("BIG") Scheme

In the current year the Shipbuilding Industries Defined Benefit Scheme and the CITRUS Scheme were both transferred into the main Babcock International Group Defined Benefit Scheme. The latest full actuarial valuation for the BIG scheme was carried out as at 1 April 2010 (pre transfer) by a qualified independent actuary. This valuation showed a funding shortfall of £43.7million. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company.

24. Pension commitments (continued)*Local Government Pension Scheme – Surrey Pension Fund*

The company also participates in the Local Government Pension Scheme (LGPS), a centralised defined benefits scheme with the assets held in separate trustee-administered funds. During the period ended 31 March 2005 a number of employees of Surrey County Council transferred to the company, but continued to be members of the Surrey Pension Fund. Under the terms and conditions of the transfer, the associated pension fund assets and liabilities are separately identifiable and segregated for funding purposes.

The last formal valuation was carried out at 31 March 2010 and was updated for accounting purposes to 2012 by a qualified independent actuary, using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The market value of the entire LGPS scheme's assets (not just the Surrey Pension Fund section) was £1.94 billion and the actuarial value of those assets represented 72% of the liability for benefits after allowing for expected future increases in earnings.

The latest LGPS scheme valuations have been updated by the actuaries on an FRS 17 basis as at 31 March 2012. The major assumptions used in these valuations were:

	2012	2011
Rate of increase in salaries	2.45%	3.25%
Rate of increase in pension payments	2.15%	3.45%
Discount rate	4.85%	5.6%
Inflation assumption	2.15%	3.45%
Long term return on equities	8.40%	8.7%
Long term return on corporate bonds	4.85%	5.6%

	2012	2011
	£'000	£'000
Present value of funded obligations	29,700	28,611
Fair value of employer assets	(27,600)	(27,194)
Net underfunding in funded plans	2,100	1,417
Present value of unfunded obligations	100	200
Deficit in the scheme	2,200	1,617
Related deferred tax asset (note 15)	(528)	(421)
Net pension liability	1,672	1,196

An analysis of the amount charged to operating profit is as follows:

	2012	2011
	£'000	£'000
Current service cost	400	954

	400	954
24. Pension commitments (continued)		
An analysis of the amount credited to other financing cost is as follows:		
	2012	2011
	£'000	£'000
Expected return on pension scheme assets	2,200	1,976
Interest on pension scheme liabilities	(1,600)	(2,025)
Net return	600	(49)

An analysis of the amount which has been recognised in the statement of total recognised gains and losses (STRGL) is as follows:

	2012	2011
	£'000	£'000
Actuarial (loss)/gain recognised in STRGL	(2,049)	8,005

An analysis of the movement in scheme during the year is as follows:

	2012	2011
	£'000	£'000
Deficit in scheme at beginning of year	(1,617)	(9,381)
Current service cost	(400)	(954)
Employer contributions	1,266	762
Net return on assets	600	(49)
Actuarial (loss)/gain /	(2,049)	8,005
Deficit in scheme at end of the year	(2,200)	(1,617)

A history of experience gains and losses at 31 March 2012 is as follows:

	2012	2011	2010
	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets	(2,760)	(3,061)	6,613
Value of assets	27,600	27,194	27,321
Percentage of scheme assets	10%	11.3%	24.2%
Experience gains/(losses) on scheme liabilities	-	1	1
Total present value of liabilities (funded)	29,600	28,611	36,702
Percentage of present value of scheme liabilities	0.0%	0.0%	0.0%
Actuarial (losses)/gains recognised in STRGL	(2,049)	8,005	(4,597)
Total present value of liabilities (funded)	29,600	28,611	36,702
Percentage of present value of scheme liabilities	6.9%	28.0%	12.5%

24. Pension commitments (continued)

The Expected Return on Assets is the sum of the yield on a cash return and a risk premium and is assessed by our Actuaries. Life expectancy is based on the PFA92 and PMA92 tables, projected to calendar year 2033 for non pensioners and 2017 for pensioners.

The fund allocation of the assets of the scheme is as follows:

	2012 £'000	% of total assets	2011 £'000	% of total assets
Equities	20,300	73%	20,565	75%
Property	1,600	6%	1,522	6%
Corporate and Government Bonds	4,900	18%	4,379	16%
Other assets	800	3%	728	3%
Fair value of assets	<u>27,600</u>		<u>27,194</u>	

The actual return on scheme assets in the year was a loss of £560,000 (2011: £1,085,000).

History of plans

The history of the plans for the current and prior years is as follows:

Balance sheet

Expected volatility	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of scheme liabilities	(29,800)	(28,811)	(36,702)	(23,500)	(23,519)
Fair value of scheme assets	27,600	27,194	27,321	18,546	23,866
Reimbursement asset	-	-	-	2,422	2,422
(Deficit)/ surplus in the scheme	(2,200)	(1,617)	(9,381)	(2,532)	2,769
Experience (losses)/gains on assets	(2,760)	(3,061)	6,613	(7,444)	(1,701)
Experience gains/(losses) on liabilities	-	1	1	(1)	(615)

The company expects to contribute approximately £1,285,000 to its defined benefit plans in the next financial year.

25. Ultimate parent undertaking

During the year the company's immediate parent undertaking was Babcock Education and Skills Limited, a company registered in England Wales. On 8 August 2012 the company was acquired by Babcock Education Holdings Limited as part of a re-organisation of the Babcock group corporate structure, and this company (also registered in England and Wales) became the company's immediate parent undertaking from that date.

The company's ultimate parent company and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC Financial Statements are available from the following address:

The Company Secretary
Babcock International Group PLC
33 Wigmore Street
London W1U 1QX

Babcock 4S Limited

**Unaudited half year report and financial
statements**

For the period ended 30 September 2012

Company registration number:

04889149

	Notes	HY 2012/13 £'000	2011/12 £'000
Turnover		14,722	34,110
Cost of sales		<u>(12,728)</u>	<u>(27,058)</u>
Gross profit		1,994	7,052
Administrative expenses		(1,827)	(4,046)
Other income: royalties		<u>171</u>	-
Operating profit		338	3,006
Interest receivable and similar income	1	466	716
Interest payable and similar charges		<u>-</u>	<u>-</u>
Profit on ordinary activities before taxation		804	3,722
Tax on profit on ordinary activities		<u>(110)</u>	<u>(1,356)</u>
Profit for the financial year		<u>694</u>	<u>2,366</u>

Statement of total recognised gains and losses
For the period ended 30 September 2012

	Notes	HY 2012/13 £'000	2012 £'000
Profit for the financial year		694	2,366
Actuarial (loss)/gain recognised in the pension scheme		(128)	(2,049)
Movement on deferred tax relating to pension scheme		29	532
Total recognised gains and losses relating to the financial year		595	849

	Notes	HY 2012/13 £'000	2012 £'000
Fixed assets			
Intangible assets		-	-
Tangible assets		<u>3</u>	<u>3</u>
		<u>3</u>	<u>3</u>
Current assets			
Debtors	3	20,015	16,456
Cash at bank and in hand		<u>1,083</u>	<u>6,110</u>
		<u>21,098</u>	<u>22,566</u>
Creditors – amounts falling due within one year	4	<u>(14,779)</u>	<u>(14,293)</u>
Net current assets		<u>6,319</u>	<u>8,273</u>
Total assets less current liabilities		6,322	8,276
Provisions for liabilities	5	<u>(1,048)</u>	<u>(2,448)</u>
Net assets before pension liability		5,274	5,828
Pension liability		<u>(1,286)</u>	<u>(1,672)</u>
Net assets after pension liability		<u>3,988</u>	<u>4,156</u>
Capital and reserves			
Called-up share capital		1	1
Share premium account	6	1,999	1,999
Profit and loss account	6	<u>1,988</u>	<u>2,156</u>
Total shareholder's funds	7	<u>3,988</u>	<u>4,156</u>

Cash flow statement

	<i>Notes</i>	HY 2012/13 £'000	2012 £'000
Net cash inflow from operating activities	8	(4,275)	5,173
Returns on investment and servicing of finance			
Interest received		11	80
Taxation		-	(2,008)
Capital expenditure and financial investment			
Intercompany loan issued		-	(10,000)
Equity dividends paid		(763)	-
Decrease in cash	10	(5,027)	(6,755)

Notes to the financial statements

1. Interest receivable and similar income

	HY 2012/13 £'000	2012 £'000
Bank interest	11	80
Net expected return on pension scheme assets	349	600
Loan interest receivable from group undertaking	106	36
	<u>466</u>	<u>716</u>

2. Dividends

	HY 2012/13 £'000	2012 £'000
Interim dividends paid	<u>763</u>	-

3. Debtors

	HY 2012/13 £'000	2012 £'000
Due within one year:		
Trade debtors	772	660
Amounts owed by group undertakings	12,991	12,260
Amounts owed by other related parties	961	1,268
Prepayments and accrued income	5,073	1,937
Deferred tax	188	220
Other debtors	30	111
	<u>20,015</u>	<u>16,456</u>

4. Creditors - amounts falling due within one year

	HY 2012/13 £'000	2012 £'000
Trade creditors	2,134	742
Amounts owed to group undertakings	1,826	3,849
Amounts owed by other related parties	-	-
Accruals and deferred income	9,529	7,521
Other taxation and social security	595	1,334
UK corporation tax payable	593	512
Other creditors	102	335
	<u>14,779</u>	<u>14,293</u>

5. Provisions for liabilities

	Contract Provisions £'000	Other Provisions £'000	Total £'000
At 31 March 2012	1,961	487	2,448
Charged to the profit and loss account		34	34
Utilised during the year	(1,434)		(1,434)
At 30 September 2012	527	521	1,048

6. Reserves

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 31 March 2012	1	1,999	2,156	4,156
Profit for the financial year	-	-	694	694
Dividends paid			(763)	(763)
Actuarial loss recognised in the pension scheme	-	-	(128)	(128)
Deferred tax arising on loss in the pension scheme			29	29
At 30 September 2012	1	1,999	1,988	3,988

Impact of pension scheme:

	HY 2012/13 £'000	2012 £'000
Profit and loss reserve excluding pension liability	3,274	3,828
Pension liability	(1,286)	(1,672)
Profit and loss reserve including pension liability	1,988	2,156

7. Reconciliation of movements in shareholder's funds

	HY 2012/13 £'000	2012 £'000
Profit on ordinary activities after taxation	694	2,366
Dividends paid	(763)	-
Actuarial (loss)/gain recognised on pension scheme (net of taxation)	(99)	(1,517)
Net increase in shareholder's funds	(168)	849
Opening shareholder's funds	4,156	3,307
Closing shareholder's funds	3,988	4,156

8. Reconciliation of operating profit to net cash inflow from operating activities

	HY 2012/13 £'000	2012 £'000
Operating profit	338	3,006
Depreciation and amortisation	-	18
Increase in debtors	(3,591)	(363)
Increase/(decrease) in creditors	405	3,204
Increase/(decrease) in provisions	(1,400)	174
Difference between pension contributions paid and amount recognised in the profit and loss account	(27)	(866)
Net cash inflow from operating activities	(4,275)	5,173

9. Reconciliation of net cash flow to movement in net funds

	HY 2012/13 £'000	2012 £'000
Decrease in cash in year	(5,027)	(6,755)
Net funds at beginning of year	6,110	12,865
Net funds at end of year	1,083	6,110

10. Analysis of net funds

	At 1 April 2012 £'000	Cash flow £'000	At 30 September 2012 £'000
Cash at bank	6,110	(5,027)	1,083



AUDIT & GOVERNANCE COMMITTEE
6 December 2012

EXTERNAL AUDIT

SUMMARY AND PURPOSE:

The Council's external auditors are presenting their Annual Audit Letter ('the Letter') in respect of the audit year 2011/12 (Annex 1). The Annual Audit Letter has been shared with all Members of the Council.

The Council's external auditors will also present their planned audit fee for 2012/13 (Annex 2).

RECOMMENDATION:

The Committee is asked to:

- (a) Note the contents of the Annual Audit Letter Letter (Annex 1)
- (b) Review the fee letters (Annex 2) and determine whether they have any matters that they wish to ask the external auditors.

IMPLICATIONS:

- 6 Financial
Annex 2 details a proposed decrease in fees, which could help to elevate pressure on the external audit budget.
- 7 Equalities
There are no direct equality implications arising from this report.
- 8 Risk management
There are no direct risk management implications arising from this report.

REPORT AUTHOR: Sheila Little, Chief Finance Officer and Deputy Director of Change and Efficiency

CONTACT DETAILS: 020 8541 7012 or sheila.little@surreycc.gov.uk

Sources/background papers: None

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16 October 2012

Members
Surrey County Council
County Hall
Penrhyn Road
Kingston
KT1 2DN
Dear Member

Direct line 0844 798 1789
Email p-grady@audit-
commission.gov.uk

Surrey County Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Surrey County Council.

Financial statements

On 3 September 2012 I presented my Annual Governance Report (AGR) to the Audit and Governance Committee outlining the findings of my audit of the Authority's 2011/12 financial statements. I will not replicate those findings in this letter.

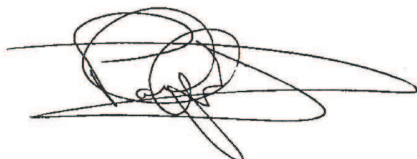
Following the Audit and Governance Committee on 3 September 2012 I:

- issued an unqualified opinion on the Authority's 2011/12 financial statements included in the Authority's Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources; and
- certified completion of the audit.

Closing remarks

I have discussed and agreed this letter with the Chief Finance Officer and Deputy Director for Change and Efficiency. While this has been another challenging year for the Authority I wish to thank the finance staff for their positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit and Governance Committee for their support and co-operation during the audit.

Yours sincerely



Paul Grady
District Auditor

Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ
T 0844 798 1212 F 0844 798 2945 www.audit-commission.gov.uk

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David McNulty
Chief Executive
Surrey County Council
County Hall
Penrhyn Road
Kingston upon Thames
KT1 2DN

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP
T +44 (0)20 7383 5100
www.grant-thornton.co.uk

7 November 2012

Dear David

Planned audit fee for 2012/13

We are delighted to have been appointed by the Audit Commission as auditors to the Council and look forward to providing you with a high quality external audit service for at least the next five years. We look forward to developing our relationship with you over the coming months, ensuring that you receive the quality of external audit you expect and have access to a broad range of specialist skills where you would like our support.

The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fee for 2012/13 is £189,464, which compares to the audit fee of £315,774 for 2011/12, a reduction of 40%.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: www.audit-commission.gov.uk/scaleoffees1213.

The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Chartered Accountants

Member firm within Grant Thornton International Ltd
Grant Thornton UK LLP is a limited liability partnership registered in England, No. 0317742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
A list of members is available from our registered office.

Scope of the audit fee

Our fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2012/13. It covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

Our planning to date has not identified any additional work which we are required to undertake to support our VFM conclusion. We will continue to assess the Council's arrangements and discuss any additional work required during the year.

Certification of grant claims and returns

The Audit Commission has replaced the previous schedule of hourly rates for certification work with a composite indicative fee. This composite fee, which is set by the Audit Commission, is based on actual 2010/11 fees adjusted to reflect a reduction in the number of schemes which require auditor certification and incorporating a 40% fee reduction. The composite indicative fee grant certification for the Council is £4,200. This assumes that no additional testing will be required.

Pension Fund audit

The Audit Commission has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £26,459. Our work on the pension fund will be undertaken in July 2013 by our specialist pension fund audit team, led by Lynn Clayton.

Billing schedule

Our fees are billed quarterly in advance. Given the timing of our appointment we will raise a bill for two quarters in December 2012 with normal quarterly billing thereafter. Our fees will be billed as follows:

Main Audit fee	£
December 2012	94,732
January 2013	47,366
March 2013	47,366
Grant Certification	
June 2013	4,200
Total	193,664
Pension Fund audit	
September 2013	26,459

Outline audit timetable

We will undertake our audit planning and interim audit procedures in January and February 2013. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed in July and August 2013 and work on the whole of government accounts return in September 2013.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	January to February 2013	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM.
Final accounts audit	July to August 2013	Report to those charged with governance	This report will set out the findings of our accounts audit and VFM work for the consideration of those charged with governance.
VFM conclusion	January to August 2013	Report to those charged with governance	As above
Financial resilience	January to August 2013	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2013	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2013	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2013	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2012/13 are:

	Name	Phone Number	E-mail
Engagement Lead	Andy Mack	020 7728 3299	andy.l.mack@uk.gt.com
Engagement Manager	Kathryn Sharp	01293 554 086	kathryn.e.sharp@uk.gt.com
Pensions Audit Manager	Lynn Clayton	01293 554039	lynn.h.clayton@uk.gt.com
Audit Executive	Daniel Woodcock	01293 554122	daniel.woodcock@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner (paul.dossett@uk.gt.com).

Yours sincerely

Andy Mack
For Grant Thornton UK LLP

CC

Julie Fisher, Strategic Director - Change and Efficiency
Sheila Little, Chief Finance Officer and Deputy Director for Change and Efficiency



**Audit and Governance Select Committee
06 December 2012**

Progress report on creditor balance

Purpose of the report:

The purpose of this report is to update the Committee on progress made on the work undertaken to identify the extent of a potential overstatement of The Council's creditors, identified by the external auditor's Annual Governance Report.

Introduction:

1. The Annual Governance Report for the 2011/12 statement of accounts was presented to this Committee in September by the external auditors. The report identified an amount of £9.3m, which had built up over a number of years and related to multiple small differences between the value of goods receipt notes and either the value of invoices paid or where no invoice has yet been received.
2. This balance had arisen because there is a requirement to record the value of goods upon receipt. The potential £9.3 million overstatement had arisen where the value of goods was not adjusted to match the invoiced value. It was the auditor's opinion that this amount should have been written off during the 2011/12 closure, however, officers expected that some of this balance was a 'real' liability and that the actual overstatement was likely to be substantially less than the full £9.3m. The mis-match between the goods receipt amount and the invoice could be due to the invoice amount being lower in value than the amount originally recorded, the invoice received was incorrect or an invoice is yet to be received. It was confirmed at the September meeting of this Committee that officers were working systematically to review this balance and agreed to report back to the Committee at regular intervals on progress.
3. This report provides an update to Audit & Governance Committee on progress made in identifying the extent of any potential overstatement of liabilities.

Recommendations:

4. The Committee is asked to:
 - a) Note the progress made to date.
 - b) Agree to receive further updates on progress and proposed treatment in the 2012/13 statement of accounts.

Progress made:

5. The auditors figure of £9.3m was calculated by taking all open line items on the account which dated back to before the 1 April 2011. Open line items are entries that had not automatically cleared by a match being detected by the system. The net position of all open line items from prior to 1 April 2011 amounted to £9.3m.
6. In investigating this balance Finance examined the balance at the 31 March 2012, as some of the invoices in relation to the previous year's balance may have been received during 2011/12. The effect of this is to reduce the outstanding balance to £7.6m as some of the outstanding balances had been cleared through the normal process, as expected.
7. The next step was to analyse this balance by vendor, in order to break the issue down into manageable parts. The first step was to investigate the vendors with balances over £50,000. There were 20 vendors with balances greater than £50,000 and they totaled £3.2m. Work on analysing these balances is now well underway and of it can be classified into 3 groups:
 - £1.1m – it is clear that the goods have been paid for by alternative means, but the credit balance has not been cleared.
 - £1.4m – it looks likely that the goods have been paid for but the balance has not been cleared. This cases need to be confirmed with accounts payable and/or procurement teams.
 - £0.7m – there is nothing to suggest that an invoice has been received or payment has been made . This cases need to be confirmed with accounts payable and/or procurement teams and vendors contacted.
8. Some early findings and recommendations are that the problem is partly being caused by the interim accounts payable process - those payments to vendors that do not follow the standard SRM process for various reasons. We are already working with accounts payable and procurement to identify what changes need to be made.

Conclusions:

9. Progress has been made in analysing the balance identified and it has proved an accurate decision to not write-off this balance during the 2011/12 closing process.
10. A number of process changes have been identified and further work is being undertaken to avoid a balance of this nature developing in the future.
11. Once the final issues remaining with vendors balances greater than £50,000 are resolved, the focus will be on the smaller balances. Investigating these items is likely to be more difficult and time consuming due to the number of line items requiring analysis. Consideration will then be given to the value of the balance left and the number of purchase orders, before a final decision is made on the most efficient and effective course of action in relation to these remaining balances.

Financial and value for money implications

12. There are no direct financial implications of this report. Once this analysis is complete, the treatment in the 2012/13 statement of accounts will be outlined and any financial implications will be assessed at that time.

Equalities Implications

13. There are no direct equalities implications of this report.

Risk Management Implications

14. There are no direct risk management implications of this report.

Next steps:

15. An analysis of the vendors with balances over £25,000 and then over £10,000 will be carried out. Consideration will then be given to the value of the balance left and the number of purchase orders, before a final decision is made on the most efficient and effective course of action in relation to these remaining balances.

16. Further updates on progress will be brought to this Committee alongside the proposed treatment in the 2012/13 statement of accounts.

Report contact: Nicola O'Connor, Finance Manager (Assets & Accounting)

Contact details: 020 8541 9263, Nicola.oconnor@surreycc.gov.uk

Sources/background papers: Annual Governance Report 2011/12, Audit Commission.

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AUDIT & GOVERNANCE COMMITTEE
6 December 2012

PENSION FUND INVESTMENTS – SEPTEMBER QUARTER 2012

SUMMARY AND PURPOSE:

This report deals with the investment transactions of the pension fund during the September quarter and the position of the fund as at 30 September 2012, together with other matters considered by the Investment Advisors Group (IAG) at its quarterly meeting of 16 November 2012.

RECOMMENDATION:

It is recommended that the committee note the content of the pension fund report for the quarter to 30 September 2012.

BACKGROUND:

1. The Investment Advisors Group is responsible for monitoring the activities of the Surrey Pension Fund and reporting to the county council and other employing bodies. This is achieved through the presentation of a quarterly report to the Audit and Governance Committee.

PENSION FUND INVESTMENTS – SEPTEMBER QUARTER 2012:

2. **Position Statement as at 30 September 2012**
The market value of the fund increased during the quarter from £2,151.5 million at 30 June 2012 to £2,236.9 million at 30 September 2012, an increase of 3.9%. The value of the fund as at close of business on 9 November is estimated at £2,259.0 million.
3. The value of the major asset classes at 30 September 2012 compared with 30 June 2012 was as follows:

	30 September		30 June	
	£m	%	£m	%
Fixed Interest				
UK Government	109.3	4.9	127.2	5.9
UK Non-Government	180.1	8.1	174.7	8.1
Overseas	44.5	2.0	17.0	0.8
Index Linked	83.3	3.7	86.6	4.0
Equities				
UK	633.1	28.3	633.0	29.4
Overseas	749.0	33.5	704.0	32.7
Property Unit Trusts	121.3	5.4	120.3	5.6
Private Equity	84.5	3.8	90.3	4.2
Diversified Growth	157.7	7.0	153.5	7.1
Cash	67.3	3.0	51.4	2.4
Currency hedge*	6.8	0.3	-6.5	-0.3
Total Fund	2,236.9	100.0	2,151.5	100.0

* Net unrealised profit/loss

4. The following table shows the breakdown of the market valuation as at 30 September 2012 by asset class and compares the totals with the target asset allocation. The total excludes any private equity funds or cash held by SCC included in the table above.

	TOTAL FUND £m	Actual %	Target %	Last Quarter	
				£m	%
Fixed Interest					
UK Government	109.3	5.1	8.0	127.2	6.2
UK Non-Government	180.1	8.5	8.0	174.7	8.5
Overseas	44.5	2.1	0.0	17.0	0.8
Index Linked	83.3	3.9	4.0	86.6	4.2
Equities					
UK	633.1	29.7	28.0	633.0	30.8
Overseas	749.0	35.2	35.0	704.0	34.3
Property Unit Trusts	121.3	5.7	7.0	120.3	5.9
Diversified growth	157.7	7.4	10.0	153.5	7.5
Cash	45.1	2.1	0.0	43.4	2.1
Currency hedge	6.8	0.3	0.0	-6.5	-0.3
TOTAL	2,130.2	100.0	100.0	2,053.2	100.0

9. At the IAG meeting it was agreed that Mirabaud, currently mandated to invest in UK Equities, will be able to invest up to 20% in Global Equities. The benchmark will remain as the FTSE100. This is the same agreement that Majedie has in place for its UK equity mandate.
10. The IAG also discussed the possibility of changing the bond mandate with Western. The current bond benchmark is split: 50% gilts and 50% non-gilts. The Group feels now is the right time to decrease the allocation to gilts and move to a total return or absolute return strategy, involving global credit, emerging market debt and high yield bonds.
11. It was agreed that 50% of the current allocation to gilts could be used to fund this. Officers were asked to speak to the fixed income fund manager about the proposals and the final decision would be delegated to the Section 151 Officer and the Chairman of the IAG.
12. In the September quarter contributions from members exceeded the value of benefits paid and transfer values by £6.1m. Investment income (net of costs) totaled £8.9m. Market movements increased the value of the fund by £70.3m.

Investment Performance Results for the Period

13. The managed fund made a return of 4.2% over the quarter. This compares with a total fund customised benchmark return of 3.6%. The total fund return for the year to the end of September was 15.1% above the benchmark return of 14.4%.
14. For the quarter to 30 September performance returns for the individual fund managers, in absolute terms and relative to their benchmark target, were as follows:

Manager	Asset Class	Market Value 30 June	Market Value 30 September	Return %	Relative %
Multi-Asset					
LGIM	Multi-Asset	722.2	743.1	3.4	0.1
Bonds/Property					
Western	Bonds	255.7	266.6	4.3	0.9
CBRE	Property	126.7	127.1	0.8	0.4
Equity					
Majedie	UK	128.6	136.2	6.2	1.5
Mirabaud	UK	83.6	85.9	3.0	-1.7
UBS	UK	160.9	170.0	5.8	1.1
Marathon	Global	269.3	280.7	4.3	0.6
Newton	Global	152.6	161.9	6.2	2.4
Diversified Growth					
Standard Life	Diversified Growth	123.1	126.6	2.8	2.6
Baillie Gifford	Diversified Growth	30.4	31.1	2.1	2.0
TOTAL MANAGED FUND		2,053.2	2,130.2	4.2	0.8

15. In summary in the quarter to 30 September 2012:
- The total fund return of 4.2% was greater than the customised (hedged) benchmark return of 3.6% (+0.6%).
 - In absolute terms, the best performing managers were Newton and Majedie with a return of 6.2%. This compared to a benchmark return of 3.8% (+2.4%) for Newton and 4.7% (+1.5%) for Majedie.
 - Excluding the diversified growth fund managers, in relative terms, the best performing manager was Newton (+2.4%). The diversified growth fund managers are excluded because these investments are benchmarked against cash returns which are generally low. These managers have significant out performance targets which means that the relative performance of these investments should be high.
 - All managers outperformed relative to benchmark except for Mirabaud (-1.7%). Mirabaud state that their performance was held back by their limited exposure to financial stocks which performed well in the period following the announcement of additional quantitative easing.
16. Under the fund's current strategy, short-term periods of underperformance (e.g. over individual quarters or years) should be expected. The overriding objective of the portfolio is to outperform the customised benchmark by 1% per annum over a rolling three-year period.
17. Each manager has a different target, depending on the type of mandate that they have. Having managers with different targets and different but complimentary styles means that short-term periods of underperformance are likely, with the expectation for the manager to perform over the longer-term.
18. In the year to 30 September 2012 and in the period since inception (2004 for all managers, apart from Newton (December 2007) and Standard Life and Baillie Gifford (May 2012), performances for the individual managers were as follows:

Manager	Return for Year	Relative Performance to 30 Sep			Target Outperformance*
		%	year	3 years	
		p.a.	p.a.	p.a.	
Multi-Asset					
LGIM	13.1	0.0	0.0	0.1	n/a
Bonds/Property					
Western	12.9	1.2	-0.9	-1.0	0.75
CBRE	1.2	-1.9	-1.0	-1.7	1.0
Equity					
Majedie	15.6	-1.6	0.5	3.5	2.5
Mirabaud	17.4	0.1	-0.1	1.9	2.5
UBS	18.8	1.5	-1.4	-1.2	2.0
Marathon	18.5	4.2	4.8	3.5	2.0
Newton	19.0	2.3	-0.3	-0.9	2.0
Diversified Growth					
Standard Life	n/a	n/a	n/a	0.8	5.0
Baillie Gifford	n/a	n/a	n/a	2.2	3.5
TOTAL MANAGED FUND	15.1	0.7	-0.1	-0.2	1.5

*Standard Life outperformance target is gross of fees, all others net.

19. Over a rolling 3-year period:
- Marathon (+4.8%) achieved a return ahead of their performance target.
 - Majedie (+0.5%) outperformed compared to benchmark.
 - UBS (-1.4%), Western (-0.9%), and CBRE (-1.0%) all underperformed compared with benchmark.
20. The overriding objective of the portfolio is to outperform the customised benchmark by 1% per annum over a rolling three-year period. Managers that underperform compared to benchmark over that period hamper the fund achieving its objective. The IAG continually monitors the performance of all managers and also monitors current developments to assess whether each manager has the ability to meet its target and help the fund achieve its objective.
21. The fund's performance is also measured with reference to a Local Authority average return (as calculated by the WM Company). These figures are not yet available but will be provided at the meeting.

Quarterly IAG Meeting 16 November 2012

22. The IAG received a briefing on the market value and performance of the Fund as covered in Paragraphs 13-21 of this report.

IMPLICATIONS:

Financial:

There are no direct financial implications.

Equalities:

There are no direct equality implications.

Risk management and value for money:

Pension Fund risks are proactively monitored by officers and the Fund's Investment Advisors Group.

WHAT HAPPENS NEXT:

The next meeting of the IAG will take place in February 2013.

REPORT AUTHOR:

Phil Triggs, Strategic Manager, Pension Fund & Treasury

CONTACT DETAILS:

020 8541 9894

Sources/background papers:

Investment Advisors Group meeting papers

Reports sourced from SAP, the Fund custodian, Fund Managers and WM Company

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**AUDIT & GOVERNANCE COMMITTEE
6 December 2012**

TREASURY MANAGEMENT HALF YEAR REPORT 2012/13

SUMMARY AND PURPOSE:

This report summarises the council's treasury management activity during the first half of 2012/13, required by CIPFA's Code of Practice for Treasury Management. This report also covers the council's Prudential and Performance Indicators for 2012/13, in accordance with the requirements of the Prudential Code.

RECOMMENDATIONS:

It is recommended that the Committee note the content of the Treasury Management Half Year Report for 2012/13.

BACKGROUND:

1. Treasury management is the management of the organisation's cash flows, banking, money market and capital market transactions, the effective management of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

TREASURY MANAGEMENT HALF YEAR REPORT 2012/13:

2. **Key Prudential indicators and compliance issues**
Under CIPFA's Prudential Code the council is required to report on its actual Prudential indicators after the year end. Annexe 1 Table 12 provides a schedule of all of the council's mandatory Prudential indicators, as agreed at the budget meeting of 7 February 2012. Key indicators that provide either an overview or a limit on treasury activity are summarised in the following paragraphs.
3. The Capital Financing Requirement (CFR) shows the council's underlying need to borrow for capital purposes. To ensure that, over the medium term, borrowing net of investments will only be for a capital purpose, net borrowing should not, except in the short-term, exceed the CFR for 2012/13. The council has complied with this

requirement as shown in Table 1:

Table 1: Borrowing position against CFR

	£m
Total Borrowing at 30 th September 2012	320
Investments at 30 th September 2012	312
Net borrowing position at 30 September 2012	8
CFR 2012/13	541
CFR 2013/14	559

4. The Authorised Limit is the council's "affordable borrowing limit" required by section 3(1) of the Local Government Act 2003. This represents the limit beyond which borrowing/external debt is prohibited. The limit reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. Table 2 demonstrates that during 2012/13, the council has maintained gross borrowing within its Authorised Limit.
5. The Operational Boundary is the probable external borrowing position of the council during the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an indicator to ensure that the Authorised Limit is not breached.

Table 2: Borrowing against Authorised Limit & Operational Boundary

	£m
Authorised Limit	662
Operational Boundary	602
Highest gross borrowing position during 2012/13	341

6. Capital financing costs incurred by the council during 2012/13 are detailed as follows:

Table 3: Capital Financing Costs 2012/13

Description	Original Estimate £000	Year end Projection £000
Minimum Revenue Provision (MRP)	22,629	21,429
Interest on long-term borrowing	12,906	12,901
Net interest on short-term cashflow	(992)	(1,494)
Total	34,543	32,836

7. Interest on long-term borrowing has been to budget, as no further borrowing has been made during the year. Net interest received on short-term cashflow is higher than the estimate due to higher levels of cash on deposit than originally expected.

Treasury management activity during 2012/13

8. The treasury position at 30 September 2012 compared with the end of the last financial year is shown in Table 4. The council's credit rating criteria effective at 30 September 2012 are shown at Annexe 2 Table 13.

Table 4: Investment and borrowing position 2012/13

	31 March 2012		30 September 2012	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Rate Debt*	305	4.20%	305	4.20%
Variable Interest Rate Debt**	-	-	-	-
Total Debt	305	4.20%	305	4.20%
Fixed Interest Investments	229	0.70%	312	0.60%
Variable Interest Investments**	-	-	-	-
Total Investments	229	0.70%	312	0.60%
NET BORROWING	76		(7)	

*Excludes Surrey Police Authority debt

**No variable rate investments or borrowing held at 31 March 2012 or 30 September 2012

9. The treasury management gross borrowing position has not changed in 2012/13 as a result of continuing the strategy of not borrowing up to the Capital Finance Requirement limit. This has been possible since the council has sufficient cash balances to finance capital expenditure from internal sources. Cash balances are currently earning very little interest when placed on deposit. Therefore, a considerable saving has been achieved in borrowing internally. There remains enough cash to finance future capital expenditure in the short term.
10. The increase in investment balances reflects the higher cash balances held mid-year, compared with year end. This is generally because grant money from Central Government will have been received early in the year. This and any additional income (including Council Tax) will have been fully spent by year end.
11. The average interest rate paid on debt has remained static (as the debt portfolio has remained the same), while the decrease in investment interest is due to the general interest rates available for deposits being low, and the short term outlook continuing to undermine the rates available.

Borrowing position

12. The rate of interest paid on the debt portfolio reduced year on year from 2003/04 to 2008/09, but rose in 2009/10. There was no change in the rate from then until 2011/12. With no borrowing or rescheduling expected, rates payable should remain the same in 2012/13:

Table 5: Interest on PWLB debt

Financial Year	% Interest on Debt
2003/04	5.46
2004/05	4.96
2005/06	4.86
2006/07	4.73
2007/08	4.45
2008/09	3.59
2009/10	4.20
2010/11	4.20
2012/13	4.20

13. The increase in the weighted average interest rate paid on the debt portfolio (from 3.59% in 2008/09 to 4.20% in 2009/10) was attributable to the repayment of £88m of low interest debt (1.17%) taken out for one year, while rescheduling the debt in the portfolio in 2008/09. Since then there has been no change in the borrowing position.
14. All of the council's current long-term borrowing has been taken from the Public Works Loan Board (PWLB), whose purpose is to provide loans to local authorities in order to finance capital spend, apart from £10m market loan taken from Barclays. A summary on the movement of long-term borrowing during 2011/12 and 2012/13 is as follows:

Table 6: Long-term borrowing position

Long-term Borrowing	1 April 2011 - 31 March 2012 £000	1 April 2012 - 30 September 2012 £000
Total debt outstanding at 1 April	305,230	305,230
Loans raised	0	0
Loans repaid	0	0
Total debt at period end	305,230	305,230

15. The interest rate available on new borrowing during 2012/13 was around 4.5% at the beginning of the year, dropping to 4.1% at the end of September, for a period of 50 years. The 20-year maturity level is currently 3.75%.
16. The council is able to undertake temporary borrowing for cash-flow purposes, although none has been required for this purpose at any time during 2012/13 to date. The council also manages cash on behalf of Surrey Police Authority, which is classified as temporary borrowing as detailed below.

Table 7: Temporary borrowing position

Temporary Borrowing at 30 September 2012	£000
Short-term borrowing for cash-flow purposes	-
Surrey Police Authority	14,370
Total	14,370

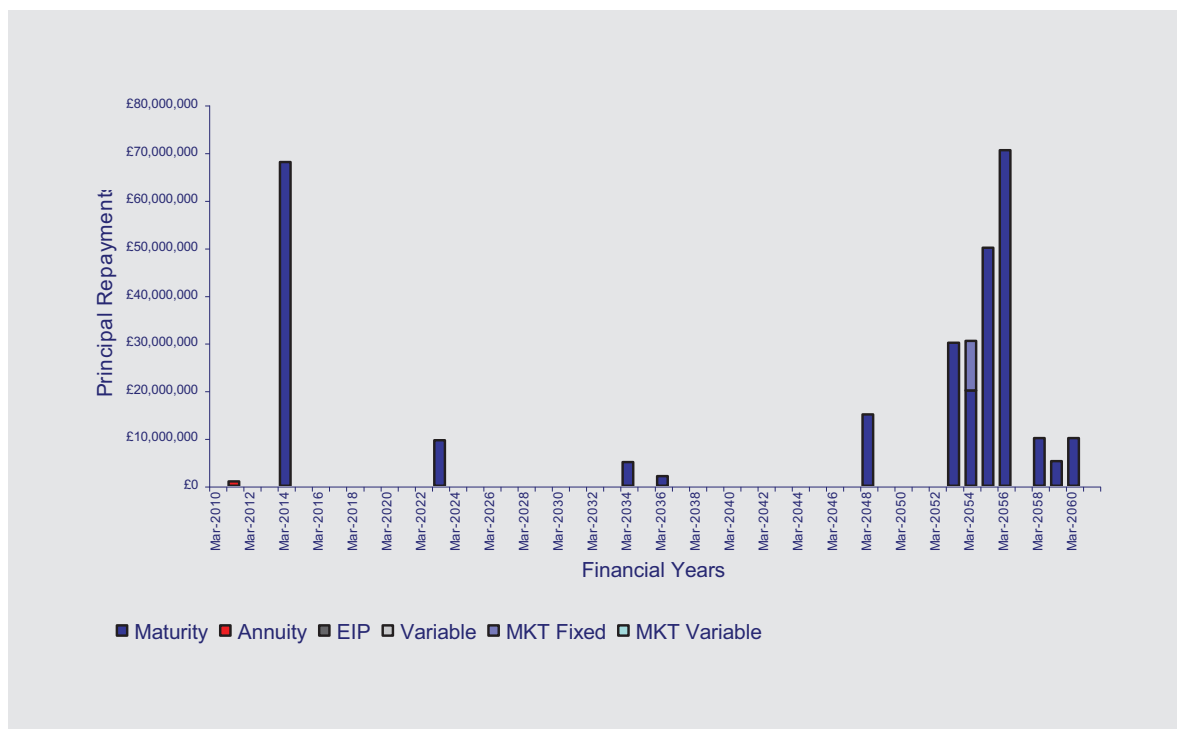
17. The council has limited its exposure to large fixed rate loans maturing in any one year by setting gross limits for its maturity structure of borrowing in accordance with the Prudential Code.

Table 8: Debt maturity profile as at 30 September 2011

Maturity Profile	Upper Limit	Lower Limit	Actual
Under 12 months*	50%	0%	25.8%
1 year and within 2 years	50%	0%	0.0%
2 years and within 5 years	50%	0%	0.0%
5 years and within 10 years	75%	0%	3.0%
10 years and above	100%	25%	71.2%

* Includes balances held on behalf of Surrey Police Authority and Trust Funds.

18. The debt maturity profile of the council's long-term debt is shown on the following chart:



Investment position

19. The average return on investments saw year-on-year increases in the five years from 2003/2004 then began to fall in 2008/2009. The rate of return has continued to fall, with rates available in the market remaining depressed in 2012/13.

Table 9: % Return on investments

Financial Year	% Return on Investments
2003/2004	3.73
2004/2005	4.65
2005/2006	4.75
2006/2007	4.90
2007/2008	5.78
2008/2009	4.38
2009/2010	1.01
2010/2011	0.75
2011/2012	0.70
2012/2013	0.60

20. The continuous improvement in return on investments in the years to 2008/2009 was attributable to many factors, including a more favourable economic situation year-on-year and a more flexible counterparty list that resulted in higher investment limits with the top rated institutions. However, the collapse in the ratings of the majority of banks, coupled with the Bank of England base interest rate dropping sharply to 0.5% has resulted in very low rates available with only a few institutions. It is likely that rates will remain low over the remainder of the year, and will lead to overall returns for the year being lower than 2011/12 (around 0.5%).
21. All cash held by the council is aggregated for the purpose of treasury management and any daily surpluses are invested temporarily until required to meet daily outgoings. For 2012/13, such monies include funds held on behalf of schools and the Surrey Police Authority. Since 1 April 2011, the Pension Fund balances have been held in a separate bank account and are no longer comingled with the council and police authority funds for investment purposes.
22. In 2012/13 nearly 350 schools chose to have their cash balances incorporated within the council's balances, thus earning interest on an agreed basis. Under this arrangement these schools received interest on their balances at a rate of 0.50% below base rate.
23. In 2012/13, the council applied the average return of its whole investment portfolio to all of the funds that were held on behalf of Surrey Police Authority (as per the current service level agreement).
24. Money brokers are used to facilitate investment dealing and loans are only made to institutions that meet the council's approved counterparty criteria. In addition to dealing through brokers, short-term investments are also made by dealing direct with some approved institutions, including banks, building societies and Money Market Funds.

25. Due to frequent action on the part of credit ratings agencies, the council's credit rating criteria, investment limits and resultant counterparty list have been under continual scrutiny. The counterparty list within the current Treasury Management Strategy was last affirmed at the Audit and Governance meeting of 9 February 2012. The credit rating criteria and investment limits effective at 30 September 2012 are shown at Annexe 2.
26. The current counterparty list that reflects these criteria has been updated to November 2012, and can be found in Annexe 3.
27. In the first half of 2012/13, the council maintained an investment portfolio with a daily average balance of £307m (£278m in 2011/12) and received an average return of 0.60%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.45% for the period. The council therefore outperformed its benchmark by 0.15%.

Icelandic Deposits

28. The key local issue of concern in relation to the treasury strategy is the Council's £20m deposits with two failed Icelandic banks, Glitnir and Landsbanki. Of this £20m, the Council's exposure is £18.5m with the balance attributable to Surrey Police Authority. The Audit & Governance Committee receives regular reports on the prospects for recovery of the deposits that are at risk and the efforts being made by the Local Government Association (LGA) and its legal advisors in this regard.
29. To be prudent, the Council had earmarked balances of £9.5m on the assumption that a proportion of the deposits will not be recovered, although this may be revised based upon latest estimates in the guidance from CIPFA.
30. On 28 October 2011, the Supreme Court of Iceland upheld the District Court judgment in favour of local authority depositors, deciding by a 6-1 majority that local authorities' claims are deposits that qualify in full for priority in the bank administrations. These decisions are now final and there is no further right of appeal.
31. The current position is that 50% of Landsbanki and over 84% of Glitnir deposits have been repaid, with expected recovery rates now at approximately 100% for both banks (subject to exchange rate fluctuations). The balance owed on each deposit is shown in the table below.

Counterparty	Period	Principal £000	Rate	Principal Repaid £000	Principal Outstanding £000
Glitnir	364	5,000	6.25%	4,192	808
Glitnir	366	5,000	6.20%	4,193	807
Landsbanki	732	10,000	5.90%	4,992	5,008
		20,000		13,377	6,623

Member and Officer Training

32. Officers and members involved in the governance of the council's treasury management function are required to participate in training. Officers are also expected to keep up to date with matters of relevance to the operation of the council's treasury function. Officers continue to keep abreast of developments via the CIPFA Treasury Management Forum as well as through two local authority networks. Sector provides daily, weekly and quarterly newsletters and update meetings are held with Sector twice a year. In addition, a number of members of Audit & Governance Committee and Council attended treasury management training in June 2010 and July 2011. Further member training events will be provided as required.

Treasury Management Advisors

33. The Council uses Sector as its treasury management advisers. The company provides a range of services including:
- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
 - Economic and interest rate analysis;
 - Debt services which includes advice on the timing of borrowing;
 - Debt rescheduling advice surrounding the existing portfolio;
 - Generic investment advice on interest rates, timing and investment instruments
 - Credit ratings/market information service comprising the three main credit rating agencies

34. A development in the revised CIPFA Code on Treasury Management, which is intended to improve the reporting of treasury management activities, is the consideration, approval and reporting on security and liquidity benchmarks. Yield benchmarks are already widely used to assess investment performance, while discrete security and liquidity benchmarks are new reporting requirements.

Yield: The Council currently reports the overall return in interest against the 7-Day LIBID rate. In the first six months of 2012/13, the overall return on deposits was 0.60%, compared with the benchmark of 0.45%, a margin of 0.15%.

Security: The Council analyses the investment portfolio at year end against historic default rates to estimate the maximum exposure to default as follows:

Table 10: Benchmarking deposits against default rates at 30 September 2012

	Amount	Historical experience of default	Adjustment for market conditions	Estimated maximum exposure to default
	£000s	%	%	£000s
Deposits with banks and financial institutions	(a)	(b)	(c)	(a x c)
AAA rated counterparties*	184,800	0.00%	0.00%	0
AA rated counterparties	20,000	0.03%	0.03%	6
A rated counterparties	100,000	0.08%	0.08%	80
Other counterparties**	7,238	0.00%	0.00%	0
Total	312,038			86

* includes £77.8m with other Local Authorities that do not have credit ratings but are backed by central government.

** includes £7.2m of deposits placed in Icelandic institutions whose credit ratings have reduced since the date of placing the deposit.

Liquidity: The Council currently restricts termed deposits to less than one year, and ensures the minimum level of cash available each day stands above £15m. This provides a safety margin to help ensure the Council does not need to borrow to fund treasury activity. During 2012/13, available cash balances did not fall below the £15m minimum level.

Value for Money

35. SCC participates in CIPFA's Treasury Management Benchmarking Club, which compares the performance of 85 local authorities. The report for 2012 shows that the average interest received by Surrey CC was below the benchmarking club average (0.8% compared to a benchmarking club average of 1.2%). This was mainly due to the council holding high balances and a risk-averse strategy, which resulted in large amounts being held in shorter-term, low interest rate investments. On interest paid Surrey CC significantly outperformed the average – paying average interest on the debt portfolio of 4.2% compared to the peer average of 4.5%.

36. The survey also compares the costs of maintaining a treasury management function. The Council significantly outperforms the peer group average in terms of the costs per £m investments managed; with costs of £120 per £m invested (£180 per £m in 2010/11) compared to a peer group average of £660 per £m invested (£930 per £m in 2010/11). The decrease in costs per £m invested over the previous year was due to the council holding higher average balances compared to 2010/11 (while the actual costs remained the same over the two years). For debt management, Surrey CC had a cost of £20 per £m, compared to an average of £290 per £m (no change from 2011/12). This places Surrey CC in the top decile when compared with the peer group.

Regulatory Framework, Risk and Performance

- 37 The council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:
- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
 - The Act permits the Secretary of State to set limits either on the council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2012/13);
 - Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
 - The SI requires the council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
 - The SI also requires the council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
 - Under the Act the CLG has issued Investment Guidance to structure and regulate the council's investment activities;
 - Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.
- 38 The council has complied with all of the above relevant statutory and regulatory requirements, which require the council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management ensures that capital expenditure is prudent, affordable and sustainable, and treasury practices demonstrate a low risk approach.

- 39 The council is aware of the risks of passive management of the treasury portfolio and, with the support of Sector, the council's advisers, has proactively managed the debt and investments over the year so far. The council had previously utilised historically low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio, as it consists of predominantly fixed long-term loans, with the capacity for repayment of any shorter dated debt. Shorter term variable rates and likely future movements in these rates predominantly determine the council's investment return. These returns can be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

IMPLICATIONS:

- A) Financial
There are no direct financial implications.
- B) Equalities
There are no direct equality implications.
- C) Risk management and value for money
See paragraphs 34 to 36.

WHAT HAPPENS NEXT:

- i. The Pension Fund & Treasury Team will monitor the UK and overseas banking sector and will continue to update this Committee as appropriate.
- ii. In line with the requirements of CIPFA's Code of Practice for Treasury Management, this committee will receive a full-year report on the council's treasury management position for 2012/13 at the meeting on xx June 2013.
- iii. The Pension Fund & Treasury Team will prepare the annual Treasury Management Strategy, which will be presented as part of the MTFP presented to Council on February 2013.

REPORT AUTHOR:

Phil Triggs, Pension Fund & Treasury Manager, and
Charles Phipp, Senior Finance Officer

CONTACT DETAILS:

Phil Triggs 020 8541 9894 – phil.triggs@surreycc.gov.uk
Charles Phipp 020 8541 9224 – charles.phipp@surreycc.gov.uk

Sources/background papers:

Capital Budget and Treasury Management Strategy 2011/12

Prudential Indicators and Treasury Management Strategy 2011/12 to 2013/14

CIPFA Code of Practice for Treasury Management in the Public Services (Revised)

CIPFA Treasury Management Benchmarking Club Report 2011/12

Table 11: Summary of Prudential Indicators for 2012/13

Prudential Indicator	Position as at 30 September 2012 £000	2012/13 Limit £000
Maximum net borrowing incurred against the Capital Financing Requirement (CFR)	109,814	541,000
Maximum gross borrowing incurred against the Authorised Limit	333,786	662,000
Maximum gross borrowing incurred against the Operational Boundary	333,786	602,000
Ratio of financing costs to net revenue stream	4.89%	N/A
Limits on fixed interest rates	100%	150%
Limits on variable interest	0%	-50%
Maturity structure of fixed rate borrowing (<i>maximum position during the year</i>)		
Under 12 months	25.8%	0% - 50%
12 months to 2 years	0%	0% - 50%
2 years to 5 years	0%	0% - 50%
5 years to 10 years	3.0%	0% - 75%
10 years and above	71.2%	25% - 100%
Maximum principal funds invested for more than 365 days	(0%)	35% of value of investments held

In addition to the above the council is required as a Prudential Indicator to:

- i) Adopt the CIPFA Code of Practice.
- ii) Ensure that over the medium term borrowing will only be for a capital purpose (i.e. net external borrowing is less than the CFR).

Table 12: Effective counterparty limits 1 April 2012 to 31 March 2013

Type	Fitch				Moody's			S&P		Maximum Value
	ST	LT	Via	Sup	ST	LT	FSR	ST	LT	
Bank / BS	F1	A-	bb+	3	P-1	A3	C	A1	A-	£20m
Bank / BS	F1+	AA-	a-	2	P-1	Aa3	B	A1+	AA-	£25m
Bank / BS	F1+	AA	a-	1	P-1	Aa2	B	A1+	AA	£35m
MMF	AAA				AAA			AAA		£20m
DMADF	-				-			-		Unlimited
Supranational	-				-			-		£10m
Local Authority	-				-			-		£20m

- i) Deposits are permitted with UK banks that do not comply with the council's credit rating criteria subject to the following:
 - a) That they have been nationalised or part nationalised by the UK government and/or
 - b) That they have signed up to the UK government financial support package
- ii) The use of Money Market Funds is restricted to Funds with three AAA ratings up to a maximum of £100m (with a maximum of £20m per Money Market Fund)
- iii) An additional £20m is made available to invest in overnight high interest call accounts with both RBS and Lloyds (making a total of £40m limit with each). This will be maintained while they remain part nationalised.
- iv) Deposits with foreign banks are now permitted, on the condition that they meet our minimum criteria, and that the country in which the bank is domiciled is "AAA" rated with all three ratings agencies (Fitch, Moody's and Standard and Poor's).

GLOSSARY

MMF = Money Market Fund; DMADF = Debt Management Account Deposit Facility at the Bank of England; BS = Building Society. ST = Short-Term; LT = Long-Term; Ind = Individual rating; Sup = Support rating; FSR = Financial Strength Rating.

F1 Indicates the strongest capacity for timely payment of financial commitments; an added "+" denotes any exceptionally strong credit feature.

P-1 Indicates superior credit quality and a very strong capacity for timely payment of short-term deposit obligations. No enhanced rating available.

A-1 Indicates a strong capacity to meet financial commitments; an added "+" denotes a capacity to meet financial commitments as extremely strong.

Annexe 3

Table 13: Counterparty list as at 16 November 2012

	Fitch Ratings				Moody's Ratings			S&P Ratings	
	S/T	L/T	Viab.	Supp	S/T	L/T	Str.	S/T	L/T
UK		AAA				AAA			AAA
HSBC	F1+	AA	AA-	1	P1	AA3	C+	A1+	AA-
Lloyds	F1	A	BBB	1	P1	A2	C-	A1	A
Royal Bank of Scotland	F1	A	BBB	1	P2	A3	D+	A1	A
Nationwide Building Society	F1	A+	A+	1	P1	A2	C	A1	A
Australia		AAA				AAA			AAA
Australia & NZ Banking Group	F1	AA-	AA-	1	P1	AA2	B-	A1+	AA-
Commonwealth Bank of Australia	F1	AA-	AA-	1	P1	AA2	B-	A1+	AA-
National Australia Bank	F1	AA-	AA-	1	P1	AA2	B-	A1+	AA-
Westpac Banking Corporation	F1	AA-	AA-	1	P1	AA2	B-	A1+	AA-
Canada		AAA				AAA			AAA
Canadian Imperial Bank	F1+	AA-	AA-	1	P1	AA2	B-	A1	A+
Bank of Montreal	F1+	AA-	AA-	1	P1	AA2	B-	A1	A+
Bank of Nova Scotia	F1+	AA-	AA-	1	P1	AA1	B	A1+	AA-
National Bank of Canada	F1	A+	A+	1	P1	AA2	B-	A1	A
Royal Bank of Canada	F1+	AA	AA	1	P1	AA3	C+	A1+	AA-
Toronto-Dominion Bank	F1+	AA-	AA-	1	P1	AAA	B+	A1+	AA-
Finland		AAA				AAA			AAA
Nordea Bank	F1+	AA-	-	1	P1	AA3	C	A1+	AA-
Germany		AAA				AAA		A+	AAA
Netherlands		AAA				AAA			AAA
Rabobank	F1+	AA	AA	1	P1	AA2	B-	A1+	AA
Singapore		AAA				AAA			AAA
Development Bank of Singapore	F1+	AA-	AA-	1	P1	AA1	B	A1+	AA-
Oversea Chinese Banking Corp	F1+	AA-	AA-	1	P1	AA1	B	A1+	AA-
United Overseas Bank	F1+	AA-	AA-	1	P1	AA1	B	A1+	AA-
Sweden		AAA				AAA			AAA
Svenska Handelsbanken	F1+	AA-	AA-	1	P1	AA3	C	A1+	AA-
Switzerland		AAA				AAA			AAA
Credit Suisse Group	F1	AA-	-	1	P1	A1	-	A1	A+
UBS AG	F1	A	-	1	P1	A2	-	A1	A

Trigger Points for Borrowing Decisions (extract from Medium Term Financial Plan 2012-17)

Borrowing Trigger Points: Cashflow

- When setting a number of trigger point, it is important to understand the scope of the cash available, to give the trigger point context :

Current cash position:	£128m (as at 31/12/2011)
Cash high point:	£254m (July 2011)
Predicted average cash:	£175m (April – March 2012)
Total average investments:	£275m (April – March 2012)
Current borrowing position:	£305m (as at 31/12/2011)
Next debt repayment due:	£68m on the 30 September 2013

Given the scope of the figures above, we propose three basic cashflow triggers based upon (1) current short term, (2) average medium term, and (3) replacement of any debt to be repaid:

1. Available daily cash drops below £15m
2. Medium term cash drops below £50m
3. The repayment of any current borrowing

Borrowing Trigger Points: Interest Rates

- When setting the interest rate trigger, reference should be made to the rate when setting the budget in the MTFP. The MTFP for 2012/17 sets rates based upon borrowing from the Public Works Loans Board on a maturity basis, at a rate of 5.0%, which is considered prudent given the projections for PWLB rates shown in table 11.

Using the figures in the MTFP, we can set suggested trigger points for discussion about whether it is appropriate to borrow, and for what term, based on PWLB rates as set out below:

PWLB 10 year maturity	5.0%
PWLB 25 year maturity	5.0%
PWLB 50 year maturity	5.0%



AUDIT & GOVERNANCE COMMITTEE
6 December 2012

WHISTLE BLOWING UPDATE

SUMMARY:

Audit and Governance Committee have requested an update on whistle blowing every six months. Since the last report, usage of the service continues to be fairly consistent, with a slight decrease in the average number of calls at around 3.5 per month and 4 investigations compared to 5 for the same period in 2011-12.

RECOMMENDATION:

The Committee is invited to note the progress outlined in the report.

RECENT SERVICE ACTIVITY:

Usage Table – May 2012 to October 2012

Month	Total no. of calls	Main Incidents Reported	Directorate
May 12	3	No incidents arising from calls	
June 12	3	No incidents arising from calls	
July 12	2	No incidents arising from calls	
Aug 12	3	Allegations of using a service user's computer for personal purchases, and cleaning standards not being maintained	ASC
Sept 12	3	No incidents arising from calls	
Oct 12	7	<ul style="list-style-type: none"> • Allegations of bullying and physical assault made by a service user • Allegations of purchasing equipment for personal use • Employee wanting advice on safeguarding allegations made against them 	CSF C&C CSF

TOTAL this period	21		
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Summary of recent live cases and outcomes reported via the whistle blowing service:

Month	Nature of complaint	Outcome
Aug 2012	Allegations of employee using a service user's computer for personal purchases and that cleaning standards of the building not being maintained.	Investigation completed. Guidelines not breached therefore no case to answer. Decision made to re-issue clarification guidelines on computer use. Standards of cleanliness will continue to be monitored.
Oct 2012	Allegations of bullying and physical assault made by service user.	A thorough investigation has been completed with the recommendation that no formal action is taken. Employee referred to employee assistance programme and supported on return to work.
Oct 2012	Allegations of purchasing equipment for personal use.	Audit made aware and investigation completed on information supplied. No evidence found. Individual was advised that without further details no further investigation can take place.

PROMOTIONAL ACTIVITIES

By using a mix of corporate communications channels we continue to inform and engage the audience groups. This includes:

- A rolling programme of publicity to increase awareness of whistle blowing, as part of our People Strategy, linking to wellbeing
- A further publicity programme is planned for December 2012, to promote the whistle blowing service on s-net, 'Inside Surrey', with a further three week campaign on the s-net carousel (centre front page)
- Information on the s-net pages
- Details of the whistle blowing policy and Expolink's contact number is included in induction and STARS training
- Fairness Champions continue to help promote the scheme and communicate key messages
- The whistle blowing service has been integrated into the Employee Benefits offer as part of the Total Reward package, which receives a high number of viewings on s-net and therefore helps to promote this service
- Expolink is highlighted in the annual benefits survey
- Information on Expolink will be placed on payslips every two months in 2013
- Each directorate communications representative has been asked to include an item on whistle blowing in their bulletins and newsletters
- The Department of Health has a new, free whistle blowing helpline service for NHS and social care staff who have concerns about patient care
- In addition, there is an external service - Public Concern at Work – which provides independent and confidential advice to workers who are unsure whether or how to raise a public interest concern

- Actions arising from the mini-survey are being addressed in Change and Efficiency, with the completion of a comprehensive, detailed survey on bullying and harassment. This will collect qualitative data and once the results are known these will be referred to the next committee, where appropriate.

Schools

The importance of encouraging whistle blowing in schools is a regular agenda item on meetings with Babcock 4S, (the next meeting is on 29 November).

Publicity includes:

- The provider of HR services to schools, Babcock 4S, emailed information to all Surrey schools alerting them to the new policy
- Babcock 4S have highlighted the whistle blowing service to School Bursars/HR Officers in their Surrey briefings
- The council will include an article on whistle blowing and promote Expolink in the next edition of the 'Surrey Governor' newsletter, which is being issued in early Spring 2013
- A section referring to the new policy has been included in the schools finance newsletter
- Having a whistle blowing policy in place and confirming that this has been communicated to staff is also a key part of the Schools Financial Value Standard and governors reassess the profile of the policy yearly
- Expolink promotional resources are provided on the Babcock 4S website, to encourage schools to promote the service
- As a result of the above, there has been a notable increase in queries about where to download the whistle blowing policy and about the policy itself.

CONTRACT RENEWAL:

The supplier (Expolink) has agreed to provide the same whistle blowing service independently to all districts and boroughs who choose to take up this service, at no additional cost to either Surrey County Council or the districts and boroughs. This offer is for the same duration as our own contract, ie five years, commencing April 2012, and the relevant clause has been written in the core contract to reflect this core offer.

IMPLICATIONS

Financial :

There are no direct financial implications in this report.

Equalities :

The policies referred to in this report have been updated following consultation with the recognised trades unions and in accordance with the Council's commitment to equality and diversity.

Risk Management :

There are no direct risk management implications in this report.

REPORT AUTHORS: Carmel Millar

CONTACT DETAILS: Head of HR and Organisational Development

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AUDIT & GOVERNANCE COMMITTEE
6 December 2012

**Half-year summary of Internal Audit irregularity investigations
April – September 2012**

SUMMARY AND PURPOSE:

1. The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations undertaken by Internal Audit in the first half of this financial year, from 1 April to 30 September 2012.
2. Typically audit reports following irregularity investigations help to provide independent evidence to support a management case against an employee under formal disciplinary procedures, or to help tighten control in areas where weaknesses are identified. Irregularity audit reports are not subject to the same distribution as general audit reports due to their confidential nature. This arrangement is formalised within the Reporting and Escalation Policy, agreed by this Committee.
3. Due to the confidential aspects of such investigations, and given that some are ongoing in terms of investigation and/or forthcoming disciplinary hearings, this work is reported in a summarised and thematic fashion to Committee rather than on a detailed case-by-case basis.

RECOMMENDATIONS:

4. The Committee is asked to note the contents of this report.

BACKGROUND:

5. The Council's Financial Regulations require all matters involving, or thought to involve, corruption or financial irregularity in the exercise of the functions of the County Council to be notified to the Chief Internal Auditor. Internal Audit will in turn pursue such investigations as appropriate. To allow for an adequate resource to investigate alleged fraud and financial irregularity the annual Internal Audit Annual Plan for 2012/13 carries within it a contingency budget for 'Irregularity and Special Investigation Work' of 301 days.
6. This contingency covers work to investigate 'irregularities' (actual or alleged financial impropriety, corruption, and other similar matters) as well as time for Fraud Prevention work, assisting with the Audit Commission's National Fraud Initiative (NFI) and implementing practice from the national Fighting Fraud Locally strategy. This proactive work is considered in more detail in paragraph 44.
7. Special ad hoc reviews are also charged against this contingency if commissioned in-year by Members or Senior Managers and not originally in the agreed annual plan. Examples of such reviews in the first half of 2012/13 include an update to Corporate Board in June

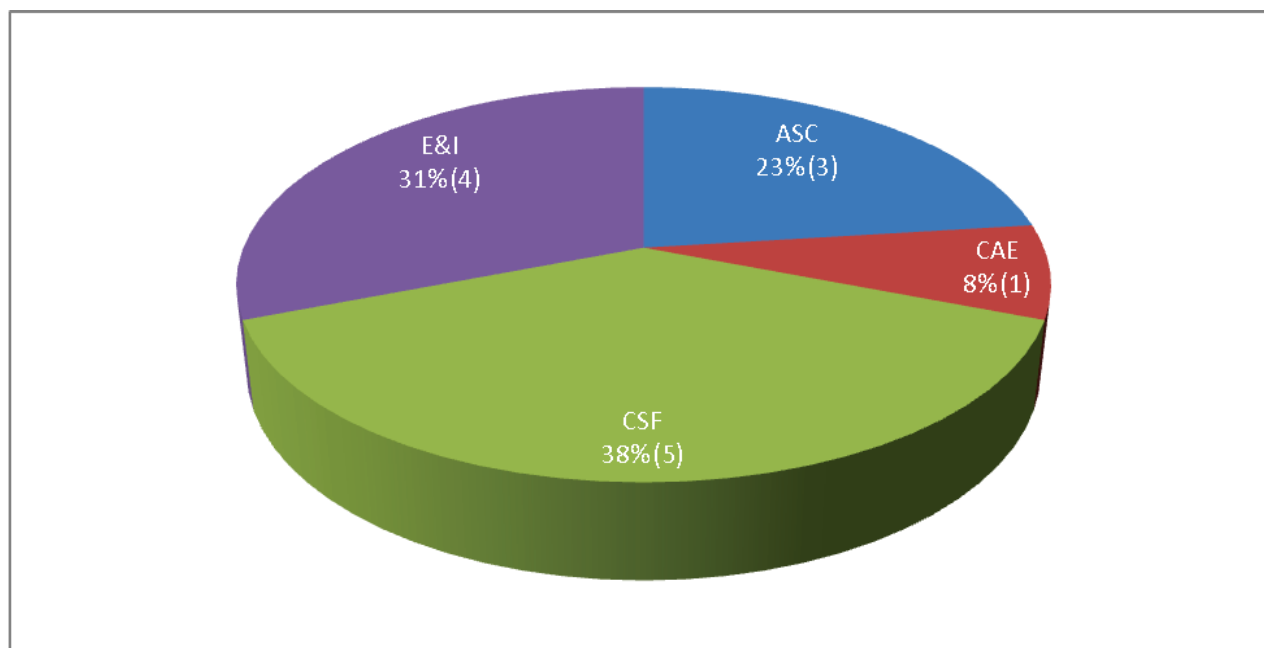
on officer declarations in respect of gifts and hospitalities, the use of Arval fuel cards, and a review of the LASER contract governance arrangements following the fraud at Kent County Council. Often such reviews are linked to concerns raised by management.

8. In the six months since April 2012 13 investigations commenced excluding ad hoc special reviews. 6 of these cases have been directly investigated by Internal Audit as cases of possible fraud or theft; 4 were cases where there were serious breaches of the Code of Conduct; 1 case involved concerns raised about a recruitment process; 1 case investigated a misuse of public funds; and 1 case investigated poor control that led to alleged irregular practice.
9. These 13 investigations are shown diagrammatically in Figures 1 and 2 (below) to identify the Directorates in which the review fell, and the broad type of investigation undertaken. Numbers of investigations in each area are shown in parenthesis. The total time taken to investigate these cases has been 88.2 days in the first half-year period.
10. Of the 13 investigations undertaken, 4 arose following whistle blowing allegations and 1 from information passed to Internal Audit following a complaint made to the Chief Executive. 7 investigations reached a 'Proven' conclusion, and 2 are still in progress.

SUMMARY OF ALL TYPES OF RECORDED IRREGULARITY: APRIL-SEPTEMBER 2012

11. Figure 1 illustrates the proportion of all recorded irregularities across the different Directorates of Surrey County Council.

Figure 1: Summary of investigated irregularity by Directorate, April-September 2012 (13 cases)



12. The proportion of investigations undertaken across the various Directorates is broadly in line with expectation, reflecting the fact that front-line services typically have more of these investigations as the associated risks of access to cash and assets over numerous sites are higher than in more back-office Directorates.
13. Figure 2 shows by broad categorisation how the 13 cases of irregularity are defined by typology. In some cases more than one type of irregularity might have been alleged or investigated within one case (for example, both breaching the Council's Procurement

Standing Orders and theft of Council assets). Figure 2 shows the primary reason for investigation, and more detail is provided on specific cases later in this report.

Figure 2: Irregularities investigated in total, April-September 2012 (13 cases)

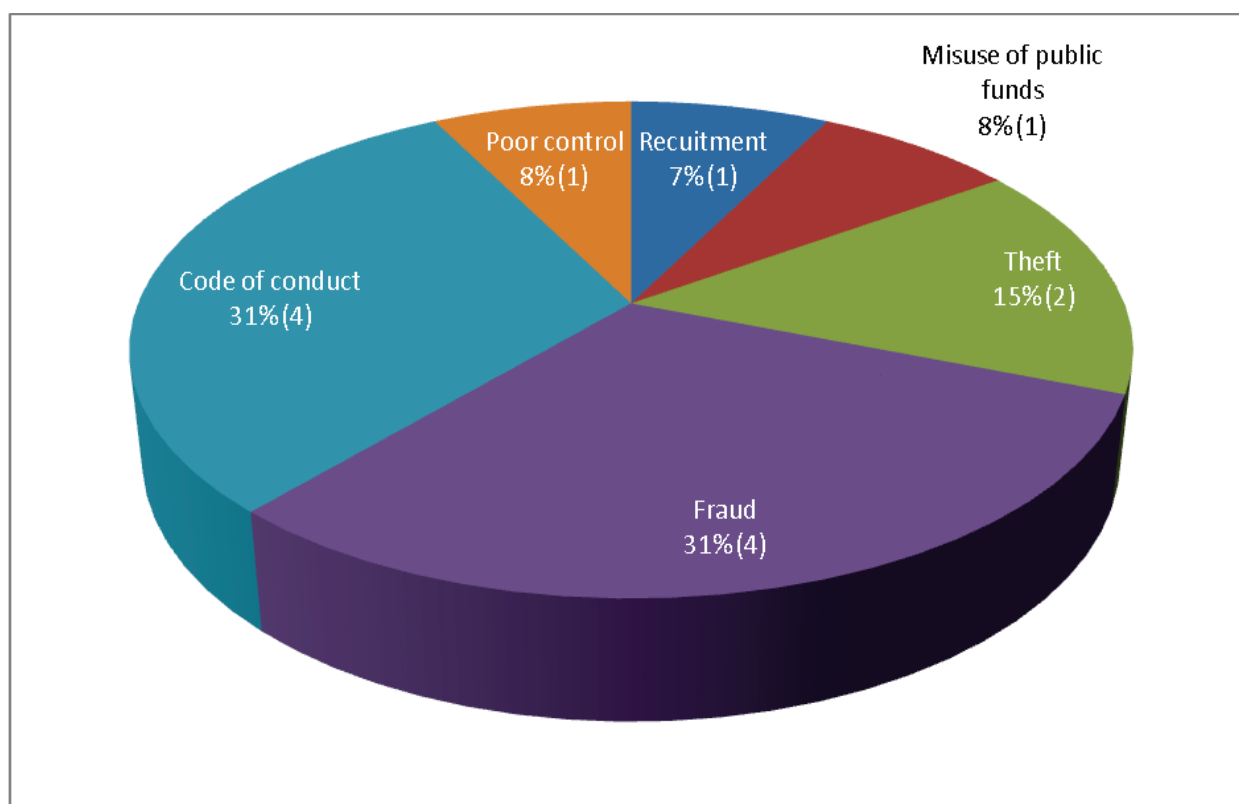


Table 1: Definitions of typologies defining the irregularities investigated 2012/13 to date

Type	Definition
Misuse of Public Funds	In this context cases could include misuse of grants by voluntary bodies, of social care payments by service users, or of private funds held by schools.
Theft	The theft of assets (most frequently cash) from Council property or from clients under the Council's care.
Fraud	Attempts to obtain money by deception, including submission of incorrect travel allowance claims and/or through false accounting.
Code of Conduct	Failure (or alleged failure) to comply with Council policies (Code of Conduct, Procurement Standing Orders etc) or for staff or members in respect of declaration of a second employment, pecuniary interests, completing contractual obligations or managerial responsibilities, or declaring appropriately possible material conflicts of interest.
Poor Control	Examples where local or corporate arrangements fail to stop inappropriate payments being made, or fail to ensure compliance with council policy, etc.
Recruitment	Includes investigations into illegal immigrant workers, staff with forged documentation (visa and passports), or incorrect leave to remain documentation. Could also refer to staff in multiple full-time employments with SCC and another employer (identified through NFI data-matching), inappropriate use of agency staff, or neglect in checking references or employment documentation during recruitment and employment of staff.

14. To give a better indication of the type of work undertaken by Internal Audit in the first half of the financial year the following paragraphs identify examples of specific investigations (appropriately anonymised). Internal Audit work in this area not only protects the Council's assets and reputation; it acts as a visible deterrent in preventing other irregular activity across the organisation.

Misuse of Public Funds

Misuse of School Fund money by a Head teacher

15. Internal Audit were asked by a school to review transactions in their School Fund (private monies held by the school, separate from delegated funds) as concerns had been raised by the bursar concerning the management of the fund by the now retired former head teacher, who had sole control over the Fund since his appointment in the 1980s.
16. The audit demonstrated that in the period since 2009 (records could not be found prior to this period) the former Head had borrowed without authority a total of £19,000 from the Fund to fund personal short-term cash-flow issues. Money was repaid to the Fund (or, on occasion, to charitable recipients that the Fund had traditionally supported) and so the investigation was not one of theft, but of misuse of the money.
17. On advice from Internal Audit the school has contacted the Police, and a meeting is scheduled for late November to see if there is sufficient evidence to bring criminal charges against the individual.
18. Internal Audit has also provided the school with advice and recommendations to improve the overall governance arrangements surrounding the School Fund account.

Theft

Misuse of a council purchasing card

18. During a routine audit of the use of corporate purchasing cards Internal Audit identified an individual within the Environment & Infrastructure Directorate who had misused their card. The total expenditure being questioned amounts to around £3,000 and a process is ongoing to validate the legitimacy of specific items of spend.
19. Examples of the misuse included the officer paying for their spouse's private car to have an M.O.T. and breakdown cover, the purchase of an inflatable dinghy for a family member, and personal use of the card to buy fuel, tools and food items.
20. A disciplinary process is now underway, supported by Internal Audit.

Theft of residents' money at a care home

21. An agency worker in the post of Assistant Team Manager (ATM) in the Adults Social Care Directorate received a total of £2,000 in cash from two residents at a residential home in early 2012. The purpose of this money was supposedly to book a holiday on behalf of the two service users.
22. At the beginning of April a managerial review at the home identified that the holidays had not been booked, nor the cash not returned to the service users. The Team Manager subsequently met with the ATM who returned the £2,000 on 23 April. The Police were involved from the outset of this case to handle the case against the agency worker, whilst Internal Audit provided advice to the home on the management of cash and internal controls surrounding client monies and the safe.
23. The agency worker is no longer employed by Surrey County Council, and Internal Audit understands that no prosecution was made by the Police against the individual.

Fraud

Concerns over legitimacy of payments made by a music studio within a Youth Centre

23. Concerns were raised with Internal Audit regarding payments made by the council to a music recording studio located at a youth centre. These payments related to annual maintenance charges of £1,000 per year dating back to April 2010. Concerns were also raised about the ownership of assets between the studio and the council, and the possible use of council assets for the benefit of a private business.
24. Audit review identified no evidence of irregular practice, but improvements to the existing arrangements were recommended. The auditor concluded that historic verbal agreements between the former Youth employees had enabled a local working culture to develop that lacked transparency and clarity.

Allegations of financial impropriety within an ASC team

25. As part of a wider safeguarding investigation managed within ASC, Internal Audit were asked to look into whistleblowing allegations made against officers that service users paid for accommodation and meals for staff accompanying them on trips, and that service users were required to pay sleep-in allowances to staff, possibly in cash.
26. The audit identified limited evidence to support the allegations made, and no case of fraud could be proven against the named individuals. However, it was established that there were poor financial procedures and processes in place within the team, and the manager responsible for ensuring robust governance was in place later left the council on competency grounds.

Code of Conduct

An officer failing to comply with Procurement Standing Orders

27. An officer in Procurement was suspended following the identification of irregularities in the procurement of works and the running and involvement in projects work at a residential home and at a day centre. The issues came to light as other staff stepped in to cover the officer's duties whilst he was on sick leave.
28. The EPM business support team reporting that 33 orders, totalling £87,494, had been raised by this officer for works at the residential home. It was established that Procurement Standing Orders had been broken by this action, and the orders were cancelled. In addition, work had been commissioned at the day centre which had been unknown to EPM management.
29. Additional information came to light during the course of the investigation that identified failings of the officer to observe Health & Safety legislation in the course of personally removing the fittings of a kitchen at the day centre, including a failure to comply fully with Fire Safety Regulations.
30. In light of the evidence a disciplinary hearing was held, and the officer dismissed on the grounds of Gross Misconduct.

An officer breached the Code of Conduct to benefit a business run by their spouse

31. Internal Audit received anonymous whistleblowing allegations that an officer within Surrey Commercial Services was unfairly giving work to their spouse's company kitchen, which specialised in kitchen refits, and that the company was getting unfair deals on ovens through the Surrey employee that they were using in contracts with another councils.

32. The preliminary investigation proved both allegations beyond reasonable doubt and demonstrated that the officer had been misusing their position. Over £32,000 of kitchen equipment at favourable rates had been procured for the company, and the officer was using SCS budgets to pay for the items, subsequently invoicing the spouse's company for the money. At the time of the audit, over £23,500 of orders had not been properly invoiced to the company, some dating to six months after equipment had been sent to them. This has now been rectified and the money recovered.
33. It was also established that the officer had failed to declare their interest appropriately to their Head of Service, and that this officer's access to commercially sensitive pricing information and knowledge of forthcoming job orders in the area of kitchen refits across Surrey establishments was giving the spouse's company unfair commercial advantage in bidding for work.
34. Following a disciplinary hearing the officer was dismissed for Gross Misconduct in failing to comply with specific aspects of the Code of Conduct, and for taking actions inside work which brought the council's reputation into disrepute and which might seriously affect public confidence in its ability to deliver effective services.

Sale of playing field land at a Surrey school

35. Concerns were expressed to a County Councillor regarding the sale of a 70m² area of school playing field land by Surrey County Council to a private individual for the sum of £3,000. The owner of the land was Surrey County Council, not the school itself. The basis of the concern was to seek assurance that the handling of the sale had followed due process and was robust.
36. As the purchaser of the land was closely connected with the school the audit focused upon compliance with the Code of Conduct and whether the transaction (if deemed valid) should be declared as a related-party transaction in the Council's accounts.
37. The issues considered by Internal Audit were:
 - Whether due process was followed at both the school and at the council during the course of the sale;
 - Whether the nature of the purchaser's employment at the school would have made any difference to the way the sale was handled had it been declared; and
 - Whether the purchaser was able to influence the sale unduly as a result of their position at the school.
38. The outcome of the audit was assurance could be taken that due process had been followed, and that no advantage was obtained by the individual in the course of the land sale due to their position at the school. Further, the processes undertaken by the local borough council allowed for local concerns about the proposed sale to be received and considered as part of the planning process, enabling an additional level of transparency. It was not considered necessary to declare the sale as a related-party transaction.

Poor Controls

Poor compliance with an internal policy, giving rise to complaint to the Chief Executive

39. A complaint was received by the Chief Executive in which an officer alleged that unspecified teams within the council were hiring rooms at an external venue (a facilitated set of business offices) rather than achieving value for money by using a council property next door. The matter was investigated by Internal Audit and findings shared with the complainant.

40. Whilst no direct evidence could be found to substantiate the specific allegation, it was clear from an overview of venue hire by services that a number of occasions existed when external venues had been used as opposed to internal ones, which raised questions about compliance with the existing policy and value for money. The matter will be considered for inclusion as a value for money audit in the 2013/14 annual plan.
41. As a result of the review the current process and policy will be re-launched by Procurement via S:Net to increase officer awareness of the requirement to follow the specific policy in the booking of venues.

Recruitment

Whistleblowing alleging a failure to observe proper recruitment process

42. Internal Audit became involved in an investigation where a whistleblower alleged that proper processes had not been followed during recruitment to a post within the council. The allegations included a suggestion that the successful applicant did not have the basic minimum professional qualifications to fulfil the role.
43. The outcome of the investigation is that the processes had, in fact, been fully complied with and that there was no case to answer.

Proactive Fraud Prevention and Awareness work

44. Within the past six months Internal Audit has made continued progress in embedding an anti-fraud culture within the authority through specific proactive fraud prevention and awareness work.
45. Activities that have been of particular note include:
 - Supporting the Audit Commission's National Fraud Initiative through the upload of data from council systems. This will allow for the matching of key data sets across and between participating public sector organisations to detect potentially fraudulent activity;
 - Actively participating in the Fighting Fraud Locally initiative, including an assessment of the council's preparedness for a counter-fraud culture. The outcome of this work was reported to Audit & Governance Committee in October 2012;
 - Collaborative working taking place between district and borough partners to combat fraud in Single Person Discounts for Council Tax;
 - Internal Audit attending fraud-related discussions at the London Audit Group and at the Home Counties Chief Internal Auditors Group;
 - Fraud awareness e-learning, which has continued to develop and roll-out across the authority to raise staff awareness of common risks and signals that they should be alert to; and
 - The revised Strategy Against Fraud and Corruption will be presented to Cabinet in December 2012. This has been updated following the launch of the NFA's Fighting Fraud Locally Strategy and now includes a Fraud Response Plan in line with best practice.

IMPLICATIONS:

Financial

46. Internal Audit investigation of fraud and irregularities to ensure that perpetrators are appropriately dealt with and recommendations made where necessary to improve internal control, will ensure that public money is safeguarded.

Equalities

47. There are no direct equalities implications of this report.

Risk management

48. Combating fraud will contribute to better internal control and value for money.

WHAT HAPPENS NEXT:

49. No specific action is required.

REPORT AUTHOR: David John, Audit Performance Manager, Policy & Performance
CONTACT DETAILS: telephone: 020 8541 7762 e-mail david.john@surreycc.gov.uk

Sources/background papers: Final irregularity reports and Galileo database.



AUDIT & GOVERNANCE COMMITTEE
6 December 2012

Internal Audit Half Yearly Report 2012/13

SUMMARY AND PURPOSE:

1. This interim report summarises the work of Internal Audit during the first six months of 2012/13. The purpose of this report is to enable the Committee to consider the activities of Internal Audit during the six month period to 30 September 2012 and determine whether there are any matters that they wish to draw to the attention of the Cabinet and/or the County Council. A list of all Internal Audit reports issued in the period April – September 2012 is attached at Annex A for information.
2. The Chief Internal Auditor reports key findings and recommendations arising from audits undertaken as part of regular reporting to this Committee on completed audits. As such this report focuses on activity undertaken rather than detailing audit findings previously identified. However in response to member interest in management action taken to implement Internal Audit recommendations this report also provides, at Annex B, an update on progress made to date for those audit reports issued since February 2012. In addition, at Annex C is an update on earlier audit reports where management action plan progress had not previously been rated as “Green”.

RECOMMENDATIONS:

3. Members are asked to consider the contents of this report and determine whether there are any matters that they wish to draw to the attention of the Cabinet and/or the County Council.

BACKGROUND:

4. The Accounts and Audit Regulations 2003 (as amended 2009 and 2011) require every local authority to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. Within Surrey County Council the Internal Audit function, which sits within the Policy and Performance Service, carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.
5. The terms of reference of the Audit and Governance Committee include the requirement to consider the reports of the internal and external auditor, consider the effectiveness of the internal audit function, and make recommendations to the County Council or Cabinet, as appropriate, on any matters that it feels should be drawn to their attention.

PERFORMANCE SUMMARY:

6. The audit plan for 2012/13 was approved by this Committee on 5 April 2012. The table below shows actual performance against the original plan for the first half year.

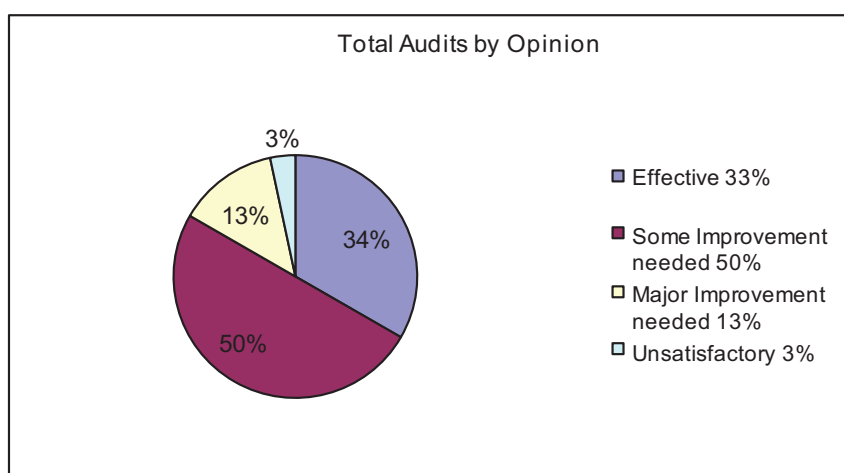
Audit Area	Plan Days (whole year)	Actual Days (half year)	% Actual to planned
Corporate Governance Arrangements	40	5	13%
Key Financial Systems	200	32	16%
Grants	30	33	110%
Contract reviews	110	59	54%
Service reviews (systems and projects)	990	496	50%
Follow-up Audits	50	13	26%
Client Support and Service liaison	136	74	54%
PVR Recommendations follow-up	50	0	0%
Special reviews not included in the original audit plan. NFI and other fraud prevention Irregularity investigations	301	145	48%
Audit planning and management, corporate and member support	294	138	47%
Total days	2201	995	45%
Figures as shown in 2011/12 half year report (for comparison)	2401	933	39%

7. The above table shows that 995 days were spent delivering the audit plan in the first half of the year, this represents 45% of the total number of days planned for the year and reflects the reality that proportionately more annual/bank holiday leave (non audit time) is taken in the period April - September. This figure (45%) is significantly better that was reported at the half year point in 2011/12 when, due to vacancies only 39% of planned staff days had been spent delivering the plan.

8. The following table shows progress as at 30 September against the annual audit plan with 2010/11 and 2009/10 half year comparative figures also shown:

	2012/13		2011/12		2010/11	
	No	%	No	%	No	%
Audits in planning stage:	43	33	53	40	56	36
Audits in progress	39	30	32	24	44	28
Audits completed	47	37	47	36	55	26

9. Internal Audit team have had a productive first six months with some 47 audits, projects or investigations completed since April, including 30 final audit reports issued (as detailed at Annex A), 4 grant certificates produced and 13 investigations closed.
10. The following chart shows the spread of audit opinions for the 30 reports issued in the period:



Note: Comparative information for last year (30/09/2011) as follows:
 Effective 18%; Some Improvement Needed 73%; Major Improvement Needed 6%; Unsatisfactory 0%

Customer Satisfaction Survey (CSQ)

11. The Internal Audit team is continually aiming to improve the service it provides and as such, on completion of each review the auditee is asked to complete a Customer Satisfaction Survey (CSQ) to provide feedback on a number of aspects of the audit – from planning through to reporting. The CSQ also asks for an overall rating on the added value of the audit on a scale of 1 to 4, where 1 is **not very** useful and 4 is **very** useful.
12. The following table shows the breakdown of CSQ scores received during the six month period to September 2012:

CSQ Overall Rating	No of CSQs	%
4 – very useful	5	63
3	2	25
2	1	12
1 – not very useful	0	0
Total	8	100

MANAGEMENT ACTION PLAN PROGRESS

13. In May 2012 a report was presented to this Committee that assessed progress made for all audits reports issued in the period September 2011– January 2012. This information is summarised at Annex B and includes the latest position for those audits not assessed as “Green” at that time. A more detailed summary of progress made on implementing audit recommendations for those audits completed since February 2012 is attached at Annex C.
14. These progress updates show evidence of real improvements being made across the council. There are some areas however which have been (or continue to be) assessed as Red/Amber and Internal Audit will closely monitor these management action plans going forward.

AUDIT ACTIVITY – 2012/13 ANNUAL PLAN

Corporate Governance Arrangements

15. This element of the annual audit plan includes activities that directly support the Annual Governance Statement. As such, audit involvement in this is concentrated in the latter part of the audit year.

Key Financial Systems

16. Key Financial Systems audit reports issued in 2012/13 and presented to this Committee include:

Treasury Management; General Ledger; Accounts Payable; Accounts Receivable; Capital Monitoring and, Payroll.
17. Most of the audit fieldwork for the key financial systems takes place in the last quarter of the year in order for testing across the period to be undertaken. In previous years this work has included tests specified by the External Auditor. The Chief Internal Auditor has been advised that the new External Auditor (Grant Thornton UK LLP) do not require Internal Audit to undertake any specific testing on their behalf.

Grants

18. Four grant audits were completed in the period, as follows:

Local Transportation Capital Block Grant; Roma Routes (EU) Grant; Walton Bridge; and, Sport England Grant.

Contract Reviews

19. Contract review audit reports issued in 2012/13 and presented to this Committee include:

Agency Staff Contract; Waste Contract Management; Surrey Highways Contract Management; and, Babcock 4S Contract.
20. Audits of the Residential Care Block Contract and Streetlighting (illuminated street furniture) Contract were in progress at the 30 September.

Service Reviews

21. Service review audit reports issued in 2012/13 and presented to this Committee to date include:

Adult Social Care: Direct Payments; Telecare; and, Residential Care Homes- Managing Residents' Monies

Change and Efficiency: Fuel Cards; Data Protection Compliance; Health and Safety Compliance; and, Recruitment Procedures

Customers and Communities: SFRS PVR; and, SFRS Firestations

Children Schools and Families: Academies; Honoraria Payments in Schools; Retiring Head Teachers' Pay; LAC Health and Dental Checks (Data Quality); Integrated Children's System; 16-19 Education; and Special Residential Schools –Teachers' Additional Payments

Chief Executive's Office: VCSF Framework;

Environment and Infrastructure: Carbon Reduction Scheme

Follow-up Audits

22. No specific follow-up audits have been completed in the first six months of the year. Time spent by the Internal Audit team on Management Action Plan Progress updates as reported at Annex B is also recorded under this heading.

Client Support and Service Liaison

23. Each member of the team is responsible for a number of service areas and liaising with those services on a regular basis throughout the year. These meetings allow the auditor to become more familiar with the requirements of each service and to develop a more positive working relationship in which the services may themselves approach Internal Audit for independent support and advice.

Some examples of client support provided during the first six months of the year have included:

- Supported ASC by providing advice as part of a safeguarding review in ASC and developing an action plan for all Sourcing and Locality teams to ensure their safes are being properly managed.
- Meeting with the Banking Team regarding a new system for school meals income management
- Responding to queries from Services for information regarding the audit of grants (eg Euro related grant enquiries and Troubled Families grant)
- Provided advice on reclaiming Direct Payment (DP) funds from Service Users and briefing the new AR Manager on debt relating to DPs
- Supported Finance by reviewing policy guidance before final issue e.g. Imprest guidance and personal account procedures
- Developed a workforce planning tool to enable ASC management to identify recruitment needs through analysis of agency/bank/overtime staffing
- Vendor creation and maintenance upload form - supported the Data management team in the risk and vulnerability assessment of a proposed replacement for the e-suite form.
- Met with ASC regarding a new system for paying crisis payments to residents (following abolition of Social Fund)
- SPACE - Used the spreadsheet analysis tool SPACE to provide comments on the Financial Model that was going to be used in the final stage of the

procurement of UNICORN replacing Cable and Wireless and the SWAN network.

- Advised on the control environment for Wisepay online payment system in Schools
- Provided advice to establishments in ASC and CSF following theft of monies from safes

PVR Support/Recommendations follow-up

24. No time was recorded against this specific heading during the half year. A follow-up of the Transport Coordination Centre (TCC) PVR is planned for later in the year and certain service review audits (eg Recruitment Procedures) completed in the period have included follow-up on PVR outcomes.

Irregularity and Special investigations

25. A separate report will be presented to this Committee providing a full explanation of time spent on irregularity investigations in the six months to 30 September 2012.
26. Special investigations usually take place as a result of concerns being raised directly with Internal Audit by members or officers. One audit report - Surrey Educational Trust - has been issued in the first six months of the year as a result of a special investigation.
27. The report on Fighting Fraud Locally presented to Audit and Governance Committee in October 2012 set out the work that Internal Audit has carried out during 2012/13 in response to the strategy launched by the National Fraud Authority in April 2012.

Corporate Support and Internal Management

28. During the six month period to 30 September Internal Audit have participated in a number of activities which are categorised for planning purposes as corporate support and internal management. This activity has included:
- member support including attendance at meetings of this Committee and Council Overview and Scrutiny Committee
 - attendance by the Chief Internal Auditor at regular governance meetings with the Chief Executive Officer and S151 and Monitoring Officers.
 - Attendance at meetings of the Governance Panel and Investment Panel

TRAINING AND DEVELOPMENT:

29. The Cipfa Code of Practice for Internal Audit in Local Government places a personal responsibility on each Internal Auditor to undertake a programme of continuing professional development. In practice training/development plans are discussed on an on-going basis as part of 1-2-1s with management and will be formally discussed/reviewed as part of mid year and year end appraisals.
30. Development/training may take many forms. Examples undertaken in the period include:
- A day work shadowing an Assistant Director in ASC
 - Attendance at events organised by:
 - The London Audit Group
 - Counties Chief Auditors Network
 - Home Counties Chief Internal Auditors Network (HCCIAG)

- SAP Specialist Interest Groups
- Formal technical training/updates such as:
 - Social Media – Challenges and Risks for Internal Audit
 - Audit report writing
 - Internet Investigations
 - Infosec Sessions (eg Incident Response and Mobile Applications)

31. In December 2012, five members of the Internal Audit team will attend training arranged through the HCCIAG on IT Applications Audit.

CONCLUSION:

32. The Internal Audit Team has had a productive six months and there is evidence of real improvements being made across the council as a result of the management actions implemented in response to audit recommendations.

IMPLICATIONS:

33. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the audit work referred to in this report, would be progressed through the agreed audit reporting policy.

34. Terms of Reference for all audit reviews include the requirement to specifically consider value for money; risk management; and, equalities and diversity.

WHAT HAPPENS NEXT:

35. A report will be presented on completed audits at future meetings of this Committee and the Annual Report for 2012/13 will be presented to this Committee at the meeting planned for May 2013.

REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor

CONTACT DETAILS: telephone 020 8541 9190
email sue.lewry-jones@surreycc.gov.uk

Sources/background papers: 2012/13 Internal audit plan

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2012/13

Month Final Report issued	Audit	Audit Opinion	Relevant Directorate*	Select Ctte Review
Apr-12	Direct Payments	Major Improvement Needed	ASC	ASC 30/11
Apr-12	Accounts Receivable	Effective	CAE	
Apr-12	Risk Management Arrangements	Effective	CAE	
Apr-12	General Ledger	Effective	CAE	
Apr-12	Capital Monitoring	Some Improvement Needed	CAE	
Apr-12	Payroll	Effective	CAE	
May-12	Academies	Effective	CSF	
May-12	VCFS Framework	Some Improvement Needed	CEO	
May-12	Agency Staff Contract	Some Improvement Needed	CAE	
May-12	Accounts Payable	Effective	CAE	
May-12	Highways Contract Management	Major Improvement Needed	E&I	E&T 19/07
May-12	SFRS - PVR	Some Improvement Needed	C&C	
May-12	Treasury Management	Effective	CAE	
Jul-12	Arval Fuel Cards	Effective	CAE	
Jul-12	Honoraria Payments in Schools	Unsatisfactory	CSF	
Jul-12	Data Protection Compliance	Some Improvement Needed	CAE	
Aug-12	Surrey Educational Trust	Some Improvement Needed	CSF	
Aug-12	Retiring Head Teachers' Payments	Some Improvement Needed	CSF	
Aug-12	Babcock 4S Contract - Governance	Effective	CSF	
Aug-12	SFRS - Fire Stations	Some Improvement Needed	C&C	
Aug-12	Health and Safety Compliance	Some Improvement Needed	CAE	
Aug-12	Waste Contract Management	Some Improvement Needed	E&I	
Aug-12	Data Quality - LAC Health and Dental checks	Major Improvement Needed	CSF	C&F 19/12
Aug-12	Integrated Children's System	Some Improvement Needed	CSF	
Aug-12	16-19 Education	Effective	CSF	
Sep-12	Telecare Project Management	Some Improvement Needed	ASC	
Sep-12	Carbon Reduction Scheme Return and Green House Gases	Some Improvement Needed	E&I	
Sep-12	Residential Care Homes - Managing Residents' Monies	Major Improvement Needed	ASC	
Sep-12	Recruitment Procedures	Some Improvement Needed	CAE	
Sep-12	Special Residential Schools - Teachers' additional payments	Some Improvement Needed	CSF	

* Directorate Key

CAE - Change and Efficiency
 CEO - Chief Executive's Office
 ASC - Adult Social Care
 E&I - Environment and Infrastructure
 CSF - Children Schools and Families
 C&C - Customers and Communities

* Select Committee key

ASC – Adult Social Care Select Committee
 E&T – Environment and Transport
 C&F – Children and Families

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Progress update for Audit Reports issued Sep 2011 – Jan 2012

Report Date	Audit	Last Follow/up	Latest position	RAG
Sep-11	Library Service Transformation (PVR)	Reported as Green to A&G Committee in May 2012.		G
Sep-11	Olympic Legacy in Surrey	One amber rated action (relating to reporting back on Select Committee on progress against targets set) reported to A&G Committee in May 2012.	No longer relevant	G
Sep-11	Information Governance	Reported as Green to A&G Committee in May 2012.		G
Sep-11	Schools Data Protection Notification and CCTV	Reported as Green to A&G Committee in May 2012.		G
Oct-11	Library Income	Amber rated actions (relating to waivers of fines and individual log-ins for the library and cash management systems) reported to A&G Committee in May 2012.	<p>The Axiell implementation has been slower than anticipated. In the meantime, the Technical Group have decided on a number of extra waive reasons which were added to the LMS cash management system at the end of October 2012.</p> <p>The sector leads have added "Income" as a standing item on their library managers' meetings agendas.</p> <p>Individual log-ins were created in the upgrade of LMS in November 2011. This was not successful and the Libraries have now reverted to a system of branch logins rather than individual ones.</p> <p>Segregation of duties relating to cash counting and preparing for cash collection has been enforced at</p>	A

			Category A and B libraries.	
Oct-11	SEN Contracts previously provided by Atkins Transport Contract.	Reported as Green to A&G Committee in May 2012.		G
Oct-11	Streetlighting PFI contract	One amber rated action (related to work to review data on the "Geoworks" system to highlight inaccuracies) reported to A&G Committee in May 2012.	Skanska have improved their QA on data by running reports each month to identify and correct errors. This is further addressed by the roll out of PDAs to commission lights on the street as this has the combined purpose of connecting to the Central Management System and populating many of the required data fields (with a much smaller number being manually entered at a later date).	G
Oct-11	Procurement Standing Orders	Two amber rated actions (related to clarification on waivers and action to avoid future waivers) reported to A&G Committee in May 2012.	PRG is receiving regular reports on retrospective waivers. Waivers are challenged at PRG and lower-value waivers are reported back to the relevant category specialist to bring into new contracts as appropriate	G
Nov-11	Premises Security (Nov 11)	Three amber rated actions reported to A&G Committee in May 2012: <ul style="list-style-type: none"> • Completion of outstanding premises risk assessments • Resolution of security issues identified on completed assessments • Prioritise security reviews of smaller premises 	Facilities Team continues to endeavour to persuade site and service contacts to complete security self assessment forms. The completion rate has now increased to approximately 65%. To ensure that this reaches 100% in due course and becomes part of a regular cycle of review, each nominated service site contact to review their self assessment for discussion at the same time as the Facilities Officer talks with them about fire safety issues and processes as part of their Fire Risk Assessment or Review. This is a pragmatic approach and an efficient use of time as both activities require a site survey and making this link effectively puts in place an internal annual target for review across the portfolio.	A

			<p>As part of the introduction of the PAMS system, Property Services aims to be in a position to produce management information to allow it to focus more easily on buildings or services where there are gaps in returns and also to identify and report on actions taken. This will form part of the overall compliance module in PAMS. Property Services now have an implementation partner on board (Atrium) and PAMS will start to 'go-live' from April 2013.</p>	
Nov-11	Flood and Water Management Act 2010	<p>Two amber rated actions reported to A&G Committee in May 2012:</p> <ul style="list-style-type: none"> • Establish a workable model for the SuDS Approval Board (SAB) • Assess costs for maintaining adopted sustainable drainage systems leading up to 2018 	<p>There has been no further information from central government on an implementation date for the SAB or whether there might be a phased introduction. This was discussed by the Surrey Flood Risk Partnership Board on 24 September and concluded that the report on suitable, costed options should be considered fully at its next meeting early in the new year.</p> <p>Although the timescale for guidance from central government remains unknown the council is currently working in collaboration with other authorities in the SE7 to agree a unified approach. The proposed guidance document is to inform planners and developers on how to plan and integrate SuDS whilst providing amenity, biodiversity and other benefits. Specific guidance will be prepared for developments proposed in Surrey. Completion of this work will provide better information on future maintenance liabilities and help identify potential alternative funding sources.</p> <p>In Internal Audit's opinion the service has progressed matters as far as they can, hence a "Green" RAG rating.</p>	G
Nov-11	Procurement compliance team	Reported as Green to A&G Committee in May 2012.		G

Dec -11	Transport Coordination Centre (TCC) PVR	<p>Four amber rated actions reported to A&G Committee in May 2012:</p> <ul style="list-style-type: none"> • Calculation of PVR savings 	<p>Concern from the TCC PVR Implementation Manager, Procurement and Children, Schools and Families (CSF) Finance that the original base line figures quoted are unreliable. Base line and trends (finance and metrics) since Sept 11 being developed with Finance for reporting to PVR Steering Board in October 2012.</p>	A
		<ul style="list-style-type: none"> • ASC use of TCC transport offer 	<p>ASC have shown clear commitment to setting out future requirements and in working towards the TCC being a value-added transport broker for the service. A number of meetings and next steps have been established. However, due to the pressure of rolling out the ASC personalisation agenda, progress in agreeing booking processes and an SLA has been delayed. With this delay there will be an effect on the original savings targets.</p>	R
		<ul style="list-style-type: none"> • Development of a TCC interface with AIS/Swift • Need to facilitate development of Trapeze queries 	<p>Development continues in this area with joint TCC, ASC and IMT working. ASC (&CSF) has input into the new user requirements for the replacement of the Trapeze PASS journey planning software.</p> <p>Reporting developed and shared with relevant Finance colleagues. The contract with Trapeze is due to expire in February 2013 and is currently out to tender.</p>	A A
Dec -11	Services for People with Learning Disabilities (PLD) PVR	<p>Reported as Green to A&G Committee in May 2012.</p>		G
Dec -11	Business Continuity	<p>Reported as Green to A&G</p>		G





	and Declaration of Interests in Surrey Schools	Committee in May 2012.		
Dec -11	Procurement in Surrey Schools	No high/medium priority recommendations made		G
Jan-12	Source of duplicate payments	No recommendations made		G
Jan-12	Absence Management (Jan 12)	One amber rated action reported to A&G Committee in May 2012 related to teams showing large numbers of staff with zero sickness absence.	A report is to be run in November 2012 covering the previous six months sickness absence data, which will then be analysed and shared with HR and Services for follow up. This data will help identify groups of staff who may not be recording sickness absence on SAP. The production of this report will then become a regular six monthly activity.	A
Jan-12	Delivery of PVR Savings	Reported as Green to A&G Committee in May 2012.		G
Jan-12	Elected Members' Interests & Related Party Disclosures	One amber rated action reported to A&G Committee in May 2012 related to creating a single process to capture member interests and related party disclosures.	The Council approved its new code of conduct for members in July 2012 and agreed that the Members' Register of Interest would only include the pecuniary interests required under the regulations. Members' previous registers have now been moved across into a new version and Members asked to review and update them. The new Modern.Gov committee management system was launched in October 2012 and an electronic version of the form was launched at that stage – Democratic Services plan to roll-out the ability for Members to update via the committee management system in the coming months.	G



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Management Action Plan – Progress update





Annex C



Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Heritage PVR (Feb 12)	Major Improvement Needed	<p>The PVR Lead should consider reviewing the appropriateness of HE’s staffing model, staff salaries and team size in order to ensure that the team are well placed to compete for clients. (H)</p> <p>The PVR Lead should consider recommending a larger annual operating surplus from HE in order to better assure, as a minimum, that the team delivers a zero-cost operation. (H)</p> <p>HE Management should engage with HR to explore and pursue options under SCC’s Capability Policy. (H)</p> <p>The PVR Lead should consider ensuring that clarity of purpose and expectation is an outcome of the review. (H)</p>	<p>Heritage are currently undergoing a review of their staff structure this should be completed by Feb/Mar 2013 and will take into account the audit recommendations in this action plan around staff and contracts.</p> <p>Finance have confirmed that a profit centre cannot be set up to carry forward any future surplus generated by HE. In addition, HE's performance against income targets fits annually within the broader context of the Cultural Services budget rather than being siloed within the team.</p> <p>Complete. HE Management and HR both report that they are satisfied with the outcome of their actions.</p> <p>Heritage, Surrey Arts and Adult & Community Learning are functions that fall under Cultural Services. They are all currently undertaking PVRs although they are at different stages. The Leader of the Council has requested that these PVRs look at the common themes across each function. This has delayed the Heritage PVR final report.</p>	<p style="text-align: center;">A</p> <p style="text-align: center;">A</p> <p style="text-align: center;">G</p> <p style="text-align: center;">A</p>






Social Care Debt (Feb 12)	Some Improvement Needed	<p>Significant write offs of debt should be reported alongside the total debt figure in the report to Adults Social Care Select Committee. (M)</p> <p>Reports to the ASC Select Committee should have an agreed standardised format. (M)</p> <p>Consider whether Care Managers would benefit from visiting their Finance and Benefits (FAB) team as part of induction; whether refresher visits are necessary; and, whether staff who demonstrate a lack of understanding of the charging process should have a visit arranged. This would allow these staff to improve their understanding of the assessment and contributions process. (M)</p>	All recommendations implemented.	  
Pensions Administration (Feb 12)	Effective	Three low priority recommendations made regarding record keeping.	All recommendations implemented.	
EBulk CRB (Feb 12)	Some Improvement Needed	Key documents such as the project plan and project issue log should be kept "live" until project close down. (M)	All recommendations implemented.	
Data Centre Operations (Feb 12)	Some Improvement Needed	<p>Investigate the costs of activating the remote environmental controls. (M)</p> <p>Investigate the source of the apparent water damage. (H)</p>	All recommendations implemented.	



SAP Applications and Controls (Feb 12)	n/a	n/a	n/a – none required	
School Governors' Financial Skills (Feb 12)	Some Improvement Needed	There were no recommendations for the Schools and Learning Service. A number of medium priority recommendations were made to individual schools visited to strengthen documentation evidencing governors' involvement in financial questioning and decision making.		






<p>Review of Rental Income (Feb 12)</p>	<p>Major Improvement Needed</p>	<p>All income budgets need to be set correctly in an identifiable manner and monitored regularly to maximise income recovery (H).</p> <p>Each area generating income should be individually reviewed so that managers are more aware of their responsibilities & take ownership for their performance (H).</p> <p>Management should ensure that PAMS implementation addresses the need to hold all areas generating income so that managers can take responsibility and ownership for their performance. (H)</p> <p>Senior Management in EPM & SSC should make every effort through good communication and ongoing dialogue to resolve all of the issues within the individual units & prioritise maximisation of income recovery. (H).</p> <p>Detailed reconciliation of the two Profit Centres should be completed and maintained on a regular basis (H).</p>	<p>Work carried out with Finance set up 12/13 budget on Zero Based approach by 31/03/12, including re-charges of income circa £500k to other services. Monthly accruals commenced from May 12.</p> <p>All income budgets compiled on Zero Based approach. Under the EPM PVR, the newly formed Business Performance Team undertakes monthly reviews in conjunction with Finance, which are validated through the Head of Service report.</p> <p>The various phases of PAMS roll out to take full account of data validation, cleansing, financial monitoring and reporting.</p> <p>EPM & SSC meet every 6 weeks. Net debt of £749k in Sept 11 reduced to £267k gross in 12 months, of which £78k relates to one tenant in receivership. Performance Manager reviews monthly aged debt to monitor recovery & adequacy of new processes as part of monthly Head of Service budget reviews. EPM & Legal met on 29/3/12 & agreed additional legal support to be made available as required.</p> <p>Reconciliation work has been completed. Guideline process was documented by the Estates Surveyor on 26 April 2012.</p>	<p>G</p> <p>G</p> <p>A</p> <p>G</p> <p>G</p>
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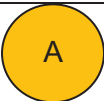




Disposals and Acquisitions (Feb 12)	Some Improvement Needed	<p>The Asset Strategy Manager to consider which key elements of the Asset Management Plan (AMP) can be updated over the life of the plan to better inform strategic decision making and aid the process of producing the capital receipts required to support the Council's Medium Term Financial Plan (MTFP). (M)</p> <p>The Asset Strategy Partner Disposals and Acquisitions to consider twice yearly reporting to Members on the overall position on the disposals programme. The reports should include clear statements agreed with finance on the likelihood that capital receipt targets can be achieved and the contingency plans in place should targets not be achieved. (M)</p>	<p>The AMP is due to go live before the end of the year. The AMP will contain a clear set of actions that will provide Property Services with a strategic decision making framework and help inform/monitor the relevant elements of the MTFP.</p> <p>After consulting various stakeholders including Democratic Services, Property Services has concluded that the Investment Panel is the best forum to report on the disposal programme. The Auditor suggests that additional Member scrutiny would have had additional benefits in helping to secure political impetus to the disposals programme.</p>	 
Review of Utility Payments (Feb 12)	Some Improvement Needed	<p>Budgets should be correctly profiled to reflect changes in price and consumption. Also, accrual and prepayment adjustments should be completed as part of monthly budget reporting. (H)</p> <p>The payment process should be streamlined so that all utility invoices (except for schools and those on direct debit) are authorised by the EMT before paying. Reconciliation between Systems Link and SAP should be completed so that correct payments can be made in a timely manner. (H).</p>	<p>The 2012/13 budget forecast is profiled on a monthly basis to account for seasonality and estimated future contract energy prices from 1 Oct. 2012. Work to evaluate & determine any profiling changes is being undertaken by the Energy Management Team, based on contract changes coming into play during October 2012. The EMT forecast 3 scenarios to allow for seasonal changes for the year 12/13.</p> <p>The financial management transfer software was purchased in April 2012 and the project is awaiting IMT implementation. 90% of invoices are paid by direct debit & monitored by GEMS (Laser bills) & as part of the budget monitoring process. The remaining 10% paper bills are authorised by EMT following validation checks.</p>	 





Children in non-maintained /independent SEN provision (Feb 12)	n/a	n/a		
Project Management - Walton Bridge (Mar 12)	Some Improvement Needed	<p>Management should consider arrangements for the Project Team to have access to support staff with sufficient financial background or experience to review a sample of transactions included within the contractor's monthly payment application. (H)</p> <p>The Project Manager should establish the reason behind the payment of more than £185k into the bank account and take the opportunity to remind the contractor how the account is intended to operate. (M)</p>	<p>The changes to the project team have been implemented and the new officer in post has access to finance support.</p> <p>Problems arose with the takeover of the bank by Lloyds TSB who opted to transfer the account without the knowledge of the contractor and /or Project Manager. The matter has now been resolved and future difficulties are not anticipated.</p>	 
Follow-up of Section 76 arrangements audit (Mar 12)	Some Improvement Needed	There are no high priority recommendations arising from this review.		






Traffic Signal Management (Mar 12)	Some Improvement Needed	<p>Traffic Systems Team should develop a standard Kolara report that facilitates the monthly monitoring of the contractor's performance on the Annual Inspection and Bulk Lamp Change programmes. (M)</p> <p>Traffic Systems Team staff should ensure that the spreadsheet record of damage to county traffic signals is kept up to date with all the information available on each case. (M)</p> <p>The completeness of the risks identified relating to traffic signal management should be reviewed. (M)</p>	<p>Implemented and in regular use. As a result, this identified three consecutive months where performance fell below par and penalty retentions were exacted. This has now been resolved and all penalty retentions have been released.</p> <p>Currently up to date</p> <p>Currently being debated with other team leaders within Highways Operations Group.</p>	  
Children's Service's Deep Dive Process (Mar 12)	Some Improvement Needed	<p>Quality Assurance to develop a formal method to track action to resolve issues. The name of the responsible officer and due date for action should be recorded for all agreed actions. (M)</p> <p>There were three audit recommendations relating to selection of independent members for the review team, selection of partners for focus groups and reporting processes. (L)</p>	All recommendations implemented.	
Schools – Benchmarking Information (Mar 12)	Some Improvement Needed	<p>There were no recommendations for the Schools and Learning Service.</p> <p>A number of medium priority recommendations were made to individual schools visited and Internal Audit intends to work with Babcock 4S to provide benchmarking guidance for schools.</p>	Ongoing work with individual schools. Where required, Babcock offers advice and provides benchmarking information to schools	

AIS/SWIFT Systems (Mar 12)	Some Improvement Needed	<p>The oracle database password settings be adjusted to emulate the general system settings. (H)</p> <p>User logon logs to be activated and the possibility of capturing IP address data or MAC address be investigated for the purposes of periodically checking for multiple IP/MAC simultaneous login. (H)</p>	<p>Recommendations implemented</p> <p>User logs have been implemented.</p> <p>IP capture has been investigated and is currently technically impossible to implement.</p>	
Pension Fund Investments (Mar 12)	Effective	None		







ASC Commissioning (Mar 12)	Some Improvement Needed	<p>The remaining strategies should be finalised within three months of outcome reporting from relevant PVRs or, where no PVR is scheduled, within the next six months. (M)</p> <p>The Business Intelligence team should continue to align monitoring arrangements. (M)</p> <p>Succession planning should be included in business continuity planning to ensure that critical knowledge and relationships with providers can be maintained in the event of key officers leaving the council. (M)</p>	<p>These have now been finalised and agreed at committee with the exception of Mental Health, for which the PVR findings were reported to ASC Select Committee in October. The strategy will follow on from this.</p> <p>There are 215 grants and contracts and the transfer of monitoring arrangements to the new framework is both time consuming and resource intensive. By prioritising the schemes by value, size and activity levels over half of the grants and contracts have been moved on to the new monitoring framework.</p> <p>Further work is planned with Procurement to introduce a 3-tier system to identify critical and strategic suppliers. In line with proportionate monitoring, lower value contracts will be monitored using a lighter touch.</p> <p>The Commissioning staffing structure has been reviewed so that an Assistant Senior Manager now supports each Commissioning Senior Manager, providing greater continuity of service and increased capacity.</p>	  
Revenue Budgetary Control (Mar 12)	Some Improvement Needed	The Financial Regulations and Financial Instructions update should be concluded to cover the changes in structures and processes. (H)	Completed October 2012	
Accounts Receivable (Apr 12)	Effective	No high priority recommendations.		



Direct Payments (Apr 12)	Major Improvement Needed	<p>Adult Social Care should achieve their stated policy regarding annual review.(H)</p> <p>A report should be provided to each Adult Social Care Select Committee meeting re: social care reviews until the policy commitment is being fulfilled. (H)</p> <p>Management should install a reconciliation system that provides reasonable assurance and is achievable. (H)</p> <p>The service should develop an escalation policy to formalise the lines of contact to be followed and expected timeframes for responses to issues raised.(H)</p>	<p>Adults have made good progress but in October 2012 still had a backlog of 292 DP Social Care Reviews (ie 292 DP recipients had not had a review in over 18 months) .</p> <p>Internal Audit were advised that the Chairman did not wish to receive such reports – point closed.</p> <p>System designed and rolled out but audit testing indicated this has not yet improved the outcomes re:reconciliations (ie 40-50% of service users are not providing reconciliation documentation in a timely manner)</p> <p>Risk addressed via quarterly management meetings to address issues requiring escalation (all the way to senior management if necessary).</p>	   
Payroll (Apr 12)	Effective	<p>HR should review payments made under the honoraria heading to ensure they comply with SCC policy. Should HR wish to see a more flexible policy applied, the current policy should be formally revised and approved. (M)</p> <p>HR should ensure that the correct contractual eligibility for claiming essential car user allowance is established and that it is recorded correctly within SAP. Payments should comply with the policy. (M)</p>	<p>The question of Honoraria being paid in schools was examined in more depth in a separate 2012/13 review.</p> <p>HR have investigated the cases identified and corrected some data on entitlement. One case was passed to the relationship team to pursue with a line manager.</p>	





Capital Expenditure Monitoring (Apr 12)	Some Improvement Needed	<p>The Superfast Broadband Project team should ensure that clear targets for substantial profiled spend and delivery in the first half of the year, with very close monitoring of actual spend and achievement of delivery targets.(H)</p> <p>The Investment Panel should consider the mechanisms available to initiate, guide or direct the bringing-forward of capital expenditure on specific schemes. (M)</p> <p>The extent of external financing for capital expenditure should be identified on Capital Expenditure Summary reports. (M)</p>	<p>An expenditure profile has been established. However, largely due to the need for State Aid approval and the procurement award process, total expenditure on this project is unlikely to be significant in 2012/13.</p> <p>As part of the work of the Capital Working Group, a number of schemes have been brought forward, such as schools capital maintenance.</p> <p>The new reporting to CWG achieves this.</p>	  
General Ledger (Apr 12)	Effective	No high priority recommendations.		


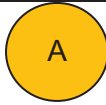

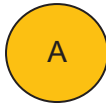
Risk Management Arrangements (Apr 12)	Effective	<p>The Risk and Governance Manager continues to work with colleagues in HR & OD to formalise risk roles and responsibilities within job profiles (M)</p> <p>The Risk and Resilience Steering Group is encouraged to seek guidance from Cabinet and Corporate Board regarding the precise nature and definition of the council's 'Risk Tolerance' (M)</p> <p>The Risk and Governance Manager continues to encourage transparency of risk information through better referencing of risk registers to committee papers (M)</p> <p>Continue the work to improve the content and referencing between the Risk Management, Emergency Planning and Health & Safety disciplines on S:Net (M)</p>	<p>Risk roles and responsibilities are reinforced through review of risk at risk group meetings (Risk and Resilience Steering Group, Council Risk and Resilience Forum, Health and Safety operations team, risk network) and strategic meetings such as Corporate Board and Cabinet.</p> <p>A summary of strategic director risk registers has been developed that provides an overview of risk appetite and tolerance across the organisation through showing residual risk levels for directorate risks. This will aid risk discussions and assist with consistent application of risk levels.</p> <p>The leadership risk register now includes both recent and future review of risk areas by Select Committees.</p> <p>Awaiting migration of snet content onto the new system (March 2013)</p>	   
Academies (May 12)	Effective	No recommendations were made as a result of this review.		




<p>VCFS Framework (May 12)</p>	<p>Some Improvement Needed</p>	<p>It is recommended that:</p> <ul style="list-style-type: none"> • the VCFS Framework is reviewed to ensure that it is current; • training is provided to the services on the updated framework; and • progress is reported to the relevant committee on an annual basis. (M) <p>It is recommended that formal legal guidance is developed regarding where it is appropriate to use contracts and grants. (M)</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> • the council develops a review and evaluation process for the end of grants and contracts; and • the council includes a clause in grants and contracts outlining the process. (M) 	<p>The new and updated VCFS Framework has been drafted in consultation with the Funding Review Group, Policy and Policy and Public Affairs group representing cross-council commissioning and policy officers.</p> <p>The new framework will be launched on 28 November 2012.</p> <p>Progress will be reported at the relevant committee in March 2013.</p> <p>Procurement (in consultation with Legal Services) are currently working on guidance.</p> <p>The council is signed up to and committed to the Surrey Compact and its codes. The Funding Code has a section on 'Concluding a Financial Relationship' and the key requirements are worked in to all grants and contracts. Compliance of services with the code has been checked.</p>	<p>A</p> <p>A</p> <p>G</p>
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Agency Staff Contract (May 12)	Some Improvement Needed	<p>The partially completed recommendations that are continuing to be addressed include</p> <ul style="list-style-type: none"> • Audit Reviews of Panel Vendors (H), • Agreement of revised KPIs (H), • Production of monthly auto approval and billing reports (H), <p>Although the guidance on S-net was completed, the link to access it for correct use by managers (e.g. Online issues log) has not been improved (H).</p> <p>In addition, the share of profit due to SCC from work done for other Public Sector Bodies (PSB) has to be finalised for 2011/12 by year-end and reviewed on a quarterly basis for 2012/13 (H).</p>	<p>Audit review of Panel Vendors has been resumed and completed on 28 May and 9 Oct. 2012.</p> <p>The revised KPIs have been agreed and their performance is reported monthly.</p> <p>It has not been possible to produce meaningful auto approval and billing reports regularly from the Manpower System without manipulation. This takes time and prevents them being produced monthly due to other work priorities. This will be included in the specifications for the next contract negotiations.</p> <p>Guidance has been made available on the new S:net format and the links to access the information have been improved.</p> <p>The Senior Category Specialist for this contract has confirmed that the</p> <ul style="list-style-type: none"> - framework rebates for Q1 of 2012/13 was £26,139 - total amount for July and August was £8,381. <p>However, no confirmation was received on whether or not any of the above amounts or the amounts (not known) at 2011/12 year-end have been verified by Corporate Finance as agreed in the MAP.</p>	    
Accounts Payable (AP) (May 12)	Effective	The actions agreed have already been implemented. (M)		

Arval Fuel Cards (Jul 12)	Effective	Accounts Payable staff to develop a standard authorisation form for requests for new cards. Only properly completed and authorised forms from recognised budget holders should be processed. (M)	New forms developed and in use.	
Honoraria Payments in Schools (Jul 12)	Unsatisfactory	<p>Payroll team to cease processing any payments to teachers that have been coded as honorarium. (H)</p> <p>A communication should be sent to all schools reminding them of the statutory guidance regarding payments to teaching staff. (H)</p> <p>Schools to supply evidence to support payments made, including evidence to support any proposed recoding. (H)</p> <p>Redesign the TP2 form to prevent payments to teachers being coded as honorarium. (H)</p> <p>Follow-up payments identified through this audit to determine whether they are legitimate (and therefore superannuable) or unlawful. (H)</p> <ul style="list-style-type: none"> • Where unlawful payments have been made agree next steps (which may include repayment of monies). (H) • Where payments are legitimate but miscoded, assess the pension contributions implications. (H) 	<p>No payments of honoraria processed this academic year.</p> <p>Letter sent to all schools from Asst Director Schools & Learning.</p> <p>All external payroll provider information received and being evaluated.</p> <p>Redesigned with revised guidance.</p> <p>Awaiting information from Teachers Pensions Agency (TPA) on most secure way of providing information.</p> <p>Still being evaluated.</p> <p>Exercise completed will be sent to TPA.</p>	

Honoraria Payments in Schools cont'd (Jul 12)	Unsatisfactory	<p>Consider how employee pension contributions due as a result of miscoding of payments to teachers, should be recovered. (H)</p> <p>Consider whether previously submitted annual grant returns for teachers' pensions need to be re-opened and corrected. (H)</p> <p>Remind school governors of their responsibilities for staff remuneration. (H)</p>	<p>Chief Finance Officer directed SCC will bear liability for all payments if directed by TPA.</p> <p>Awaiting reply from TPA.</p> <p>Communication sent out via Schools Bulletin</p>	
Data Protection Compliance (Jul 12)	Some Improvement Needed	<p>ASC and CSF to identify minimum data protection training options for all locums involved in handling the most sensitive information. Locum take-up of such training should be assessed twice-yearly. (M)</p> <p>Develop a report on the Authority's overall performance on meeting the deadline to respond to Subject Access Requests and report corporately. (M)</p> <p>Review procedures for transferring Children's Services files and remind staff to update ICS when they transfer a file. (M)</p>	<p>ASC: Email sent out 24/8/12 re: locums to complete online training. Monitoring of uptake to be done later in year. CSF: Regular training has been provided to all staff at Team Meetings. An update on the issue of locums is awaited.</p> <p>This has to be requested from IMT to undertake project work – currently awaiting their response</p> <p>Reminder information regarding file transfers has been sent out to all teams.</p>	  

Surrey Education Trust (Aug 12)	Some Improvement Needed	Reach agreement on how funds should be disbursed, ensuring there are clear parameters and widespread communication so that all who may apply for a grant are aware. (M)	<p>The Leader and Cabinet Member have agreed to proceed with the original Trust arrangements and not pursue an arrangement with the Surrey Community Foundation. With this in mind, governance arrangements and a process for assessing funding applications (including criteria) have been drafted by Democratic Services. A meeting of the Trust was scheduled for 7 November for the Trustees to formally sign off the governance arrangements and application process.</p> <p>The provisional timetable for next steps is as follows: November - mid January - invite bids for funding from the Trust (this will need to be supported by active publicity and communications as per the second audit recommendation) - early February - Trust to meet and agree successful bids in line with the agreed criteria.</p>	
Retiring head teachers' pay (Aug 12)	Some Improvement Needed	Schools and learning finance to liaise with Babcock 4S to complete follow up enquiries with a few schools in the autumn term 2012 to ensure payments made were correct. (M)	Schools and Learning Finance have yet to complete their enquiries. Internal Audit as part of an investigation are looking at one specific school.	
Babcock4S Contract (Aug 12)	Effective	No high priority recommendations.	N/A	
Fire Station audits (Aug 12)	Some Improvement Needed	The Service should consider marking its equipment in such a way as to facilitate the easy and expedient identification and tracking of its equipment (e.g. a unique reference number or barcode). (M)	SFRS are planning to purchase a system through Infographics which will link with the existing back office system Firewatch. Funding has been agreed and the project plan is being developed.	

<p>Health & Safety (Aug 12)</p>	<p>Some Improvement Needed</p>	<p>The Head of Strategic Risk Management (CSF) to develop further processes for dealing with schools that consistently omit to deal with OSHENS event recording and where this could lead to RIDDOR reportable events not being reported within the required timescales. Options for escalating the most serious cases of schools failing to comply with this requirement should be discussed at the Joint Committee for Schools and CSF. (H)</p> <p>The CSF Strategic Risk Management Team to consider what additional resources can be made available to meet training demand and support for OSHENS users. (M)</p> <p>EPM management to ensure officers deliver the programme of regular fire risk assessments, re-allocating work between staff where appropriate. (M)</p>	<p>Where individual schools are presenting particular problems they will be escalated through appropriate channels including the joint committee for schools.</p> <p>A new automatic reminding system has been added to OSHENS, which escalates who is messaged the longer an incident has not been reviewed, addressed and closed.</p> <p>The CSF Strategic Risk Management Team state that the training they currently provide (which covers awareness of the system, rather than how to use the system) is adequate to meet user needs. Corporate H&S staff have been providing training to small groups of OSHENS users from the same service.</p> <p>This remains on track. Fire Risk Assessments continue to be reviewed throughout the corporate portfolio to an agreed internal, annual target. Phase 2 of the Property PVR has agreed a structure to include 4 Service Facilities Managers, who will be supported by 4 Area Facilities Officers – increasing the strength of the team from 6 to 8. Service FMs are being appointed during Oct 12 and recruitment for the FO posts will follow shortly.</p>	<p></p> <p></p> <p></p>
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Carbon Reduction Commitment (CRC) & Green House Gases Annual Report	Some Improvement Needed	<p>The Energy Management Team should review all significant year on year variances on consumption at site level between 2010/11 and 2011/12 and document the reasons subsequently identified for these variations. A spreadsheet record should be maintained of all potential adjustments to each year's submitted CRC data.</p> <p>The SCC Energy Management Team should continue to monitor closely the line taken by DECC with regard to the treatment of street lighting energy consumption that has not incurred a levy payment due to re-classification of the nature of the supply by changing tariffs. (M)</p> <p>Property Services and Finance staff to review and amend, if necessary, the budgetary provision in the MTFP for CRC Allowances and potential fines. (M)</p> <p>Other recommendations not due until mid 2013.</p>	<p>Completed comparisons and reasons for differences identified.</p> <p>Street lighting is undergoing consultation by DECC as part of phase 2 of CRC.</p> <p>The budgetary provision of CRC allowances and potential fines has been re-profiled to match the reduced carbon emissions and the reduced risk of fines. This has identified some savings from this budget.</p>	  
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- Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress



AUDIT & GOVERNANCE COMMITTEE
6 December 2012

Completed Internal Audit Reports

SUMMARY AND PURPOSE:

The purpose of this report is to inform Members of the Internal Audit reports that have been completed in the period September - November 2012 as attached at Annex A.

Although it is not the Committee's policy to review all Internal Audit reports in detail during the meeting, full copies of the reports summarised have been provided to Members of the Committee.

RECOMMENDATIONS:

The Committee is asked to consider whether there are any audit reports or management action plans that it would like to review further and whether there are any matters they wish to refer to the relevant Select Committee.

BACKGROUND:

- 1 At the conclusion of each audit review a report is issued to the responsible manager who is asked to complete an action plan responding to the recommendations.
- 2 The return of a management action plan (MAP), which in the auditor's opinion adequately addresses the report findings and recommendations, signals the end of the audit process. Any follow up work required forms part of future audit plans at the appropriate time.
- 3 There were nine audit reports issued since the last report to this Committee in October 2012. The table below lists these and shows the audit opinion for each audit as well as the number of high priority recommendations included in the Management Action Plan.

	Audit	Opinion	Number of recommendations rated as High Priority
1	Local Safeguarding Children Board	Some Improvement Needed	0
2	Special Residential Schools - Teachers' additional payments	Some Improvement Needed	0
3	Recruitment Procedures	Some Improvement Needed	1
4	Residential Care Homes - Managing Residents' Monies	Major Improvement Needed	7

5	Overtime	Some Improvement Needed	0
6	Social Media	Some Improvement Needed	4
7	Review of Concessionary Fares	Some Improvement Needed	2
8	Performance Management - Data Quality	Some Improvement Needed	n/a
9	Materials Testing Laboratory	Some Improvement Needed	2

- 4 Annex A contains more details of the audits listed above and shows for each the:
- title of the audit
 - background to the review
 - key findings
 - overall audit opinion
 - key recommendations for improvement
- 5 The Committee will be aware that in order to respond to general Member interest in Internal Audit reports it has previously been agreed that a list of completed reports will be circulated to all Members of the County Council on a periodic basis.
- 6 In order to fully discharge its duties in relation to governance the Committee is asked to review the attached list of recently completed Internal Audit reports and determine whether there are any matters that it would like to review further or if it would like to suggest another Select Committee does so.

SELECT COMMITTEE REVIEW:

- 7 A completed audit reports item, featuring the all of the above audits (with the exception of Materials Testing Laboratory and Social Media – both of which were issued in mid November) was presented to Council Overview and Scrutiny Committee on 14 November 2012.
- 8 The audit of Residential Care Homes - Managing Residents' Monies was discussed at Adult Social Care Select Committee on 30 November.

IMPLICATIONS:

- 9 Financial Equalities Risk management and value for money
- 10 There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the audit work referred to in this report, would be progressed through the agreed Internal Audit Reporting and Escalation Policy

WHAT HAPPENS NEXT:

- 11 See recommendations above.

REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor, Policy and Performance

CONTACT DETAILS: telephone: 020 8541 9190 e-mail sue.lewry-jones@surreycc.gov.uk,

Sources/background papers: Final audit reports and agreed management action plans

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Review of Local Safeguarding Boards</p>	<p>The Ofsted evaluation of Safeguarding undertaken in September 2010 judged the overall effectiveness of safeguarding services in Surrey as adequate, however the Surrey Safeguarding Children Board (SSCB) arrangements were judged as 'not yet efficient or effective'. As a consequence, a review of the SSCB structure and membership was undertaken with a view to ensuring that it was able to carry out its scrutiny and challenge functions, and to provide strong local safeguarding leadership. A new corporate structure for the SSCB was introduced in January 2011.</p>	<p>The Executive Group of the SSCB has taken on responsibilities relating to operational aspects of safeguarding (case reviews). This may diminish the time it has to provide directive strategic leadership to all partners across the County, and fulfil all other duties detailed in its Terms of Reference. Any possible shortcomings in respect of the former are of particular import as the September 2010 Ofsted report raised concerns about the ability of SSCB to provide strategic leadership.</p> <p>Meeting minutes do not explicitly articulate the Cabinet Member for Children and Families' role at SSCB group meetings. This risks the calling into question both the SSCB's statutory independence, and the effectiveness of external challenge and scrutiny by the Cabinet.</p> <p>The Apprenticeship, Skills, Children and Learning Act 2009 amended the Children Act 2004 to provide for the appointment of two representatives of the local community to each Local Safeguarding Children Board in England. Currently, there is a lay member on each of four area groups (these are local, operational groups), but none on the full SSCB.</p>	<p>Some Improvement Needed</p>	<p>In conjunction with the Head of Children's & Safeguarding Service (CSS), the Head of Safeguarding should consider whether the Executive Group's current responsibilities allow it the capacity to provide the intended and required strategic leadership for the SSCB, and meet the obligations in its Terms of Reference. (M)</p> <p>The Head of Safeguarding should consider proposing to SSCB that all meeting minutes clearly distinguish between the presence/absence of group members and those attending as observers. (M)</p> <p>In conjunction with the Head of Children's Schools and Families, the Head of Safeguarding should consider recommending to the SSCB the early recruitment of two lay members. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Review of Local Safeguarding Boards cont'd		<p>Low levels of attendance were noted at certain SSCB sub-group meetings. The low levels of attendance at Training, Policy, Procedures & Communication Group meetings is also notable given the large size of the group, the substantial number of partners represented on it, and the wide range of areas covered in its Terms of Reference.</p> <p>Meeting minutes contain no mention of completed actions and only those outstanding are recorded. As such, there is no formal record of how board/sub-group members assure themselves on how actions have been progressed and implemented.</p>		<p>In conjunction with the Head of CSS, the Head of Safeguarding should consider steps to ensure clear and demonstrable involvement from all SSCB partners, such as establishing a quorum for each body, and reviewing the size and remit of groups. (M)</p> <p>In conjunction with the Head of Children's Schools and Families, the Head of Safeguarding should consider recommending that all board and sub-group meeting notes record adequate follow up on all agreed actions. (M)</p>
Special Residential Schools - Teachers' Additional Payments	<p>School teachers receive additional allowances under statutory guidance. As a result of issues reported in an audit on Honoraria a sample of schools were checked for due allowances.</p>	<p>Audit testing provided assurance that payments had been made in line with statutory requirements.</p> <p>At one school visited by the auditor there appeared to be a high number of a specific allowances being paid. It was found that this was due to historical staffing issues and payments being coded incorrectly. The Head Teacher at this school agreed to review the staffing structure with School Governors and ensure payments complied with the guidance.</p>	<p>Some Improvement Needed</p>	<p>The TP2 form should be reviewed and amended as necessary to reduce the risk of incorrect categorisation of payments. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Recruitment Procedures	<p>SCC recruitment practices were the subject of a Public Value Review in November 2009 to March 2010, with a proposed way forward to improve the service and reduce costs by £1.18m by the end of 2012/13 being approved by Cabinet in April 2010. Regular reporting to the PVR Steering Board has tracked the delivery of the original proposals and the actions not yet fully complete were transferred into a wider HR and Organisational Development PVR in July 2011.</p>	<p>Since the Recruitment PVR, there has been no reduction in recruitment volumes and substantial additional work from Service Restructures. Some key ASC and Children’s Services teams have been hard to recruit to and rely heavily on expensive agency staff. The Recruitment Team have worked with these Services on better targeted recruitment campaigns. The Recruitment Team state that it needs the full budget agreed in the PVR to ensure it continues to deliver the high volumes of recruitment and appoint the very best candidates in the market place.</p> <p>SCC policy is to seek references from all previous employers in the previous three years. In one out of 22 cases examined, the Auditor could not identify that this had happened from documentation on file. A number of references came from personal email accounts (e.g. Hotmail / Gmail accounts).</p> <p>As part of Internal Audit’s response to the National Fraud Authority initiative – ‘Fighting Fraud Locally’, the Auditor undertook some further checks for potential fraudulently supplied details on applications. No clearly fraudulent information was identified, although there were some potential issues on second references from the sample reviewed.</p>	Some Improvement Needed	<p>The budget for the Recruitment Team should reflect the aim to reduce the levels of agency staff in the ASC and CSF Directorates. This might involve a more flexible use of ‘bank’ recruitment staff, when particular peaks in workload are experienced or expected to support specific recruitment campaigns for these directorates. This change might need to be pump-primed by small virements into the recruitment team budget and linked to Service Level Agreements. (H)</p> <p>The Recruitment Team to challenge all recruitments where references being offered do not cover the last three year’s work history. Hiring managers to be reminded of the need to probe references which are provided from companies that are not well known, or which come from non-company email addresses. (M)</p> <p>Consideration should be given to developing some additional capacity within the authority to conduct more detailed background checks for a risk-based sample of job applicants. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Residential Care Homes – Managing Residents’ Monies	<p>The council has 13 in-house residential care homes: six for older people; and seven for people with learning disabilities. In July, the council was supporting over 260 permanent residents in these homes to manage their personal money, i.e. money for day-to-day expenses. The service requested an audit of the management of residents’ monies.</p>	<p>There were a number of areas of concern arising from this audit that pose financial and reputational risks to the council. Key concerns include:</p> <ul style="list-style-type: none"> • Out of date and unavailable central guidance leading to inconsistent, local procedures at individual homes; • 45 personal accounts with overdrawn balances; • Banking duties being carried out by lone officers; • Failure to store cash securely despite safes being available; • Officers withdrawing cash from residents’ cash tins with no record of authorisation from the resident; and • Officers using their own money to make purchases on behalf of residents. <p>Despite these concerns, the desire of officers to help and support residents was evident at all homes. It was apparent that officers were acting with good intentions and with the best interests of residents in mind.</p>	Major Improvement Needed	<p>The Service Delivery and ASC Finance teams must work together to produce updated guidance for managing personal accounts. This exercise must consider:</p> <ul style="list-style-type: none"> • Review of personal accounts templates and spreadsheets and reconciliation requirements; • Escalation procedures for accounts with low or overdrawn balances; • Defining authorisation levels for access to safes; • Arrangements for obtaining resident authorisation for cash withdrawals; • Creation and retention of records including officers receiving cash; • Evidence of spend requirements where residents withdraw cash and where officers purchase on behalf of residents; and • Checks to ensure residents receive goods purchased. (H)

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Residential Care Homes – Managing Residents’ Monies cont’d			Major Improvement Needed	<p>The updated Imprest procedure notes should be finalised and circulated to all relevant teams and care homes. (H)</p> <p>All debit [overdrawn] balances must be investigated and corrective action taken. (H)</p> <p>Implement a strict policy whereby officers undertaking banking duties do so in pairs, driving to the bank where possible. (H)</p> <p>The auditor has given the AD for Service Delivery a copy of Internal Audits’ safe guidance and detailed recommendations on the use of safes. These procedures should be implemented immediately. (H)</p> <p>The recommendations as above include guidance on storing bank cards and PINs but the service should work with the Financial Assessment & Benefits Team to determine the capacity of residents to keep their own bank cards or PINs. (H)</p> <p>Clear communication must be sent to all homes prohibiting officers from using their own funds to make purchases on behalf of residents. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Overtime	<p>The cost of overtime has fallen in terms of total spend since the last audit and payments of time and a half and double time overtime rates are now minimal. Both ASC and Children's Services have been working with the SCC Recruitment Team and Manpower to improve recruitment success and reduce the use of O/T and agency staff.</p> <p>The actual cost of additional pay has not been readily available at a detailed level but the Finance Dashboard due by 31 March 2013 will help address this.</p>	<p>Overtime and bank costs are not routinely monitored as separate forms of payroll costs as they are not separately coded to a specific SAP general ledger code, although overtime and bank costs are given a distinct 'wage type' code in SAP. This can hinder managers' detailed monitoring of costs without specialist support.</p> <p>Local monitoring of bank staff hours and overtime is primarily through rosters and time administration within teams. However, central monitoring is needed for hours paid to bank staff, for example, to confirm compliance with the European Working Time Directive or to identify bank workers who are effectively working full-time hours</p> <p>At present, there is no consolidated service report on all the key factors that might be needed to identify areas where managers need constructive challenge on their use of different forms of additional staffing to address shortfalls. The Auditor worked with the HR Relationship Manager for ASC to develop a potential monitoring tool to begin to address this need.</p> <p>There is a relatively higher level of spend on agency staff in Child Protection Teams. This is both expensive and raises potential questions regarding the quality of service.</p>	Some Improvement Needed	<p>HR Information and Finance staff should continue to develop reports for budget holders and corporate reporting that analyse all additional payroll costs, including any ad hoc reporting tools that Services request and clearly need. (M)</p> <p>HR Management Information staff should provide Services with periodic extracts of data on hours worked. Services should be requested to review the data and confirm that there are no concerns regarding bank staff working 36hours or any staff working 48 hours or more per week. (M)</p> <p>ASC should pilot the use of the workforce monitoring tool developed in discussion with the HR Relationship Manager and Internal Audit. The ASC HR Relationship Manager should subsequently consider how the tool might be enhanced or adapted for use in monitoring other ASC teams. (M)</p> <p>Children's Services should continue to make every effort to replace some of its agency staffing used in Child Protection, with SCC directly employed and trained staff. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Social Media	<p>The use of Social media for the purposes of engagement presents a relatively new risk area to the council particularly in the form of brand management risks. Other considerations are the 'leakage' of sensitive data and conflicting corporate messages.</p>	<p>SCC senior management have a moderately positive attitude towards the use of Social Media as a means of reaching Surrey residents. However there is an absence of formal policy and as such simple controls such as account ownership details and password recording is not mandatory.</p> <p>Activities such as posting pictures of children on a social network require a corporate stance to ensure that basics like release forms for the photos are explicitly required.</p> <p>Brand management considerations such as target audience and appropriate message medium are unlikely to be considered without prompting from communications professionals.</p>	Some Improvement Needed	<p>A policy is developed that includes the following points:</p> <ol style="list-style-type: none"> 1. Minimum behaviour standards (M) 2. Tactical planning (H) 3. Business continuity (H) 4. Advice on use of personal social media (H) 5. Video and photographic content is formally documented for public release (H)

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Concessionary Fares	<p>The responsibility for the administration of English National Concessionary Travel Scheme moved to County Councils and Unitary Authorities in April 2011.</p>	<p>The Travel and Transport Group and the Library Service produced a Memorandum of Understanding in October 2010 to outline the joint requirements and obligations of both parts of the organisation. This has been used as a working document since the administration of the scheme came into effect in April 2011 but has not been reviewed and does not reflect current operations.</p> <p>Data was found to be of poor quality and therefore, the management information produced from the system may be inconsistent.</p> <p>Contract monitoring should be improved so that contract performance could be managed to ensure that the contractor's obligations are met and value for money is achieved.</p>	Some Improvement Needed	<p>The MoU should be reviewed as a matter of priority by both services and appropriate service delivery methods and levels should be agreed. (H)</p> <p>Data integrity should be made a priority by separating inactive information and updating current pass holder details with accurate information. (H)</p> <p>Travel and Transport Group should ensure that robust contract management arrangements are in place for all current contracts. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Performance Management - Data Quality</p>	<p>High quality data is required to assist officers and members in making informed, evidence-based decisions that support continuous improvement and helps ensure stakeholder confidence in those decisions.</p> <p>The council's Data Quality Strategy has now been replaced by the One County, One Team Quality Management Framework, launched in April 2012.</p> <p>To form an opinion on the quality of underlying data the auditors reviewed a sample of 11 performance indicators that had been reported to both Corporate Board and the Cabinet through the Quarterly Business report.</p>	<p>The completed work identified that for the most part the quality of data collection systems – and the data itself – were adequate for the compilation and reporting of the indicators reviewed.</p> <p>Indicators reviewed were:</p> <ul style="list-style-type: none"> • Cost per contact (calls, e-mail and web) • FTE Count and associated Budget • Percentage of residents who are satisfied with the way their Council runs things; • Percentage of residents who feel their Council provides good value for money for Surrey; • Residents' satisfaction with their neighbourhood as a place to live; • Residents feeling they can influence decisions; • Residents feeling that SCC keeps people informed; and • Percentage of residents who were satisfied with how they were served by SCC staff • Looked After Children Health and Dental Checks • Percentage of high-priority road defects made safe within 24 hours • Percentage of Freedom of Information Act requests responded to within 20 working days 	<p>The range of opinions given to the specific indicator audits spanned Effective through to Major Improvement Needed (LAC Health & Dental Checks)</p> <p>Management actions plans have been agreed at a local level to determine appropriate recommendations to improve the existing processes</p>	<p><i>Cost Per contact:</i> The data collection and reporting processes for the performance indicator were assessed as reasonable, and the opinion given following this review was that there was "Some Improvement Needed" as it was recommended that Customers and Communities consider creating separate performance indicators for web hits, emails and phone calls (M)</p> <p><i>LAC Health & Dental Checks:</i> The service should consider undertaking an in-depth examination of potential areas of improvement related to this indicator, including costing of any identified remedial actions (H)</p> <p>Until a detailed performance analysis has been completed, the service should consider changing the target profile for this indicator to relate more closely to the existing performance pattern (H); and</p> <p>The service should consider either including a holding document (e-mail from LAC Co-ordinator or record of phone conversation) in a child's file pending receipt of the written summary document, or recording health checks as being completed only when that document has been received (H).</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Materials Testing Laboratory	<p>The Materials Testing Laboratory (MTL) forms part of Asset Planning Group and currently holds national accreditation to perform over 70 materials tests. Work is concentrated on testing, auditing and reporting on compliance standards for the major highway maintenance contracts in Surrey which form the substantial part of the capital maintenance programmes for carriageway and footway assets. With expenditure of approximately £1.323m per annum the MTL also offers its services to around 70 external users.</p>	<p>The MTL is a valuable resource to SCC undertaking a critical role in ensuring that management receives accurate and knowledge based information on the condition and maintenance of its highway assets. It ensures that assets are maintained or repaired to the required standards in order that the maximum benefit may be derived from budgets.</p> <p>The MTL offers its services to external clients in both the private and public sectors and the income this generates helps to reduce the overall cost of the service. This, and avoidance of additional expense associated with external provision of a similar service, would appear to provide a measure of 'Value for Money' both to the Council and the residents of Surrey. In the course of this work MTL has built up a reputation for high quality work which reflects well not only on the service but Surrey County Council as a whole.</p>	Some Improvement Needed	<p>Management should consider a revision to the coding arrangements within the ETCi system in order that a more detailed breakdown is available for billing purposes. In addition, regular checks should be undertaken to ensure that the recharged hours are broadly in line with those expected for the work completed in the period. Where significant variations arise then explanations for these should be sought. (H)</p> <p>Management should revisit the calculations of recharge rates in order to ensure that the constituent parts are fully identified and costed to enable better informed decisions on applicable rates. As far as possible staff hours should be recharged at a consistent rate which ensures the recovery of actual costs incurred. (H)</p>

¹ Audit Opinions

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

² Audit Recommendations

Priority High (H) - major control weakness requiring immediate implementation of recommendation

Priority Medium (M) - existing procedures have a negative impact on internal control or the efficient use of resources

Priority Low (L) - recommendation represents good practice but its implementation is not fundamental to internal control

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AUDIT & GOVERNANCE COMMITTEE
6 December 2012

RISK MANAGEMENT HALF YEAR REPORT

SUMMARY AND PURPOSE:

This half-year risk management report has been produced to enable the committee to consider the risk management activity from April 2012 to date. It also presents the latest Leadership risk register.

RECOMMENDATIONS:

Members are asked to:

- a) consider the contents of this report and confirm they are satisfied with the risk management arrangements; and
- b) Review the Leadership risk register (Annex B).

BACKGROUND:

1. The terms of reference of the Audit and Governance Committee include the requirement to monitor the effective development and operation of the council's risk management arrangements.
2. This report summarises the risk management activity from April 2012 to date and outlines future activity and development.

CONTEXT:

3. The Corporate Finance Team structure has been reviewed in order to align with improved processes and new ways of working resulting from the Financial Management PVR. The Risk and Governance Manager is now part of the newly formed Transformation and Development team and reports to the Transformation and Development Manager. This team is responsible for ensuring the functions of the Finance Team and financial management across the organisation are continually developed and efficient.

ACTIVITY:

4. Annex A shows the separate risk activity that has taken place over the period April – October 2012.

Risk registers

5. The Leadership risk register continues to be reviewed by the Risk and Resilience Steering Group and Corporate Board on a monthly basis and then presented to Cabinet as part of the quarterly business report.
6. A one page summary of all the strategic director risk registers has been developed to give an overview of the risk appetite of the organisation and provide context when reviewing the leadership risk register by the Risk and Resilience Steering Group and Corporate Board. It will also help to provide consistency across the directorates in relation to risk areas and residual risk levels.
7. Six of the seven strategic director risk registers continue to be regularly updated by the directorate risk leads and coordinated by the Risk and Governance Manager to ensure they reflect the Leadership risk register and vice versa. The Strategic Director for Environment and Infrastructure risk register has yet to be finalised following their restructure.

Risk groups

Council Risk and Resilience Forum (CRRF)

8. A review of the CRRF arrangements has led to some changes in the way information is cascaded and the involvement of service representatives. There will be two annual meetings of the CRRF (previously bi-monthly) and four workshops per year to provide updates on changes in the risk landscape, projects that are delivering resilience benefits and briefings on emerging and current risks.
9. A renewed set of clear expectations has been communicated to all the risk reps to aid understanding of the role and ensure consistency across the services.

Risk Network

10. A Risk Network event was held by the Risk and Governance Manager on 27 November for all officers involved in risk activity. Risk reps took part in an interactive 'risk challenge' to raise awareness of risk management and help reps understand their role and responsibilities.

ASSURANCE:

Internal audit

11. An audit of Health and Safety has been completed that covered the overall Health and Safety monitoring and reporting arrangements and a review of risk assessments. The overall audit opinion was some improvement needed and it was noted that improvements had been made since the last audit. An update on the management action plan is provided within the Completed Audit Reports item on the agenda.

LEADERSHIP RISK REGISTER:

12. The Leadership risk register (Annex B) is owned by the Chief Executive and shows the council's key strategic risks. The register is reviewed by the Risk and Resilience Steering Group (chaired by the Assistant Chief Executive) and then by the Corporate Board as part of their performance, finance and risk monitoring.

13. To assist the committee in gaining assurance on the monitoring and review of risks on the Leadership risk register, the register also identifies when specific areas have been included on Select Committee agendas.

IMPLICATIONS:

Financial

Ineffective risk management arrangements may lead to increased costs or inefficiencies due to poor controls or lack of timely action.

Equalities

There are no direct equalities implications of this report.

Risk management

Embedded risk management arrangements will lead to improved governance and effective decision-making.

REPORT AUTHOR: Cath Edwards, Risk and Governance Manager

CONTACT DETAILS: 020 8541 9193 or cath.edwards@surreycc.gov.uk

Sources/background papers: Risk Management annual report

Strategic risk meetings:

- 3 Risk and Resilience Steering Group meetings
- Meetings with Assistant Chief Executive
- Meetings with directorate risk leads

Operational risk meetings:

- 3 Council Risk and Resilience Forum meetings
- 2 Health & Safety operations team meeting
- 2 Central Joint Safety Committee meetings

Risk reporting:

- Leadership risk register reported to Corporate Board, Cabinet and Audit and Governance Committee

Support and integration:

- Meetings with colleagues from Policy & Performance and Change Team
- Virtual risk team meetings
- Risk network event
- Business continuity exercises
- Supported health and safety service training courses

External meetings and training:

- CIPFA Benchmarking Club review meeting

Ref	Cross - ref to directorate registers	Description of the risk	Inherent risk level (no controls)	Existing controls	Risk owner - Officer	Risk owner - Member	Residual risk level (after existing controls)	Committee review
L1	ASC2 CAC1,8,15 CAE9 CSF2 EAI6,7	Medium Term Financial Plan - Failure to achieve savings in the Medium Term Financial Plan (2012-2017) and additional service demand leads to increased pressure on service provision and damage to reputation.	High	- Monthly reporting to Corporate Board and Cabinet on the forecast outturn position to enable prompt management action - Generation of alternative savings and income - Adequate provision through the risk contingency	Corporate Leadership Team / Sheila Little	David Hodge	High	Council Overview & Scrutiny Committee - on each agenda Adult Social Care SC: - 30 November 2012 (Budget monitoring) Children & Families SC: - 20 September 2012 (Budget monitoring)
L14	ASC5 CAE17 CSF22	Future Funding - Gradual erosion of the council's main sources of funding (council tax and the proposed new method of calculating formula grant) upon which the council is highly dependent and reductions in other funding (for example in relation to academy schools) leads to financial loss, damage to reputation and failure to deliver services.	High	- Continued proactive modelling and horizon scanning of the financial implications of local government funding changes and subsequent review of Medium Term Financial Plan (2012-2017) assumptions as relevant - Close working with district and borough colleagues to shape the direction of council tax localisation and business rate retention policies as well as active responses to government consultations - Development of longer-term funding strategy to develop alternative sources of funding - Not withstanding actions above, there is a high risk of central government policy changes impacting on the council's financial position.	Corporate Leadership Team / Sheila Little	David Hodge	High	Audit and Governance Committee: - 3 October 2012 (Funding Strategy update) Adult Social Care SC: - 19 September 2012 (Social Care funding) Council Overview & Scrutiny Committee: - 5 December 2012 (Funding Strategy)
L7	CAE12 EAI1,2	Waste - Failure to deliver key waste targets (including key waste infrastructure) could lead to negative impact	High	- This is a priority issue for the service manager with strong resourcing and project planning in place that is monitored at board level. - Further work with the Districts and Boroughs continue, to review waste plans to achieve the targeted increase in recycling. - Not withstanding the controls above, there is still a risk that delivery could be delayed by external challenge and levels of recycling are strongly influenced by district and borough collection arrangements which are not within SCC's direct control. Although the council continues to work in partnership to achieve the desired outcome.	Trevor Pugh	John Furey	High	Environment & Transport SC: - 1 March 2012 (Waste Partnership)

Ref	Cross - ref to directorate registers	Description of the risk	Inherent risk level (no controls)	Existing controls	Risk owner - Officer	Risk owner - Member	Residual risk level (after existing controls)	Committee review
L11	ASC12 CEO7 CSF18	Information Governance - Failure to effectively act upon and embed standards and procedures by the council leads to financial penalties, reputational damage and loss of public trust as a result of enforcement action taken by the Information Commissioner.	High	- Secure environment through the Egress encrypted email system - Internal Audit Management Action Plans in place that are monitored by Audit & Governance Committee and Select Committees - Ongoing communications campaign and training - Monitoring of compliance by Quality Board and Governance Panel - Despite the actions above, there is a continued risk of human error that is out of the council's control.	Corporate Leadership Team	Denise Le Gal	High	Council Overview & Scrutiny Committee: - Monitored through internal audit reports
L3	CAC2,5,12 CAE3 CEO3	Business Continuity, Emergency Planning and the event of industrial action - Failure to plan, prepare and effectively respond to a major incident results in an inability to deliver key services	High	- The Risk and Resilience Steering Group meets regularly to coordinate and lead on resilience planning. -all services have adequate and up to date business continuity plans, - Continued consultation with Unions and regular communication to staff.	Corporate Leadership Team	Kay Hammond	Medium	Council Overview & Scrutiny Committee: - date tbc (Business Continuity)
Page 180	ASC4,9 CAE1,2,16 CAC13 CSF4 EAI4,8	Fit for the Future - Failure to deliver major change programmes and drive effective partnership working leads to the organisation not being fit for purpose, an inability to meet efficiency targets, improve performance and drive culture change	High	- Delivery of change is tracked at both directorate and Corporate Board level with key indicators included in the Quarterly Business Report to the Cabinet. - Communications, engagement and the STARS programme are designed to respond to identified issues and gaps.	Corporate Leadership Team	Cabinet	Medium	Council Overview & Scrutiny Committee: - 14 November 2012 (Procurement Partnership)
	L9	ASC11 CAE13 CSF8	NHS Reorganisation - The Health and Well Being Board does not provide the necessary whole system leadership to implement the Health and Social Care Act.	High	- SCC identified as a National Leader in implementing the Health and Social Care Act. - Transition to new system is being managed well with strong joint leadership arrangements in place	Sarah Mitchell	Michael Gosling	Medium
L4	CAE5,7	IT systems - major breakdown and disruption of systems, including the data centre, leads to an inability to deliver key services	High	- Proactive monitoring of IT system design, implementation and roll-out to ensure delivery to specification and within deadlines - Disaster recovery centre is up and running - Proactive monitoring of existing systems to minimise likelihood of system failure - Migration into the Primary Data Centre in Redhill throughout Autumn 2012.	Julie Fisher	Denise Le Gal	Medium	Council Overview & Scrutiny Committee: - 16 May 2012 (IT rollout update)
L5	ASC7,16 CSF6,16	Safeguarding - avoidable failure in Children's and/or Adults care leads to serious harm or death	High	- Appropriate and timely interventions by well recruited, trained, supervised and managed professionals, with robust quality assurance and prompt action to address any identified failings	Sarah Mitchell / Caroline Budden	Michael Gosling / Linda Kemeny	Medium	Children & Families Select Committee and Adult Social Care Committee: - on each agenda

Key to references:

ASC = Adult Social Care
CAC = Customers and Communities
CAE = Change and Efficiency

CEO = Chief Executive's Office
CSF = Children, Schools and Families
EAI = Environment and Infrastructure

Ref	Risk	Date Added	Residual risk level when added	Movement		Current residual risk level
L1	Medium Term Financial Plan	Aug-12	High	-	-	High
L2	Fit for the Future	May-10	High	Jan-12	↓	Medium
L3	Business Continuity and Emergency Management	May-10	Medium	Aug-12	↓	Medium
L4	IT systems	May-10	Medium	-	-	Medium
L5	Safeguarding	May-10	Medium	-	-	Medium
L6	<i>Resource Allocation System in adults personalisation</i>	<i>May-10</i>	-	<i>Aug-12</i>	*	-
L7	Waste	May-10	High	-	-	High
L8	<i>Integrated Childrens System</i>	<i>May-10</i>	-	<i>Feb-11</i>	*	-
L9	NHS reorganisation	Sep-10	High	Jan-12	↓	Medium
L10	<i>2012 project management</i>	<i>Sep-10</i>	-	<i>Aug-12</i>	*	-
L11	Information Governance	Dec-10	High	-	-	High
L12	<i>LLDD budget transfer</i>	<i>May-11</i>	-	<i>Mar-12</i>	*	-
L13	<i>2012 command, control, coordination and communication</i>	<i>Dec-11</i>	-	<i>Sep-12</i>	*	-
L14	Future Funding	Aug-12	High	-	-	High

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AUDIT & GOVERNANCE COMMITTEE
6 December 2012

GOVERNANCE UPDATE REPORT

SUMMARY AND PURPOSE:

The purpose of this report is to provide a half year update on the 2012/13 areas of focus outlined in the 2011/12 Annual Governance Statement.

RECOMMENDATIONS:

The Committee is asked to:

- a) Confirm they are satisfied with the ongoing governance work; and
- b) Refer any concerns to the Cabinet or relevant Cabinet Member.

INTERNAL CONTROL ENVIRONMENT:

- 1 The 2011/12 Annual Governance Statement (AGS) identified a number of areas within the internal control environment that require strengthening in order to enhance the overall governance arrangements.

Direct Payments (DPs)

- 2 'Social care reviews should be conducted at least annually in accordance with stated policy and DP account reconciliations should refer to the associated support plan that details the purpose the DP has been agreed for.'

A follow up audit is currently underway and the findings of the Direct Payment review group were reported to the Adults Social Care Select Committee on 30 November.

Rental Income

- 3 'There should be monitoring of rents received at property level by Estates Planning and Management with appropriate debt recovery arrangements in place.'

An update on progress is included within Annex C (Management Action Plan – progress update) of the Completed Internal Audit Reports item.

Health and Safety (H&S)

- 4 'There is a need to record investigations and share outcomes/actions to ensure corporate learning.'

An audit of Health and Safety has been undertaken and the findings reported to the Audit and Governance Committee in September 2012. An update is also included within Annex C (Management Action Plan – progress update) of the Completed Internal Audit Reports item.

Capital Monitoring

- 5 'There is a need for more robust challenge of forecast expenditure as well as improved mechanisms to ensure capital spending priorities are delivered in a timely manner.'

An update on progress is included within Annex C (Management Action Plan – progress update) of the Completed Internal Audit Reports item.

Information Governance

- 6 'The council needs to continue to foster a culture where every individual sees data protection as part and parcel of their role, particularly as the council is moving towards more mobile/flexible working arrangements.'

An audit of data protection compliance has been undertaken and the findings were reported to the committee in September 2012. An update is also included within Annex C (Management Action Plan – progress update) of the Completed Internal Audit Reports item.

2012/13 GOVERNANCE ARRANGEMENTS:

- 7 Updates on many different areas of governance are continuously reported to senior management and members through Boards, Steering Groups and Select Committees. The Governance Panel and the Quality Board are specifically responsible for ensuring the adequacy of the arrangements.
- 8 The 2011/12 Annual Governance Statement (AGS) identified three areas of focus for the 2012/13 year to ensure continual improvements in governance:
- Engagement and involvement
 - Localism
 - Information governance
- 9 The information below provides an update on recent developments that the council is working on, governance arrangements that are already in place and areas that internal audit have reviewed in relation to the three specific areas of focus outlined above.

Engagement and involvement

- 10 The council continues to strengthen its approach to engagement and involvement following the publication of *One County One Team – our commitment to public involvement* in March 2012.
- 11 Existing activity to gather feedback from residents has carried on such as the quarterly **Surrey Residents Survey** commissioned jointly with Surrey Police as well as a range of **service or topic specific consultations** to help inform and shape council services (e.g. consultation on the Local Flood Risk Management Strategy or consultation related to changes at schools across Surrey). **Web casts** of council meetings are available on the council's website and the council's **digital press office** has made accessing the latest news stories about the council much easier.
- 12 New initiatives to strengthen resident engagement and involvement include the council's **budget consultation** for 2013-18 which was launched to the public

on Monday 29 October 2012. The council is working with a research company to gather data on residents' spending priorities to understand which services they value most. The results will show which services residents would prioritise spending on and the likely impact that budget changes will have on resident satisfaction. The consultation is accessible through the Council's website, and 150 people are also being interviewed to ensure a representative sample of Surrey's population is included in the results.

- 13 The way the council engages residents through its 11 **local committees** has also been reviewed as part of the council's Public Value Review programme and a report was presented to the Cabinet on 27 November 2012 setting out a series of recommendations aimed at strengthening its approach. The Cabinet Member for Community Services and the 2012 Games will be working with the Local Committee Chairmen to agree how the recommendations will be taken forward.
- 14 The council's use of **social media** has increased. A recent Internal Audit review of social media found that the council operates 15 official Twitter feeds excluding libraries, a Facebook page, a Youtube channel and a Flickr account. These provide new ways to disseminate information and engage with the people that the council serves. It was also noted that the council has already used social media in an operational capacity with some success in the winter snows of 2010-2011.
- 15 The Internal Audit found that the council's approach to the social media landscape is unstructured. Core digital communications functions such as the communications team, the web operations team and virtual content team have a clear purpose to their social media activities; however the rest of the council did not, in the opinion of the auditor appear to share this clarity. The audit recommended that a strategy should be created to cover social media activities. This strategy should clearly detail what corporate values or objectives social media should support e.g. increasing influence of residents or improving quality through innovation etc.
- 16 The Council is committed to strengthening its capacity and capability to innovate and a paper was presented to Cabinet on 27 November that outlined the council's **approach to innovation**. A corporate **peer challenge** will take place in February 2013, which will focus on the council's innovation capacity and capability.

Localism

- 17 A wide range of activities relating to the localism agenda are being undertaken by the council, varying in scale from small consultation events to public service transformation. Teams across the council have ensured that the council was well prepared for the additional provisions that came into force in April 2012.
- 18 The most recent change has been the **abolition of the Standards Board** and changes to the standards regime. The revised arrangements were approved and adopted by Council in July 2012.

Information governance

- 19 An Internal Audit review of **data protection compliance** completed in July 2012 concluded that the council generally has appropriate policies and procedures in place to ensure compliance with Data Protection, however more work was required to define practices around taking sensitive data out of council premises. The Corporate Information Governance Manager agreed to

work with HR to look into practices of using personal and confidential data and information whilst working from home. The transformation team and IMT are to be involved in this review of associated policies and procedures.

In a recent audit of **records management**, audit testing delivered positive results with records generally being secure, well managed, and conscious of retention schedules and recording systems accurate.

The audit did identify some issues over physical security of sensitive records in county hall although these are somewhat mitigated by overall building security and appropriate procedures now being in place for recording archive information and the increased use of electronic storage.

IMPLICATIONS:

Financial

20 There are no direct financial implications of this report.

Equalities

21 There are no direct equalities implications of this report.

Risk management

22 Sound governance and internal control leads to improvements in council performance.

WHAT HAPPENS NEXT:

Governance update reports will be provided to future Committee meetings.

REPORT AUTHOR: Ann Charlton, Chair of Governance Panel

CONTACT DETAILS: 020 8541 9001 or ann.charlton@surreycc.gov.uk

Sources/background papers: 2011/12 Annual Governance Statement, governance review working papers

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