

## Notice of Meeting

# Audit & Governance Committee



**Date & time**  
**Thursday, 21**  
**February 2013**  
**at 10.00 am**

**Place**  
Ashcombe Suite,  
County Hall, Kingston  
upon Thames, Surrey  
KT1 2DN

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

**Chief Executive**  
David McNulty

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**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 MEETINGS - 6 DECEMBER 2012 AND 12 FEBRUARY 2013

(Pages 1  
- 24)

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 (*15 February 2013*).
2. The deadline for public questions is seven days before the meeting (*14 February 2013*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

### 5 RECOMMENDATIONS TRACKER

(Pages  
25 - 40)

To review the Committee's recommendations tracker.

### 6 EXTERNAL AUDIT - CERTIFICATION OF CLAIMS AND RETURNS

(Pages  
41 - 56)

The purpose of this report is to inform members of the work undertaken by the council's external auditors on the certification of claims and returns and the findings and recommendations relating to that work.

### 7 EXTERNAL AUDIT PROGRESS REPORT

(Pages  
57 - 62)

The purpose of this report is to inform members of the work undertaken by the council's external auditors on the certification of claims and returns and the findings and recommendations relating to

that work.

**8 REVIEW OF THE PAMS SYSTEM** (Pages 63 - 70)

The purpose of this report is to introduce the Property Asset Management System implementation project and update the Committee on progress made in the delivery of a new Property Asset Management System.

**9 COMPLETED INTERNAL AUDIT REPORTS** (Pages 71 - 84)

The purpose of this report is to inform Members of the Internal Audit reports that have been completed in the period November 2012 – January 2013

**10 PUBLIC SECTOR INTERNAL AUDIT STANDARDS** (Pages 85 - 88)

The purpose of this report is to inform Members of the new Public Sector Internal Audit Standards (PSIAS) which come into effect on 1 April 2013. These standards are mandatory and should underpin the Internal Audit arrangements within the Council. The Chief Internal Auditor will be expected to report on conformance with the PSIAS in her annual report.

**11 LEADERSHIP RISK REGISTER** (Pages 89 - 96)

The purpose of this report is to present the latest Leadership risk register and update the committee on any changes made since the last meeting.

**David McNulty**  
**Chief Executive**  
Published: 13 February 2013

**MOBILE TECHNOLOGY – ACCEPTABLE USE**

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**MINUTES** of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 9.30 am on 12 February 2013 at G10, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its meeting.

**Elected Members:**

Mr Nick Harrison (Chairman)  
Mr W D Barker OBE (Vice-Chairman)  
Mr Stephen Cooksey  
Mr Mel Few

**Apologies:**

Denis Fuller, Substituted by Mr David Harmer

**In Attendance**

Sheila Little, Section 151 Officer  
Tom Pooley, Scrutiny Officer  
Allan Wells, Lead Legal Manager

**1/13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies were received from Denis Fuller. David Harmer was appointed as a substitute.

**2/13 DECLARATIONS OF INTEREST [Item 2]**

There were no declarations of pecuniary interests.

**3/13 QUESTIONS AND PETITIONS [Item 3]**

There were no questions or petitions.

**4/13 BUSINESS PLANNING 2013-2018 [Item 4]**

**Witnesses:**

Sheila Little – Chief Finance Officer

**Key points raised during the discussion:**

It was suggested that with regards to recommendation (c), 'That the PWLB borrowing strategy be supported by fixed trigger points at which instigation to borrow be taken', there be a future report to both Audit & Governance and Council Overview & Scrutiny Committees to discuss these triggers and determine when borrowing is the correct course of action.

**RESOLVED:**

That the decisions agreed in relation to the Treasury Management Strategy on 1 February 2013, be endorsed.

**Actions/further information to be provided:**

None.

**Committee next steps:**

A joint report to Audit & Governance and Council Overview & Scrutiny Committees on the subject of borrowing trigger points will be submitted to a future meeting (**Recommendations tracker ref: A1/13**)

**5/13 REPORT OF THE MONITORING OFFICER: DISPENSATION FOR MEMBERS TO ENABLE THEM TO PARTICIPATE IN THE COUNCIL BUDGET MEETING [Item 5]**

**Witnesses:**

Sheila Little – Chief Finance Officer  
Allan Wells – Lead Manager, Legal

**Key points raised during the discussion:**

It was noted that the Council had received legal advice from Central Government that granting a dispensation was not necessary, as being a

council tax payer was not a disclosable pecuniary interest in itself. However, officers in Legal Services had advised the Committee to hear the recommendation as a precaution.

**RESOLVED:**

That all County Councillors are granted a dispensation to enable them to participate in and vote at the Council budget meeting on 12 February 2013.

**Actions/further information to be provided:**

None.

**Committee next steps:**

None.

Meeting ended at: 9.39 am

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**Chairman**

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**MINUTES** of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 6 December 2012 at Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its meeting.

**Elected Members:**

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

**In Attendance**

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 (for items 1 – 7)  
Helen Rankin, Regulatory Committee Manager

## **82/12 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

There were none.

## **83/12 MINUTES OF THE PREVIOUS MEETING: 3 OCTOBER 2012 [Item 2]**

The minutes were agreed as a true and correct record.

## **84/12 DECLARATIONS OF INTEREST [Item 3]**

There were none.

## **85/12 QUESTIONS AND PETITIONS [Item 4]**

There were none.

## **86/12 RECOMMENDATIONS TRACKER [Item 5]**

### **Declarations of Interest:**

None.

### **Officers:**

Sheila Little, Section 151 Officer

### **Key Points Raised During the Discussion:**

1. It was noted that Adult Social Care Select Committee had considered a report on 30 November 2012 related to Social Care Debt. An update was provided in the Committee Bulletin (at Annex A to the tracker). Mel Few, who was also a member of the Adult Social Care Select Committee, advised that there had been unexpected rise in unsecured debt, which may have been a result of staffing resource issues. The select committee would continue to be kept updated on progress.
2. In relation to R3/12 (direct payments), Members noted that a recent audit report showed that although progress had been made, the audit opinion was still 'major improvement needed'. This was in part because so many assessments still needed to be completed, that even with the significant progress, there was still some way to go.
3. In relation to A58/11 (pension payments), the Chairman confirmed he had discussed the item with the Pensions Manager and the legal officer handling the case. The Chairman had seen the latest email correspondence between the Council and the Borough Council and while the matter had not been fully concluded, an agreement had been accepted in principle. It was expected that the payment would be made at the beginning of January 2013 and the Section 151 Officer clarified that the only reason it was not happening in December was due to payroll being run earlier than normal. It was agreed that the Section 151 Officer would circulate a note to the Committee when the matter was concluded. **(Recommendations tracker Ref: A58/11).**
4. In relation to A14/12 (internal audit reports on S-Net), the Regulatory Committee Manager confirmed that a new committee management system (ModernGov) had now been purchased and was being used. There were some technical issues uploading documents to the system at the moment. As soon as the problems were resolved internal audit reports would be uploaded, as agreed.

5. In relation to A34/12 (vacancy review), Mel Few (also Chairman of the Council Overview & Scrutiny Committee - COSC), advised that the report on vacancies had been presented at the last COSC meeting. As there had been some clear differences on the conclusions of the item, he had agreed to withdraw that item until the next meeting so that recommendations could be reassessed.
6. In relation to A42/12 (waste contract), the Section 151 Officer advised that she had spoken to the Strategic Director for Environment & Transport and could confirm that the risk should remain 'high' on the leadership risk register. This was because of the significant implications should the contract fail in anyway; however, it was stressed that there was no indication that the contract would fail.
7. In relation to A43/12 (partnership working), the Section 151 Officer advised that she still had as much access to all of the strategic directors as required and as before this arrangement was put in place. The Strategic Director for Customers and Communities, who was working part time as the Chief Executive of Mole Valley District Council in a partnership arrangement had also been present at all Corporate Leadership Team meetings. Some of her responsibilities had been taken on by other directors, but the Section 151 Officer confirmed that they were working together as a team to manage the interim arrangements.

*Mr Tony Elias joined the meeting at 10.15am.*

8. In relation to A44/12 (treasury management task group), the Chairman advised that the Task Group had a joint meeting with the Finance Sub Group of COSC. The Strategic Finance Manager for Pension Fund & Treasury had taken Members through the basic foundation of the funding strategy including major drivers. The Section 151 Officer explained that the revised treasury management strategy would be approved as part of the budget process and therefore it would go to COSC ahead of the budget meeting in January. It was agreed that consideration should be given to holding a joint meeting of COSC and Audit & Governance Committee to consider the strategy **(Recommendations tracker ref: A52/12)**. The Section 151 Officer also explained that the strategy would be more prominent in the Cabinet report than in previous years.
9. In relation to A45/12 (schools early close), the Finance Manager (Assets & Accounting) advised that a mini project on schools accounts closing was underway. There were 3 main areas where delays were being caused: 1) recharges by the Council or Babcock 4S, 2) Capital closing impacting on revenue, 3) Easter holidays. The Finance Manger pointed out that Easter falls early in 2012/13, so this should not cause a problem. The project team were looking at what other authorities were doing, including Kent County Council who were having a degree of success in running "closing" workshops with schools.
10. In relation to A47/12 (Telecare), Members heard that one year ago it was projected that the Telecare project would generate £1million savings in the Adult Social Care Directorate. This projection had now fallen to £200,000, however matters were progressing.

11. In relation to A48/12 (Waste contract management audit report), the Chief Internal Auditor agreed to circulate a written update  
**(Recommendations tracker ref: A48/12).**
12. With regards to A49/12 (select committee review of audit reports), the Chairman confirmed that he had spoken to the Leader about this matter. He suggested that if the Audit & Governance Committee considers the findings of an audit report to be of such significance it should be reviewed by the relevant select committee, then the Audit & Governance Committee should be making that recommendation. Members agreed that a letter from the Chairman of the Audit & Governance Committee to select committee chairmen, about the importance of internal audit reports would be helpful.  
**(Recommendations tracker ref: A53/12).**
13. In relation to A51/12 (recruitment vetting procedures), the Chief Internal Auditor explained that her team were working closely with HR on vetting procedures. The CIPFA Better Governance Forum had also recently issued a publication on recruitment practices, which had been shared with HR, so that they could look at best practice related to the fighting fraud locally agenda.

**Actions/further information to be provided:**

That the recommendations tracker be updated to reflect the action points noted above.

**RESOLVED:**

The Committee noted the report and agreed that the items on pages 25 and 26 were complete and would be removed.

**Committee next steps:**

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

**87/12 BABCOCK 4S - HALF YEARLY REPORT [Item 6]**

**Declarations of interest:**

There were none.

**Officers:**

Michelle DeBeer, Finance Manager at Babcock 4S  
 Amanda Fisher, Managing Director at Babcock 4S  
 Steve West, Finance Director at Babcock 4S  
 PJ Wilkinson, Assistant Director for Schools & Learning

**Key points raised during the discussion:**

1. Members noted that funds could be moved around for liquidity purposes and asked whether there was audit control on this. The Finance Director explained that cash that sits within Babcock 4S's (4S) remit stays within the 4S bank account and was not moved without Board approval.
2. The Committee requested further information about £10million which was loaned within the Babcock Group. The Finance Director advised that during 2011 a project had been championed by Peter Martin (then Cabinet Member for Children & Learning) to look at how spare cash

could be invested. It was eventually put on a one year loan with Babcock Treasury at a 1.5% business rate. The loan commenced on 1 February 2012 and would be repaid on 31 January 2013. Members probed for more information about the security around this arrangement and the Finance Director explained that there was no formal legal charge over it, however, the actual cash was situated in a sister company within his control.

3. Members asked for more information about the risks facing the organisation moving forward. The Finance Director explained that the current economic climate and the increasing pressure on government budgets remained the biggest risk. As Surrey was in the middle of its Medium Term Financial Plan (MTFP), 4S had taken a £4million cut to the main service delivery agreement – the Managing Director advised that this had been the biggest risk in terms of the delivery of the Surrey contract.
4. It was noted that 4S generated surplus cash and Members asked whether Surrey could take a reduction in receipts over the following months. The Managing Director explained that the Board had had long debates about the surplus cash, including consideration of whether it could be loaned to Surrey County Council, but this course of action was deemed inappropriate. The Finance Director advised that much of that cash within the business was from customers who paid in advance such as Surrey schools.
5. It was confirmed that Susie Kemp (Assistant Chief Executive) had recently replaced Julie Fisher (Strategic Director for Change & Efficiency) as the Council's representative on the 4S Board.
6. Members noted that the financial statements showed that there was £6million cash at the end of the year and asked why the £2.1million in the profit and loss account had not been distributed as dividends. The Finance Director explained that paying the dividend had been debated at the last Board meeting. He reported that policy dictated that 90% of profits generated were paid as dividends within 6 months after the financial year had finished. The FRS17 basis for valuing the pension fund deficit in the accounts had been reviewed – although this had reduced the estimated deficit, the deficit was still too high to be able to pay out the full dividend. However, a dividend would be paid that was not greater than the balance on the P&L account.
7. It was noted that in the 2011/12 accounting year 4S had started to pay some of the agreed pension deficit.
8. Members suggested that if 4S were generating more profit than expected they should work together with the Council to share dividends with those who took the initial risk. The Assistant Director for Schools & Learning explained that when the partnership had been set up the economic situation was not as challenging as the current climate. Since 2008, the financial regime had been much tighter and it had been more important than ever to think about priorities. Changing priorities would be carefully considered during the budget setting process. When looking at the future with 4S, the original purposes of the partnership would be considered, but the strategic aim would continue to be to spread excellence through Surrey schools.
9. The Managing reported that Surrey had been given a budget £100,000 to find innovative ways of delivering service. Following a recent meeting between the Surrey County Council Chief Executive, representative on the 4S Board, the divisional Managing Director and the Managing Director, a joint venture was agreed to try and deliver

more with less. It was noted that in the previous year the focus had been on schools that were on the verge of requiring intervention. There had been some great success by pushing the limited funding to support poorly performing schools with the aim of fulfilling the long-term educational plan that every school would be a 'good' school by 2017. The Managing Director felt that Surrey, 4S and Surrey schools were working together in a strong partnership. The Assistant Director for Schools & Learning advised that he worked with 4S officers on a daily basis, but remained a critical friend of the relationship so that he could evaluate it.

10. In terms of redundancy costs, Members queried what impact restructuring had on the service provided. The Finance Director advised that the restructure was necessary due to cuts to the Surrey County Council contract. The level of staffing was revised to meet the Council's requirement in terms of educational outputs. The Managing Director explained this had been done in consultation with partners.
11. It was confirmed that the Council accounted for approximately 60% of business.
12. Members asked whether costs had been cut enough to support lower levels of turnover. The Finance Director advised that from an accounting perspective they recognised revenue based on delivery. For schools this was on a 'school days' basis and consultancy days on a work 'completed' basis. With the loss of two contracts and the cuts to the Surrey contracts, as well as the difficulties in terms of growth of facilities with schools, the Finance Director confirmed that added some pressure.
13. With reference to related party disclosures, Members queried how Babcock International came to be dealing with the Council. The Finance Director explained that there were a number of work streams such as payroll and IT that were provided on a corporate/central level. The Assistant Director for Schools & Learning advised that he dealt essentially only with Babcock 4S and not with Babcock or any other subsidiaries.

**Actions/Further information to be provided:**

None.

**RESOLVED:**

The Committee noted the report.

**Committee next steps:**

The Committee to receive a further update in 6 months.

**88/12 EXTERNAL AUDIT: ANNUAL AUDIT LETTER AND FEE LETTERS [Item 7]**

**Declarations of interest:**

None.

**Officers:**

Paul Grady, District Auditor, previous audit years (Grant Thornton)

Andy Mack, District Auditor (Grant Thornton)

Kathryn Sharp, Audit Manager (Grant Thornton)

### **Key points raised during the discussion:**

1. The new District Auditor, Andy Mack, was introduced to the Committee.
2. The Annual Audit Letter (AAL) was presented to the Committee. It was noted this year's AAL was more brief and succinct, as much of the information that had previously been reported through the AAL had been reported in the Annual Governance Report.
3. Paul Grady advised that it was his last report to the Committee as the external auditor. He thanked everyone he had worked with since 2008 and noted that the Council had been through a number of changes during that time. He had served the normal maximum 5 year period, and noted that only organisations facing disarray were allowed to continue with the same district auditor for a further period of 2 years. Before concluding, Paul Grady said that he had experienced an open and constructive relationship with officers and Members. The Chairman thanked the Audit Commission staff on behalf of the Committee.
4. The external audit fee letters were introduced and showed the audit plan for the next year. It was confirmed that under Grant Thornton the audit opinion would continue to be delivered before the end of September. The only significant difference was the reduction in fee. Members asked how the external auditors were confident they could make a 40% fee reduction without reducing the amount or quality of their audit work. The Committee were informed that Grant Thornton had modern audit systems with programmes that would take over some of the 'back office' functions that had previously been undertaken by staff. Secondly, there would be better management of time in terms of recognising where there were peaks and troughs in workload levels. As Grant Thornton had workstreams across all sectors, staff could be utilised fully and efficiently throughout the year, meaning that during peak times extra staff could be brought in. Finally, the reduced fee was based on the high quality of the last set of accounts.
5. During the discussion, one Member pointed out that previous fees were set by the Audit Commission based on a scale. Members were concerned that the reduced fee confirmed that the Council had paid too much, without producing any tangible benefits. It was confirmed that there would also be efficiencies made in terms of the work produced by the external auditor. For example, the Audit Commission used to produce national reports, a service which would not continue under the new regime. In terms of the previous fees, it was noted that the Council had been on a journey towards improving its governance and the reduced fee was recognition of that. If the Council had not produced such strong accounts in the previous year, the fee would not have been reduced by as much.
6. It was reported that the relationship between internal and external audit would be different moving forward, to ensure proper governance arrangements and internal control.
7. The District Auditor advised that the fee had been set by the Audit Commission, but that Grant Thornton had the right to come back to discuss it during the year if there were concerns about internal control. However, it was stressed that the external auditor accepted that controls were in place and working and therefore the Council should fully benefit from the reduction. It was noted that the 40% reduction was agreed across the country.

8. Members queried whether the 40% would be applied as a floor. The District Auditor confirmed that it would be, based on the assumption that the Council would continue to perform well.
9. The Section 151 Officer concluded the item by thanking Paul Grady and his team. She advised that she had met with Andy Mack and stressed the importance of continuing a strong relationship. She informed the Committee that she had also challenged the fee and would be meeting with the Chief Internal Auditor to discuss how she could rely on the financial controls provided by the Internal Audit team.

**Actions/Further information to be provided:**

None.

**RESOLVED:**

The Committee:

- a) noted the contents of the Annual Audit Letter
- b) reviewed the fee letters.

**Committee next steps:**

None.

**89/12 PROGRESS REPORT ON CREDITOR BALANCE [Item 8]**

**Declarations of interest:**

None.

**Officers:**

Kevin Kilburn, Deputy Chief Finance Officer  
Nikki O'Connor, Finance Manager (Assets and Accounting)

**Key points raised during the discussion:**

1. This report provided the Committee with an update on the creditor balance that had been highlighted in the 2011/12 accounts. During closing period it had been agreed that the balance would not be written off and instead a fuller investigation would be undertaken.
2. The Finance Manager (Assets and Accounting) explained that the investigation had already looked at the top 20 vendors who had balances over £50,000. She was confident that it would be resolved by the current year end, although the smaller balances were likely to be more complicated. The next update would be presented to the Committee in February (**Recommendations tracker ref: A54/12**).
3. Members queried why credit balances had not been cleared. The Finance Manager (Assets and Accounting) explained that it would be if a payment had gone through a non-standard arrangements such as a CHAPS payment.
4. Members asked whether funds would be used to balance overspends in the case that a large amount of this balance turned out to be overstated credit. The Deputy Chief Finance Officer explained that in the case that there was an established amount to be written off, the decision would be put back to Cabinet as to how to reflect the budgeting impact. It was confirmed that if liabilities had been over recorded, the accounts would be corrected before dealing with the favourable budget variance.



5. Members asked how, at the end of the financial year, if the money was not needed, it would be reported in the outturn report and which budgets. The Deputy Chief Finance Officer explained that in the budget outturn report it would be highlighted as a 'global figure' and not as an underspend for any particular service. In addition, it needed to be recognised that any favourable budget variance did not reflect in the current financial year.
6. Members asked how similar situations would be avoided in the future. The Finance Manager (Assets and Accounting) explained that changes had already been made, including regular monitoring of the balance sheet. In addition, an automatic clearing process was being carried out more regularly and monitoring undertaken of anything that was not clear. It was clarified that there was not a real likelihood of this reoccurring.
7. The Chairman felt that this was an important challenge for Internal Audit and Finance – to ensure that the whole population of suspense clearing and special accounts were identified and had appropriate controls around them.

**Actions/Further information to be provided:**

None.

**RESOLVED:**

The Committee:

- a) noted the progress to date
- b) agreed to receive further updates on progress and proposed treatment in the 2012/13 statement of accounts

**Committee next steps:**

The Committee to receive a further update in February 2013.

**90/12 PENSION FUND INVESTMENTS - SEPTEMBER QUARTER [Item 9]**

**Declarations of interest:**

None.

**Officers:**

Phil Triggs, Strategic Manager (Pensions & Treasury)

Jon Evans, Senior Accountant (Pensions & Treasury)

**Key points raised during the discussion:**

1. The Strategic Manager introduced the item and advised that the report presented the Pension Fund portfolio position. The value of the fund was £2.20 billion at the end of the September quarter, however, had subsequently risen to £2.67 billion at the time of print (9 November). It was noted that November had been a good month for the Pension Fund, with rising markets reflecting a growing confidence in the stock market.
2. The Strategic Manager talked the Committee through the report, highlighting paragraph 7 where terminated mandates were detailed. Paragraph 10 highlighted one of the areas that the Investment Advisor's Group (IAG) had discussed at their last meeting, regarding the UK gilts portfolio. Following the discussion at the IAG it was agreed to allocate 50% of the UK gilt portfolio to return to an absolute

return strategy. On 17 December the IAG would be meeting with, and interviewing, prospective Fund managers.

3. Attention was drawn to paragraph 14, where individual performances were recorded. It had been a good quarter for the Fund, with only one fund manager underperforming against benchmark. Over the year the portfolio had performed at 15.1%, above the benchmark return of 14.4%. Members were pleased to see so many managers performing above the benchmark, however asked for more information about the reason that one manager, Mirabaud, had underperformed, particularly as they had traditionally been a higher performer. The Strategic Manager explained that there had been a recovery by the banking sector in terms of share prices during the quarter. Mirabaud had been underweight with regards to banks, but officers were not overly concerned as they were a long term investor with a good long term performance record.
4. The Cabinet Member for Change & Efficiency expanded on paragraph 10 of the report and advised that IAG had considered that there was too much risk associated with the exposure to UK Gilts. Consideration was given to investing away from the UK via a global absolute return product. She confirmed that sophisticated absolute return bond managers would be interviewed on 17 December.
5. Members asked for more information about why short term periods of underperformance were expected. The Chairman advised that there were different styles of manager, and the market did change. The Strategic Manager expanded by explaining that there was diversity in the style of managers used in the fund portfolio. It was good practice to have a range of manager styles. The Cabinet Member for Change & Efficiency felt it was important not to rely entirely on one type of manager due to the large equity exposure and levels of volatility. However, moving toward an absolute return strategy could reduce volatility by around 6%. It was important to recognise that markets recover and that in some quarters performance would be lower for some managers.
6. Tony Elias, who sat on both Audit & Governance Committee and the IAG, commented that not changing approach involved more risk than constantly reviewing as the market was changing all the time.
7. Before concluding, the Strategic Manager explained that more had been put in to diversified growth since the end of the September Quarter, with £200 million being the current figure.

**Actions/further information to be provided:**

None.

**RESOLVED:**

The Committee noted the report.

**Committee next steps:**

None.

**91/12 TREASURY MANAGEMENT HALF YEAR REPORT 2012/13 [Item 10]**

**Declarations of interest:**

None.

**Officers:**

Phil Triggs, Strategic Manager (Pensions & Treasury)

**Key points raised in the discussion:**

1. The Strategic Manager introduced the item and drew Members attention to Table 1 in the report, which set out the overall treasury position as of 30 September 2012. Investments in the 6 month period to September stood at £312million, and net borrowing at £8million. This was below the Council's authorised borrowing limit of £662million.
2. It was reported that the strategy to not borrow up to the requirement would continue in the short term. It was noted that new loans could be taken out at a rate of 4.1% for 50 year borrowing, and therefore it was advantageous to borrow internally.
3. Member's attention was drawn to table 6, which set out the long term borrowing position. No new borrowing had been taken out during this financial year.
4. The chart in paragraph 18 of the report set out the debt maturity profile. The period of most concern was September 2013, when a £68million repayment was due. The treasury management strategy would consider how to deal with that peak. The next significant peaks were not until beyond 2050, allowing time to reprofile debt to make repayment more manageable.
5. The investment position was set out in paragraph 19. It was noted that there was little prospect of any rise in the base rate until at least 2014.
6. It was expected that the Council could expect 100% of what was invested in Icelandic Banks back in instalments. A number of instalments had already been made, with a further £6.6million still outstanding.
7. Members asked what impact the UK losing its AAA rating could have on the Council. The Strategic Manager advised that losing the AAA rating could make UK debt more expensive and therefore markets would reflect that in how they price gilts and therefore PWLB rates.
8. Members asked whether the Council had to money to reduce borrowing. The Strategic Manager explained that there was around £300million in the cash portfolio for investments.
9. Members commented on the very cautious nature of the strategy and considered whether it would be the right time to adopt a slightly less cautious approach. The Strategic Manager explained this would be looked at when reviewing the 2013/14 treasury management strategy.
10. The Cabinet Member for Change & Efficiency advised that work was underway to retain property assets, rather than always sell them. She said that the impact of the UK losing its AAA rating could mean that the cost of borrowing could rise; however, the Chinese rating agency had downgraded the UK last year without a detrimental effect.

**Actions/further information to be provided:**

None.

**RESOLVED:**

The Committee NOTED the report.

**Committee next steps:**

The Committee to receive the treasury management annual report in June 2013.

## 92/12 WHISTLE-BLOWING UPDATE [Item 11]

### **Declarations of interest:**

None.

### **Officers:**

Matthew Baker, Deputy Head of HR&OD

Abid Dar, Equality Inclusion & Wellbeing Manager

### **Key points raised during the discussion:**

1. The Deputy Head of HR&OD introduced the item and advised that there had been a recent increase in calls using the Expolink service. Officers considered the increase in calls as a positive development as it demonstrated that people were using the service.
2. There had been a number of efforts to publicise and highlight the benefits of the service. Pages on the intranet had focussed on what whistleblowing is about and how staff should feel confident and protected when calling the whistleblowing hotline. The SNet pages also linked to a number of policies and procedures.
3. It was reported that Expolink was advertised as part of the employee benefits package. In addition, with the Council taking on public health responsibilities, more work was being done to link to the new Department for Health free whistleblowing hotline.
4. The Deputy Head of HR&OD advised that a recent 'mini-survey' of staff opinion in the Change & Efficiency Directorate had been undertaken. The mini survey included sections on bullying and harassment and linked to whistleblowing. The results were based on qualitative information and were being used to encourage people to get involved with focus groups to help tackle issues.
5. Meetings were held regularly between Babcock 4S and HR&OD. The Deputy Head of HR&OD said that they were building stronger relationships with bursars and teachers and used mechanisms such as the Schools Finance newsletter to publicise whistleblowing options.
6. One Member advised that a school bursar had recently told him she understood that the whistleblowing policy would be released in March. The Deputy Head of HR&OD confirmed that the policy was already in place and was on the Babcock 4S website.
7. It was noted that the contract with Expolink had recently been renewed at the same price for the next 5 years.
8. The Deputy Head of HR&OD agreed to talk directly with Babcock 4S about ensuring that governors were adequately equipped to know how to raise whistleblowing type issues.
9. Members asked what protection was offered to the whistleblower when making a call. The Deputy Head of HR&OD advised that the whistleblower would be able to remain anonymous. In addition the fact that staff have legal protection when making a whistleblowing claim is highlighted on the SNet. It was acknowledged that there was some risk associated with making a complaint, but that staff should be encouraged to do so and congratulated for coming forward about concerns.
10. It was noted that the statistics in the report showed that no calls to Expolink had come from school staff. The Deputy Head of HR&OD explained that while some calls were received from school staff (for example under those listed as 'no incidents arising'); the majority came from corporate staff. Members queried whether this indicated that the

relationship with Babcock 4S needed to be strengthened so that staff knew how they could raise concerns. The Deputy Head of HR&OD felt that the relationship with 4S was strong, and that they met regularly. He said the service offered to schools was as comprehensive as that offered to corporate staff. The Equality Inclusion & Wellbeing Manager advised that he had recently met with 4S to talk about how messages could be spread wider through schools, without necessarily needing to go through governors or headmasters. He explained that schools had been asking for posters from Expolink, which were then rebranded for particular schools. Messages in printed payslips was another method that was being used to publicise the service in schools – it had been found that printed material had the greatest impact on calls coming in.

11. The Deputy Head of HR&OD suggested that Glenn Bishop (Babcock 4S) be invited to a future meeting of the Committee to give an account of what was happening in terms of publicity of the Expolink service in schools. (**Recommendations tracker ref: A54/12**).
12. The Chief Internal Auditor advised that the Internal Audit team also did some work around raising awareness of fraud in schools through the school's bulletin and at bursar conferences, for example.

**Actions/Further information to be provided:**

A Babcock 4S representative be invited to a future meeting to talk about whistleblowing in schools.

**RESOLVED:**

The Committee noted the progress made.

**Committee Next Steps:**

The Committee to receive a further update in June 2013.

**93/12 HALF YEAR IRREGULARITIES REPORT [Item 12]**

**Declarations of interest:**

None.

**Officers:**

David John, Audit Performance Manager

Sue Lewry-Jones, Chief Internal Auditor

**Key points raised during discussion:**

1. The Audit Performance Manager introduced the item. It was reported that some problems in terms of irregularities and fraud were anticipated at an organisation the size of the Council, the report outlined a summary of investigations under taken in the half year period to September.
2. It was noted that statistically, the year had been fairly consistent in comparison with other years. As well as examples of investigations that had been undertaken, the report covered some of the proactive work that Internal Audit had been doing to help prevent fraud. The Audit Performance Manager explained that often whistleblowing calls would come directly to the Internal Audit team, instead of via the Expolink service.
3. The Audit Performance Manager provided an update on a number of the cases detailed in the report. With reference to the misuse of

school funds by a former head teacher in paragraph 17, it was confirmed that the police had found insufficient evidence in terms of criminal charges. The case of theft, detailed in paragraph 18, had been concluded with arrangements in place to recover the money at no loss to the Council.

4. The Committee were informed that the updated Strategy Against Fraud and Corruption would be going to Cabinet in February 2013.
5. Members queried whether the investigation into residential money in care homes had been connected to the recent audit report on the same subject. The Audit Performance Manager explained that the investigation had run in parallel to the audit work. It was noted that Adult Social Care had approached Internal Audit and asked them to help them with a safeguarding investigation that they were handling.
6. Members asked why the Strategy had been deferred to February's Cabinet. The Chief Internal Auditor advised that a wider report that reviewed what anti-fraud activity had been happening across the Council would now sit alongside the Strategy when reported to Cabinet.
7. The Committee asked whether officers felt that more resources should be put into irregularities. The Audit Performance Manager explained that there were more cases of opportunistic fraud and theft as a result of the current economic climate. He felt that it was important to work with services to ensure that there were appropriate controls in place to prevent fraud and theft. It was also noted that the police were more commonly involved, which, when publicised acted as a deterrent. The Committee recalled having strengthened the wording in the Strategy around police involvement at their last meeting in October 2012.

**Actions/Further information to be provided:**

None.

**RESOLVED:**

The Committee noted the report.

**Committee next steps:**

The Committee to receive a further update in June 2013.

**94/12 INTERNAL AUDIT HALF YEAR REPORT [Item 13]**

**Declarations of interest:**

None.

**Officers:**

Sue Lewry-Jones, Chief Internal Auditor

**Key points raised during the discussion:**

1. The Chief Internal Auditor introduced the item and explained that the report contained a performance summary for the half year period to September 2012.
2. It was reported that at the half year point 45% of audit days had been spent. This was compared positively to the previous year, when 39% of audit days had been spent at the six month mark. The Chief

Internal Auditor advised that this was partly down to the fact that there had been no vacancies in the team this year.

3. 16% of the total number of audits had been rated either 'Major Improvement Needed' or 'Unsatisfactory'. This compared to 6% in the same period last year. The Chief Internal Auditor felt that this might be because Internal Audit had been closely focussing on areas where it was expected there might be problems.
4. It was reported that all customer satisfaction questionnaires had been returned with positive comments; 5 out of 8 had classed the Internal Audit review as 'very useful'.
5. The Chief Internal Auditor advised that select committees were encouraged to scrutinise reports that drew an opinion of 'major improvement needed' or 'unsatisfactory'. In addition, follow up reviews were undertaken of all reports that attracted one of these opinions.
6. While Members noted the increase in reports rated 'major improvement needed' or 'unsatisfactory', they also noted the increase to 33% receiving an 'effective' audit opinion, versus 18% last year.
7. During the discussion, it was pointed out that the Education select committee chairman was keen to scrutinise Babcock 4S, and Members queried whether they should be looking at more audit reports. The Chairman of the Council Overview & Scrutiny Committee suggested that his Committee looked at Education select committee and Children & Families select committee working together on this.
8. It was confirmed that the Council Overview & Scrutiny Committee had reviewed Annex C at their meeting the previous week.

**Actions/Further information to be provided:**

None.

**RESOLVED:**

Members noted the Content of the report.

**Committee next steps:**

None.

**95/12 COMPLETED INTERNAL AUDIT REPORTS [Item 14]**

**Declarations of interest:**

None.

**Officers:**

Sue Lewry-Jones, Chief Internal Auditor

**Key points raised during the discussion:**

1. The Chief Internal Auditor introduced the item and advised there had been 9 audit reports completed since the last Committee. Of those reports, one, on residential care homes, had received a rating of 'major improvement needed'.
2. The Chief Internal Auditor had attended Adult Social Care select committee on 30 November for an item on residential care homes. The auditor that had undertaken the review provided assurance that there was an agreed Management Action Plan (MAP) in place, with actions being rigorously implemented. The auditor had gone to individual care homes and tailored training for staff around the specific findings of the audit report. The Chief Internal Auditor reported that

she was very encouraged by the response of the service to this audit report and that the service had specifically requested the audit be undertaken.

3. Members asked whether the auditor had found more incidences of bad management of money at particular care homes, rather than across all. The Chief Internal Auditor was not aware of any fraud that had been discovered when working on this report.
4. The Chief Internal Auditor advised that a lot of work was being done to help prevent fraud and protect workers.
5. With regards to the Overtime audit report, Members asked why the first recommendation regarding reports for budget holders was not a high priority. The recommendation asked that HR Information and Finance staff continue to develop reports for budget holders and corporate reporting that analyse all additional payroll costs. Members considered this should be high priority as it was something that could save the Council money. The Chief Internal Auditor agreed to report back further on this matter (**Recommendations tracker ref: A55/12**). The Deputy Chief Finance Officer advised that reports did not go automatically to budget holders because of the technology currently used, however, when the new Dashboard was introduced this would be rectified.

**Actions/further information to be provided:**

The recommendations tracker to be updated to reflect the action noted in paragraph 5 above.

**RESOLVED:**

The Committee noted the report.

**Committee next steps:**

None.

**96/12 RISK MANAGEMENT HALF YEAR REPORT (INCLUDING LEADERSHIP RISK REGISTER) [Item 15]**

**Declarations of interest:**

None.

**Officers:**

Cath Edwards, Risk & Governance Manager

**Key points raised during the discussion:**

1. The Risk & Governance Manager reported that risk management arrangements were generally working well. The Leadership Risk Register continued to be reviewed and updated on a regular basis. Strategic Director risk registers were regularly updated, with the exception of the Environment & Infrastructure directorate, which was still incomplete following the directorate restructure.
2. There had been some recent changes to the Council Risk & Resilience Forum to ensure that there was both formal meetings and interactive workshops where information was shared and key issues discussed in a more informal setting.
3. A risk network event had recently been held for all risk representatives across the Council. It was noted that around half of the total



representatives had turned up. The event included an interactive risk challenge and training session. The feedback following the event had been positive and resulted in the Risk & Governance Manager being invited to meet with management teams to help with risk registers.

4. An expectation set has been produced for risk and resilience service representatives, which had been circulated for comment. This has provided clarity on the role of risk reps and the role of corporate business continuity and risk management officers.
5. There had been no significant changes to the Leadership Risk Register since the last meeting.
6. The Risk & Governance Manager agreed to circulate the one page summary of directorate risk registers, referenced in her report, to the Committee (**Recommendations tracker ref: A56/12**).
7. During the discussion one Member asked whether flu epidemic amongst staff was on a risk register. The Deputy Chief Finance Officer advised that each service had its own business continuity plan.
8. Members asked what could be done to improve turnout at risk meetings. The Risk & Governance Manager explained that agendas and meetings will be more carefully tailored, led by the Risk and Resilience Steering Group. The Committee agreed to invite the Assistant Chief Executive (chair of the Risk and Resilience Steering Group) to a future meeting of the Committee to talk about the risk management arrangements. (**Recommendations tracker ref :A57/12**).
9. The Chairman advised the Committee he would be writing to the Cabinet Member for Environment & Transport to raise his concerns about the outstanding Strategic Director for Environment and Infrastructure Risk Register. (**Recommendations tracker ref: A58/12**).

**Actions/Further information to be provided:**

The recommendations tracker to be updated to reflect the discussion.

**RESOLVED:**

The Committee noted the report.

**Committee next steps:**

The Chairman to write to the Cabinet Member for Environment & Transport about how the directorate deal with their Strategic Risk Register.

**97/12 GOVERNANCE UPDATE REPORT [Item 16]**

**Declarations of interest:**

None.

**Officers:**

Cath Edwards, Risk & Governance Manager

**Key points raised during the discussion:**

1. The Risk & Governance Manager introduced the item and advised that this was the latest update on the 2011/12 Annual Governance Statement (AGS). There had not been a formal action plan coming out of the AGS as there were no significant governance issues.
2. Members asked what controls were in place regarding social media. The Chief Internal Auditor referred Members to the recent audit report

on social media. There was currently no guidance around employee's personal use of social media.

3. The Risk & Governance Manager advised that she had recently submitted an entry for the LGC awards under the corporate governance category. She was pleased to report that the Council had been shortlisted and the winner would be announced in March.

**Actions/Further information to be provided:**

None

**RESOLVED:**

The Committee noted the update.

**Committee next steps:**

None.

**98/12 EXCLUSION OF THE PUBLIC [Item 17]**

**RESOLVED:** 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 Schedule 12A of the Act.

**THE FOLLOWING ITEM OF BUSINESS WAS CONSIDERED IN PRIVATE. HOWEVER THE INFORMATION SET OUT BELOW IS NOT CONFIDENTIAL.**

**99/12 ENERGY PURCHASING CONTRACT [Item 18]**

**Declarations of interest:**

None.

**Officers:**

Sue Lewry-Jones, Chief Internal Auditor

**Key points raised in the discussion:**

1. The Chief Internal Auditor talked the Committee through the Part 2 report, which had been requested by the Leader of the Council.
2. During the discussion the Chairman recommended that the Committee urge the Leader to write to the Council involved to offer his support for amending the terms of reference and membership of the Governance Panel. **(Recommendations tracker ref: A59/12 )**. After further discussion it was agreed that the Leader should also raise the issue of when monies would be returned.

**Actions/further information to be provided:**

The recommendations tracker to be updated to reflect the action point raised during the discussion.

**RESOLVED:**

The Committee noted the report.

**Committee next steps:**

None.

**100/12 PUBLICITY FOR PART 2 ITEMS [Item 19]**

It was agreed that there would be no publicity for the Part 2 Item.

**101/12 DATE OF NEXT MEETING: 11 FEB 2013 [Item 20]**

Meeting ended at: Time Not Specified

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**Chairman**

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**Audit & Governance Committee  
21 February 2013**

**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).

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**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 meetings on 4 July and 30 November 2012. The Audit &amp; Governance Committee will continue to be kept updated on the outcome of the Adult Social Care Committee's debate through the Bulletin.</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.

## Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Referral	To	Response
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>An officer working group reported to the Adult Social Care Select Committee on 30 November 2012. The Assistant Director for Transformation reported to the Committee that the intention was that the review process would be embedded within the Locality Teams in the future, rather than responsibility of a dedicated team. There would be a review of the Direct Payment Review team in March 2013.</p> <p>A Member Reference Group of the Adult Social Care Select Committee has also been set up to review whether AIS meets the needs of the directorate. The outcome of this review is due to be reported in May 2013.</p>



## Audit & Governance Committee Recommendations Tracking

### Recommendations (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
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	<p>Babcock 4S attended the Committee in December 2012.</p> <p>The Finance Director (Babcock 4S) provided the following update: Based on the quarter three company accounts, with a revised valuation of the pension fund deficit, there was a sufficient balance on the company's profit and loss account to make a dividend payment of £1,865,000. This has been approved by the company board and the council has received its 30% of this, which is £559,500 on 7 February 2013.</p>
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. Work has started to upload all internal audit reports dating back to 21 May 2012 to the S-Net. In the future, all internal audit reports will be stored on this intranet library feature for easy access by Members.</p> <p>A link will be sent to all Members to notify them when the library is live.</p>

## Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
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	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.
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>At the Cabinet meeting on 5 February, a report was presented on the introduction of a traffic permit scheme and a review of the coordination of utility company road works. The permit schemes will make the recovery of money easier as it will set clear timescales for the completion of works, which will better support the Council in recovery of monies. The Utilities Task Group specifically stated that when works carried out in conservation areas and damage is done to road surfaces, these companies will be encouraged to replace materials like for like to limit damage to the highway surface.</p>

## 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 will commence at the end of February, with an audit report circulated in April 2013.
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	<p>The findings were presented to the Council Overview &amp; Scrutiny Committee in December 2012. The Committee agreed that further consideration needed to be given to the wording of the recommendations arising from the review, and therefore resolved to receive a further at their next meeting. At their meeting in February 2013, the Committee agreed the following recommendations:</p> <ol style="list-style-type: none"> <li><b>a. That a policy is formulated to define what constitutes a vacant position the organization structure.</b></li> <li><b>b. That criteria are established which vacant positions must meet in order to remain in the organization structure together with the operating budget allowance.</b></li> <li><b>c. That the definition and criteria be consistently applied in all services in the management of their business plans.</b></li> </ol>
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's attended the meeting in December 2012. The new District Auditor was confident that the 40% savings could be met, based on the quality of the previous year's accounts.

## 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 will be provided at the 21 February meeting.
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	At the meeting in December 2012 the Section 151 Officer advised that she had spoken to the Strategic Director for Environment & Transport and could confirm that the risk should remain 'high'. This was because of the significant implications should the contract fail in anyway – however, it was stressed that there was no indication that the contract would fail.
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	At the meeting in December 2012, the Section 151 Officer assured the Committee that she still had as much access to all of the strategic directors and that the Strategic Director for Customers & Communities had been present at all CLT meetings, since taking on the additional responsibilities at Mole Valley District Council.
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 of the task group and the Council Overview & Scrutiny Committee Finance Sub Group was held in December 2012. Audit & Governance Committee also joined Council Overview & Scrutiny Committee at their formal meeting on 1 February 2013, to consider the Treasury Management Strategy.
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	At the meeting in December 2012, the Finance Manager (Assets & Accounting) advised that a mini project on schools accounts closing was underway. An update to be provided at the meeting on 21 February.

## Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A46/12	03/10/12	Completed Internal Audit Reports (77/12)	<p>An update to be provided on the actions coming out of the ICS audit report, to include:</p> <ul style="list-style-type: none"> <li>• The views of Children's Services in terms of how serious situation was</li> <li>• Detail of how much information had been transferred incorrectly from the old SWIFT system to the new ICS System</li> </ul>	Compliance Auditor	An update was circulated on 3 January 2013.
A47/12	03/10/12	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 sat on the Council Overview & Scrutiny Committee explained that the projected savings of the Telecare project had reduced from £1m to £200k – however, matters were progressing.

## Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A48/12	03/10/12	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	<p>An update was circulated by email on 13 December 2012.</p> <p>The auditor advised that:</p> <ol style="list-style-type: none"> <li>1. The Environment &amp; Infrastructure directorate was being re-structured in 2011/12 (Nov '10 - March '11) and a Finance Manager responsible for verifying recycling credits, was seconded to oversee this change.</li> <li>2. Information on any items recycled by SITA as part of the contract is provided by SITA monthly.</li> <li>3. The districts and boroughs (D&amp;B) have their own waste collection contracts and recycling arrangements which is not part of the SITA contract. They provide the recycling credit figures to SCC who undertake a sample test to verify these before finally agreeing the recycling credits to be granted to D&amp;Bs. It is this check which slipped in 2011/12 due to resource constraints but was put back on track in early 2012/13 after the new structure was in place and as part of finalising and completing year-end accounts.</li> </ol>
A49/12	03/10/12	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	<p>The Chairman has raised concerns with the Leader of the Council.</p> <p>It has been agreed that where the Audit &amp; Governance Committee feel matters need to be considered more seriously, they will make a direct recommendation to the relevant select committee.</p>

## Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A51/12	03/10/12	Fighting Fraud Locally (78/12)	Feedback to be provided following discussions with HR about changes to recruitment vetting procedures	Chief Internal Auditor	At the meeting in December 2012 the Chief Internal Auditor explained that here team were working closely with HR on vetting procedures. In addition, the Better Governance Forum had recently issued a publication on recruitment practices, which had been shared with HR, so that they could look at best practice related to fighting fraud locally.
A53/12	06/12/12	Recommendations tracker	Letter from Chairman to select committee chairmen about importance of internal audit reports	Chairman of the Committee.	The Chairman has discussed with the Chairman of the Council Overview & Scrutiny Committee. A draft paper on select committee review of audit reports has been circulated for Member comment before being shared with select committee chairmen.
A54/12	06/12/12	Whistleblowing update (92/12)	Babcock 4S representative to attend the meeting when the next 6 monthly whistleblowing report is presented.	Deputy Head of HR&OD	This is scheduled for June 2013.
A55/12	06/12/12	Completed Internal Audit Reports (95/12)	Further update to be provided on the recommendation that finance staff continue to develop reports for budget holders to analyse all additional payroll costs.	Chief Internal Auditor	Implementation of the Finance Dashboard will enable these to be developed
A56/12	06/12/12	Risk Management Half year report (96/12)	Risk & Governance Manager to circulate one page summary of directorate risk registers	Risk & Governance Manager	The summary was circulated to Committee Members on 19 December 2012.
A57/12	06/12/12	Risk Management Half year report (96/12)	The Assistant Chief Executive to attend a future meeting of the Committee to talk about risk management arrangements.	Risk & Governance Manager/Assistant Chief Executive	The Assistant Chief Executive will be invited to attend the meeting in May, when the Risk & Governance Manager presents her annual report.

## Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A58/12	06/12/12	Risk Management Half year report (96/12)	The Chairman to write to the Cabinet Member for Environment & Transport to raise his concern about the outstanding Strategic Director risk register.	Chairman of the Committee	A response was received from the Cabinet Member which read:  <i>Work has been underway since November to review and revise the 3 Service Risk Registers within the directorate. Once these are completed a revised Directorate Risk Register will be compiled. This is due to be agreed early this month. The new Directorate Risk Register will be reviewed at Directorate Management Team, Directorate Leadership Team and by myself (with DMT) on a quarterly basis.</i>
A59/12	06/12/12	Energy Purchasing Contract (99/12)	The Committee to urge the Leader to write to the Council involved to offer support to amending the terms of reference of the governance panel.	Chairman of the Committee	This action has been completed.
A1/13	12/02/13	Business Planning 2013 – 2018 (4/13)	A joint report to Audit & Governance and Council Overview & Scrutiny Committees on the subject of borrowing trigger points will be submitted to a future meeting	Chairman of the Committee.	An update to be provided at a future meeting.



## Audit & Governance Committee Recommendations Tracking

### Completed Recommendations/Referrals/Actions

#### *Recommendations – to be deleted*

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 matter was concluded in December 2012.
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.
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.
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.

## Audit & Governance Committee Recommendations Tracking

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.
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.
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.
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 was provided in the Internal Audit half year report in December 2012.
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.

## Audit & Governance Committee Recommendations Tracking

A50/12	03/10/12	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 was put to Council by Stephen Cooksey at the meeting on 16 October 2012 and an update was provided in the Internal Audit Half Year report at the December Committee.
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## AUDIT & GOVERNANCE COMMITTEE

### 21 February 2013

#### EXTERNAL AUDIT

#### Certification of Claims and Returns – 2011/12

#### SUMMARY AND PURPOSE:

The purpose of this report is to inform members of the work undertaken by the council's external auditors on the certification of claims and returns and the findings and recommendations relating to that work.

#### RECOMMENDATION:

The Committee is asked to consider the contents of the report and determine whether there are any matters that they wish to ask the external auditors.

#### IMPLICATIONS:

- 2 Financial  
The cost of the external audit certification of claims and returns is met from the overall budget provision for external audit services.
- 3 Equalities  
There are no direct equality implications arising from this report.
- 4 Risk management  
There are no risk management implications arising from this report.

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**Sources/background papers:** None

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## **Surrey County Council**

Certification work report 2011/12

February 2013

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# 1 Executive Summary

## Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 We have certified three claims and returns for the financial year 2011/12 relating to expenditure of £62 million.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

## Key messages

- 1.6 It should be noted that work on the Local Transport Plan: Major Projects (Walton Bridge) return reported in this certification report was completed by the Audit Commission prior to our appointment as the Council's auditors. The findings set out in this report in respect of this return therefore represent the results of your previous auditors' work.
- 1.7 A summary of all claims and returns subject to certification and details of our certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

### Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	Two claims were submitted on time to audit. Submission of the Initial Teacher Training Return was delayed because of late changes by the Department for Education to the submission requirements. All three claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	The Council continues to improve its arrangements in this area. It has satisfactorily addressed the recommendations raised in the 2010/11 Certification Work Report and has action plans in place to address the issues that led to the qualification of the Teachers' Pensions Return this year.
Supporting working papers	All three claims were supported by working papers and staff responded promptly to queries raised, which enabled certification within the deadlines.

#### The way forward

- 1.8 We have made one recommendation to address the key messages above (see Appendix C).

#### Acknowledgements

- 1.10 We would like to take this opportunity to thank Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**

**February 2013**

## 2 Results of our certification work

### Key messages

- 2.1 We have certified three claims and returns for the financial year 2011/12 relating to expenditure of £62 million.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

#### Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
<b>Total claims/returns</b>		3		4		
Number of claims submitted on time	100%	2	66	4	100	↓
Number of claims certified on time	100%	3	100	3	75	↑
Number of claims certified with amendment	0%	0	0	1	25	↑
Number of claims certified with qualification	0%	1	33	1	25	→

- 2.3 This analysis of performance shows that overall the Council's performance is improving. In respect of the Teachers' Pensions Return it has now put in place satisfactory arrangements to obtain pension data from external payroll providers.
- 2.4 Details on the certification of all claims and returns are included at Appendix B.
- 2.5 Where we have identified significant matters or opportunities for improvement in the compilation of claims and returns, these are summarised below and recommendations are included in the action plan at Appendix C.
- 2.6 We charged a total fee of £8,810 for the certification of claims and returns in 2011-12. In addition, your previous auditors the Audit Commission, charged a total fee of £820 against an indicative budget of £11,858. Details of fees charged for specific claims and returns are included at Appendix B.

### **Significant findings**

- 2.7 The following significant findings were identified in relation to the certification of individual grant claims and returns:

#### **Certification of Teachers' Pensions Return**

- 2.8 Following an internal audit review in June 2012, the Council identified that teachers in a number of Surrey maintained schools had received payments classified as honoraria. These payments had been coded as tax and national insurance deductible payments, but had not been treated as pensionable.
- 2.9 In 2011/12 honoraria payments totalling £126,380 were made to teachers in 45 schools. The Council estimates that for the period from 2007/08 to 2011/12 the total value of such payments is £1,001,187.
- 2.10 The Council remains in discussion with the Teachers' Pensions Agency as to how the underpaid employer and employee contributions should be remitted. The 2011/12 return was not amended to take account of any proposed adjustments, pending advice from the Agency. We were therefore unable to conclude that the return was fairly stated as a whole.

## A Approach and context to certification

### Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

### Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the authority; or
- with a qualification letter (with or without agreed amendments incorporated by the authority).

Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

### Certification fees

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

#### Standard

Role	2011/12	2010/11
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

#### South East England

Role	2011/12	2010/11
Engagement lead	£345	£345
Manager	£195	£195
Senior auditor	£125	£125
Other staff	£95	£95

#### London rates

Role	2011/12	2010/11
Engagement lead	£380	£380
Manager	£210	£210
Senior auditor	£135	£135
Other staff	£105	£105

## B Details of claims and returns certified for 2011-12

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Sure Start, Early Years and Childcare Grant and Aiming High for Disabled Children Grant	-	-	-	-	872	-	There was no requirement to certify this return in 2011/12
Local Transport Plan (Walton Bridge)	6,293,148	No	-	No	1,278	820	

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Teachers' Pensions Return	55,294,545	No	-	Yes	3,309	6,347	Grant Thornton's approach to grant certification is to place less reliance on the work of the internal auditors than the Audit Commission did. Where the internal auditors had already obtained supporting documentation we made use of this in the testing that we undertook. In addition, as the Council had been able to obtain pension information from external payroll providers, we were able to carry out additional testing on this section of the return and address the issue which had led to qualifications in 2009/10 and 2010/11.
Initial Teacher Training	563,728	No	-	No	1,043	1,743	We did not request internal audit to carry out any certification work on this return, and completed all the testing ourselves.
Reporting to those charged with Governance					1,490	720	This is for preparing this report for the Audit and Governance Committee.
<b>Total</b>	<b>62,151,421</b>		-		<b>7,992</b>	<b>9,630</b>	



## C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Teachers' Pensions Return	Agree with the Teachers' Pensions Agency how the underpaid employer and employee contributions in respect of honoraria payments should be remitted and recorded on the return.	H	Officers are now in dialogue with the Teachers' Pensions Agency and are working with them to resolve the issues identified.

## D Summary of progress on previous recommendations

Agreed action	Priority (L/M/H)	Date for implementation	Responsible Officer	Current status
Reinstate a central control record for grants and returns to ensure more timely certification.	H	February 2012	Financial Reporting Team Senior Principal Accountant	Implemented
Put in place adequate arrangements to ensure that contributions made from outsourced payroll providers have been correctly deducted and remitted to Teachers' Pensions, on behalf of the Council, in accordance with the regulations.	H	February 2012	Financial Reporting Team Senior Principal Accountant	Implemented

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## AUDIT & GOVERNANCE COMMITTEE 21 February 2013

### EXTERNAL AUDIT Audit Progress Report – February 2013

#### **SUMMARY AND PURPOSE:**

The purpose of this report is to inform members of the work undertaken by the council's external auditors for the period to February 2013.

#### **RECOMMENDATION:**

The Committee is asked to consider the contents of the report and determine whether there are any matters that they wish to ask the external auditors.

#### **IMPLICATIONS:**

- 2 Financial  
Audit fees were reported to a previous meeting of the Audit & Governance Committee.
- 3 Equalities  
There are no direct equality implications arising from this report.
- 4 Risk management  
There are no risk management implications arising from this report.

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**Sources/background papers:** None

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**SURREY COUNTY COUNCIL**
**AUDIT PROGRESS REPORT – FEBRUARY 2013**

Work	Progress
<b>Audit Planning – 2012/13</b>	<p>We have started preparations for the 2012/13 audit and are working with the Council on the audit testing requirements for the financial statements.</p> <p>We will work with officers to ensure our audit work is focused on the key risks facing the Council in respect of its financial statements audit and Value for Money conclusion. On completion of our interim audit, we will set out our plans in more detail in the 2012/13 Audit Memorandum.</p>
<b>Grant Certification</b>	<p>All 2011/12 grant claims have been certified. Our Certification Work Report, on the agenda for today's meeting, documents our findings and the costs of this work.</p>
<b>Grant Thornton publication – Towards a Tipping Point</b>	<p>Grant Thornton published our second national study on financial resilience on 6 December. The report 'Towards a Tipping Point?' draws on work completed to inform our 2011/12 value for money conclusions in local authorities.</p> <p><a href="http://www.grant-thornton.co.uk/Global/Publication_pdf/towards-tipping-point-report.pdf">http://www.grant-thornton.co.uk/Global/Publication_pdf/towards-tipping-point-report.pdf</a></p> <p>With the Chancellor's announcements in the Autumn Statement that local authorities are facing a further funding reduction of 2% in 2014/15 (totalling £445m for the sector) and that the Government's deficit reduction programme will be required for a further year (2017/18), the financial challenges facing the sector remain considerable.</p> <p>Our report of assesses whether a sample of local authorities have arrangements in place to ensure their sustainable financial future. It shows that:</p> <ul style="list-style-type: none"> <li>• in the last 12 months the majority of categories examined have seen a slight improvement overall;</li> <li>• reserve balances, in particular, improved, reflecting better-than-expected performance in delivering budgets and prudent planning for an uncertain future;</li> <li>• strategic financial planning is the exception where risk was increasing and scenario planning, in particular, has scope for</li> </ul>

Work	Progress
	<p>development.</p> <p>Our analysis and discussions with the sector indicate that while local authorities have responded well, the pressures of the environment within which they operate mean that a ‘tipping point’ – a critical, irreversible juncture – could be on the horizon for some local authorities.</p> <p>Although its form remains unclear, the report suggests a number of tipping point scenarios as a point for discussion. While we do not believe that all authorities share the same level or types of risk, or indeed that all authorities could experience a tipping point, we are however engaging with the sector to explore the concept, what the consequences would be for stakeholders and what mitigating actions are required.</p> <p>We would be very interested to hear your views on the subject, so please do get in touch if you have a comment on the findings or would like to be involved in a wider discussion on what might constitute or help mitigate a tipping point for the sector.</p>
<p><b>Grant Thornton publication – Sustainable Businesses</b></p>	<p>Our recent survey of 200 mid-market businesses examines the extent to which sustainability issues are integrated into a company's DNA, embedded in its business model and reported on as such. Our report, 'Sustainable Businesses- Navigating towards a more sustainable future', examines these issues. This report is an insightful background into the sustainability challenges faced by businesses today and contains a section on the issues faced by local authorities.</p> <p><a href="http://www.grant-thornton.co.uk/en/Publications/2012/Sustainable-Businesses/">http://www.grant-thornton.co.uk/en/Publications/2012/Sustainable-Businesses/</a></p>
<p><b>Other publications</b></p>	<p>On 6 December, the Audit Commission published 'Striking a Balance', which presents the Commission’s findings from research undertaken during 2012 on the level of reserves that councils hold and on the decisions councils make relating to them.</p> <p>The report encourages English councils to focus more attention on the £12.9 billion set aside in their reserves – the equivalent of nearly a third of their net spending on services in 2011/12. While it finds that councils routinely consider reserves as part of their annual budget setting, the report calls for officers to offer elected members clearer and more comprehensive advice, equipping them to make better-informed decisions. It also calls for greater clarity from councils about the reasons for holding reserves.</p> <p><a href="http://www.audit-commission.gov.uk/2012/12/striking-a-balance-improving-councils-decision-making-on-reserves/">http://www.audit-commission.gov.uk/2012/12/striking-a-balance-improving-councils-decision-making-on-reserves/</a></p>



Work	Progress
	<p>On 30 January the National Audit Office (NAO) published 'Financial Sustainability of Local Authorities', which examines central government's approach to local authority funding, and reviews local authorities' financial sustainability against a background of changes to their funding.</p> <p>The report concludes that so far, local authorities have been able to absorb central government funding reductions, but that there is emerging evidence that some service levels are reducing. Funding reductions are continuing, along with changes to the resourcing mechanism of local authorities. These changes increase financial uncertainty and more local authorities are facing the challenge to avoid financial difficulties while meeting their statutory responsibilities.</p> <p>The NAO recommends that the Department for Communities and Local Government build on previous work and better evaluate the impact of decisions on local authority finances and services – before and after implementation.</p> <p><a href="http://www.nao.org.uk/publications/1213/local_authority_sustainability.aspx">http://www.nao.org.uk/publications/1213/local_authority_sustainability.aspx</a></p>

**Grant Thornton UK LLP**

**February 2013**

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**AUDIT & GOVERNANCE COMMITTEE**

Date: 21 February 2013

**Progress Report – Property Asset Management System  
(PAMS)****PURPOSE OF THE REPORT:** Progress Update

The purpose of this report is to introduce the Property Asset Management System (PAMS) implementation project and update the Committee on progress made in the delivery of a new Property Asset Management System.

**INTRODUCTION:**

Following the in-sourcing of key property services in 2010, previously provided by external consultants, a review of property information systems used by Property Services was carried out. It concluded that the main systems in use, SAP Real Estate and Plant Maintenance, were inadequate and had significant gaps in functionality that made it difficult to carry out the day-to-day management of the estate, manage its performance and support property strategy.

The decision was taken to research the market for a specialist property management system that would support the whole property lifecycle from acquisition to disposal. A business case was built to procure and implement a new system and was recommended by Investment Panel.

At the same time Surrey and Hampshire County Councils had embarked on a piece of work that led to collaboration on letting building services contracts and as a consequence of working together it was identified that Hampshire County Council also had a requirement to replace their SAP system with a specialist property management system.

It was agreed that a joint procurement and implementation would benefit both Councils. It was also agreed to engage with other public sector organisations in the South East to see if they wanted to be named in the resulting contracts. Following the approval of the business case, a Joint Working Agreement was signed and the Property Asset Management System (PAMS) project commenced.

The procurement phase of the project concluded at the end of June 2012 with the signing of a Framework contract with Atrium Property Systems. The Framework contract is open to in excess of 50 public sector organisations in the southeast including all SE7 partners and associated district and borough councils.

## **RECOMMENDATIONS:**

The Committee is asked to:

- a) Note the progress made against the implementation plan so far and recognise achievements to date.
- b) Agree to receive further updates on progress against planned activities at future Committee meetings, as required.

## **PAMS OVERVIEW & BENEFITS:**

Good quality, consolidated property data is recognised as a key tool in driving value from the council's property assets and improving customer service. It is used for the day-to-day management of assets, measuring their performance and providing information to support asset strategy.

PAMS will provide a fully integrated property information system that will facilitate partnership working, bringing together property asset data, financial information, maps, spatial information from CAD plans, and document management.

PAMS will ensure the Property Service is fit for partnering and will assist public sector partners in the sharing of property data. It will also aid management of the plethora of property documents held in the department and help make property information more accessible and transparent, both internally and externally.

The implementation of PAMS has been split into 5 phases covering the range of property management activities. The phases are based on agreed priorities for Surrey and Hampshire County Councils. Details of all Phases and what they contain can be found in Appendix A.

Key components of the system are:

- Physical Property Data (Sites, Land, Buildings, Rooms, Plant & Equipment)
- Functional Property Data (The usage view of property)
- Works Delivery (Maintenance and Major Projects and Programmes)
- Property Help Desk
- Estate Management (Landlord/tenant management – rent collection/payment)
- Property Portal (Access for contractors and customers)
- Performance Monitoring
- Document Management, CAD and GIS interfaces

The system will be integrated with County Council corporate applications including SAP financials, Geographic Information System, CAD, and will have document management capability.

### **Benefits**

Some of the Key Benefits of PAMS are as follows:

- A single source of accurate property information with potential for shared use of property data with partners
- Cash benefits from lower system maintenance costs, smarter procurement, process efficiencies
- More efficient customer call handling (reactive maintenance) and access to information by customers and contractors
- Improved project and budget management

- Improved management of rents payable and receivable in line with Internal Audit recommendations
- Better assessment of property performance to support Asset Management Planning
- Improved space management and tracking of vacant space
- Wider access to property information across the Council, including schools, and externally, with partners, consultants and contractors
- Greater integration with Geographic Information System (GIS)
- More efficient collection of asset condition data
- Reduction in the need for spreadsheets with locally held data

Consultants and contractors employed by the council will use the PAMS in the delivery of services commissioned, helping improve the quality and integrity of the management information on the system and giving a holistic view of property assets.

Working in partnership with Hampshire County Council has been beneficial in reducing procurement costs and in sharing good practice in the development of improved business processes.

Improving business processes is key to driving out benefits from the PAMS implementation. Although the system will deliver some benefits such as automation of tasks, it is important that the business process is thought through to take advantage of workflows and notifications that will lead to process efficiencies.

#### **PROGRESS TO DATE:**

All project tasks are identified and recorded on the PAMS project plan and issued as work packages to officers responsible for their delivery by the IMT Project Manager. The following tasks have been completed or are in progress:

#### **Pre-tender & Procurement Phase**

- Market research for suitable property management systems
- Joint Working Agreement signed by Surrey and Hampshire County Council
- SCC, HCC and joint project boards set up
- Joint specification agreed and tender process completed
- Contract awarded to Atrium Software Ltd. Contract managed by Surrey County Council
- Framework contract signed with in excess of 50 other public sector organisations named in it, including SE7 partners and associated district and borough councils.
- Project Initiation/Set up completed.

#### **Phase 1A**

- Development and Training systems set up.
- Property master data has been prepared and tested on the Atrium System. The opportunity to cleanse data before migration is being taken
- Training has taken place for key staff that will administer the system and maintain property master data

- CAD integration developed and GIS integration in development
- Presentation delivered by Atrium/SCC/HCC to SE7 and other named authorities on the Framework contract at County Hall in November 2012

### **Phase 1B**

- All work packages associated with Phase 1B (see Annexe A) are in progress covering Responsive, Planned & Cyclical Maintenance, Landlord and Tenant Management (Rent collection and Payment)
- Joint workshops with Hampshire County Council have taken place to develop an understanding of the system and associated processes.
- Maintenance suppliers have been engaged who will be using the system to receive work orders and submit payment requests
- Schools have been engaged and updated on progress through Premises Briefings in November 12

### **CONCLUSION:**

The full implementation of PAMS will deliver benefits that will improve customer service and help drive value from property assets.

The project is on track to deliver a Phase 1B go live for Maintenance in April with the system ready to process Rent Payment & Receipts from the end of the first quarter 2013/14.

Having a single source for the majority of property information will improve the efficiency of day to day property management.

The Framework contract with Atrium, open to all other local authorities in the South East, will support and enable partnership/collaborative working.

### **Financial and value for money implications**

There are no direct financial implications of this report. All financial implications of the PAMS project and any impact on the 2012/13, 2013/14 budget have been considered in the business case and are funded from the “invest to save” budget.

### **Equalities Implications**

An equalities impact assessment has been carried out for the PAMS project and there are no direct equalities implications of this report.

### **Risk Management Implications**

Risks on the project are managed by the IMT Project Manager, in conjunction with the Senior User in Property Services, and through project governance and are recorded in the project Risk Register.

### **WHAT HAPPENS NEXT:**

The PAMS implementation will continue through the planned phases (Annexe A). We are currently in Phase 1B and the functionality in that phase will be implemented for a go-live on 2<sup>nd</sup> April 2013.

To achieve the April go-live, work packages will be completed as defined in the project plan and appropriate staff will be trained.

Surrey and Hampshire County Councils will work with other interested local authorities that wish to buy from the contract and will set up a group to oversee that process.

As the one system will be shared by partners buying through the Framework contract, the above group will also oversee the process for future developments in the system to ensure suitability for all partners.

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**CONTACT DETAILS:** John Stebbings/Nigel Jones

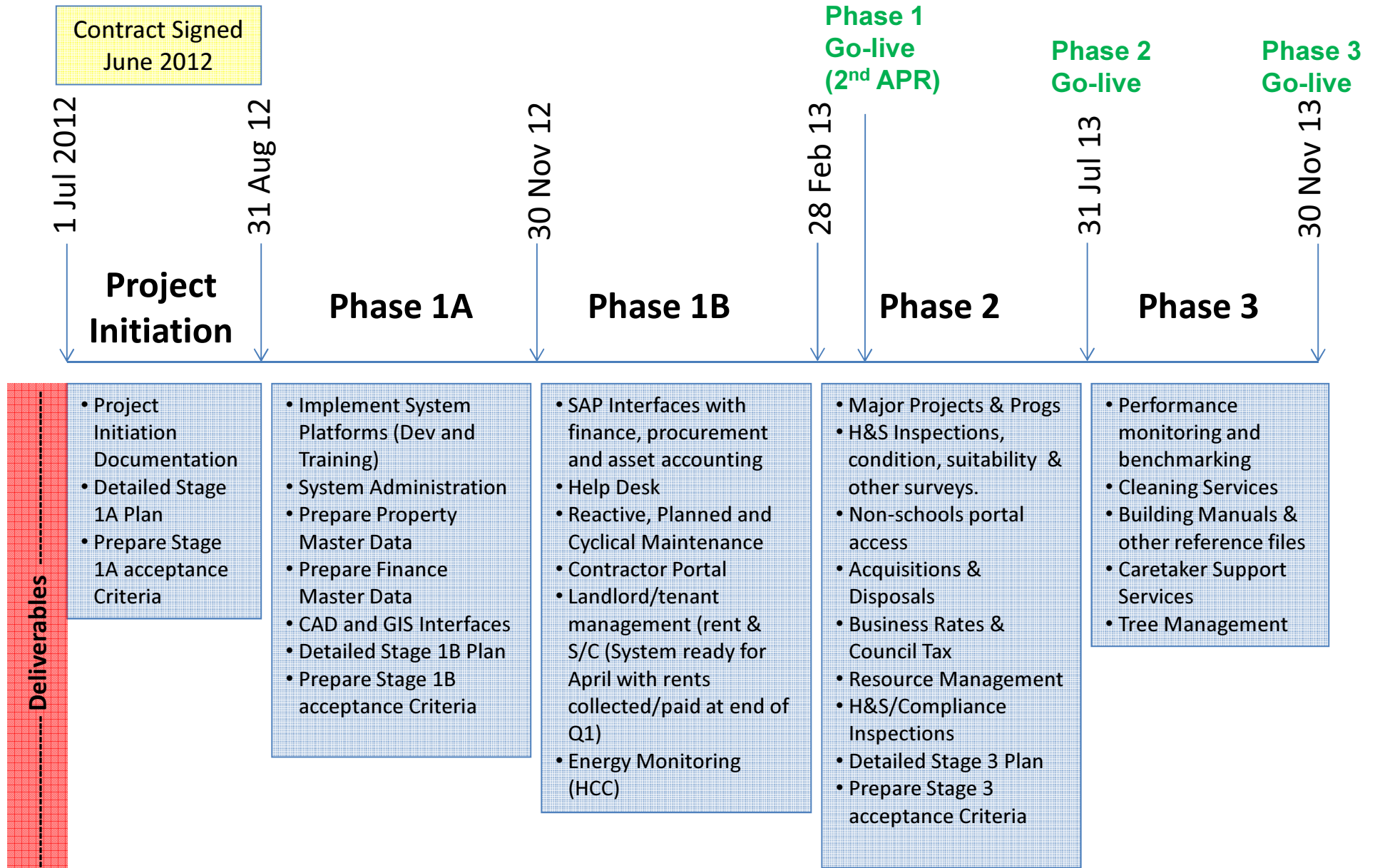
**Sources/background papers:** Annexe A PAMS Implementation Timeline

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# PAMS Implementation Timeline



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**AUDIT & GOVERNANCE COMMITTEE**  
21 February 2013

**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 November 2012 – January 2013 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 11 audit reports issued since the last report to this Committee in December 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	Follow-up review of Direct Payments Audit	Major Improvement Needed	n/a
2	Unofficial School Funds	Some Improvement Needed	1
3	Corporate Purchasing Cards	Major Improvement Needed	6
4	Capital Programme Management – Schools Basic Need	Some Improvement Needed	0
5	Records Management	Effective	0

6	Superfast Broadband	Some Improvement Needed	0
7	Special Schools - Funding of Residential Provision	Unsatisfactory	4
8	Illuminated Street Furniture contract	Some Improvement Needed	1
9	Asset Management ICT	Some Improvement Needed	1
10	TravelSmart Programme	Some Improvement Needed	0
11	Building Maintenance	Some Improvement Needed	3

- 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 all of the above audits (with the exception of TravelSmart and Building Maintenance) was presented to Council Overview and Scrutiny Committee on 13 February 2013.
- 8 The Direct Payments follow-up audit was discussed at Adult Social Care Select Committee on 30 November 2012.

#### **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.

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

**Completed Audit Reports (November 2012 – January 2013)**

**Annex A**

<b>Audit</b>	<b>Background to review</b>	<b>Key findings</b>	<b>Audit opinion (1)</b>	<b>Recommendations for improvement (Priority) (2)</b>
<p>Follow Up Review of Direct Payments: Controls Mitigating Fraud</p>	<p>A review of Direct Payments (DPs) was included in the 2011/12 Annual Audit Plan. This report follows up the recommendations of that review agreed in a management action plan.</p> <p>The April 2012 Audit looked specifically at the controls in place to mitigate fraud in DPs and did not assess the efficacy of the care provided or the capacity of self directed support to transform lives.</p>	<p>Adult Social Care Management have substantially improved the DP framework and made significant progress in reducing the number of overdue Social Care Reviews (SCRs).</p> <p>Testing indicated that progress has been made in reducing the number of overdue SCRs (732 reduced to 292) and that the impact of amendments to the reconciliation procedure have not yet been felt (40-50% of service users failing to provide reconciliations in a timely manner in both reviews).</p> <p>Due to the results of the testing, particularly the remaining outstanding SCRs, the Auditor is as yet unable to provide reasonable assurance that the controls to prevent fraud in DPs are now adequate. However, it should be noted that in the Auditor’s opinion the appropriate measures are in place but there will be a time lag before they impact the results of audit testing. The Auditor would expect to see further improvement in a future review.</p>	<p>Major Improvement Needed</p>	<p>No new recommendations</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Unofficial School Funds	Schools are required to have their unofficial funds audited. This is the money obtained locally for anything as opposed to the delegated money for educational purposes supplied through the authority. A check of audit certificates; approval of governors; and, independence of auditors, took place across a large sample of schools	<p>Of the 112 schools reviewed:</p> <ul style="list-style-type: none"> <li>• 77 were found to be fully compliant;</li> <li>• 23 were partially compliant e.g. there may have been delays in the accounts being submitted for independent audit or approval by governors, or a deficiency in the independence of the person examining the accounts;</li> <li>• 12 either did not provide the required information to the Internal Auditor within the time frame requested or have agreed they have not been compliant with the procedures. For the former, the auditor has agreed revised submission dates for schools to supply the relevant information.</li> </ul>	Some Improvement Needed	Chairmen of Governors at schools identified as non compliant to be informed of the requirements to adhere to the Surrey Scheme for Financing Schools for School Unofficial Funds. <b>(H)</b>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Corporate Purchasing Cards	<p>There are 400 plus card holders spending £1.9million per annum using the card. This audit looked at compliance with purchasing card rules to provide assurance that the risk of misuse is low.</p> <p>The auditor checked records for a sample of 30 card holders from across services identified as potentially high risk areas or in areas not previously audited.</p>	<p>In the vast majority of cases card usage was found to be correct and the guidance complied with. However, the testing had identified a number of failures to comply with the Rules and Guidance including some inappropriate expenditure. This was exacerbated by the failure of some managers to monitor purchasing card expenditure.</p>	Major Improvement Needed	<p>Ensure all card holders and line managers are aware of their responsibilities relating to purchase cards. <b>(H)</b></p> <p>There should be a clear escalation process to deal with possible breaches of rules identified by the Card Compliance Team. <b>(H)</b></p> <p>Guidance regarding use of the card when existing contracts are in place should be clarified (eg book purchases). <b>(H)</b></p> <p>The guidance should make it clear that eligible expenses relating to refreshments and travel should be claimed via the Portal, rather than paid for using a purchasing card. <b>(H)</b></p> <p>Senior management should be reminded that cards should only be used by the named user. <b>(H)</b></p> <p>Card holders and their line managers should be made aware of changes to guidance for card use. <b>(H)</b></p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Schools Basic Need (SBN)– Capital Programme	<p>Property Services (CAE) are responsible for meeting additional need for school places each year (Schools Basic Need), through new build, temporary provision and adaptations.</p> <p>The capital budgeted for this task between 2012-2017 was £360m, but was reduced to £244m in October 2011.</p> <p>A new joint design and procurement partnership with three other authorities hopes to deliver substantial savings on the cost of additional places over this period.</p>	<p>There is no regularly updated, single monitoring report that shows the final version of the number of additional school places need (which can vary up until May each year), alongside the number of additional places actually delivered. Financial reports do not always reflect all significant known expenditure variances in forecasts.</p> <p>The deployment of demountables in 2012/13 now appears not to be viewed as a best value solution.</p> <p>Designs for some major school building schemes to expand places were agreed before budgets were substantially reduced. Some schemes to be delivered by the Joint Programme Office later in the current programme may have few opportunities to secure the desired level of savings.</p> <p>Some performance issues have been raised on two major school places capital projects which related to SCC's asbestos surveys contractor.</p>	Some Improvement Needed	<p>SCC monitoring reports should more clearly track the delivery of additional classrooms and other major scheme by scheme deliverables. Financial reports should show the degree of scheme completion. <b>(M)</b></p> <p>Property Services should undertake a robust evaluation of alternatives to the temporary demountables used to meet SBN in 2012/13 and report to Investment Panel on the proposed solution for 2013/14 and lessons learned from the 2012/13. <b>(M)</b></p> <p>Consider a contingency strategy in the event of a significant shortfall in the savings that can be achieved by the CPO. Risk register entries should be updated. <b>(M)</b></p> <p>There should be better communication with the asbestos contractor on work plans as well as performance discussions with the contractor whereby they are encouraged to develop their total capacity and prioritise work on schools where SBN and capital works need to be progressed during the school summer holidays. <b>(M)</b></p>



<b>Audit</b>	<b>Background to review</b>	<b>Key findings</b>	<b>Audit opinion (1)</b>	<b>Recommendations for improvement (Priority) (2)</b>
Records Management	This audit of records management focussed on risks relating to this that had been recorded in service risk registers.	Overall the results regarding the reliability and security of council records were positive. All areas attended by the Auditor had retention schedules in place and auditees demonstrated an understanding of their purpose.	Effective	No high/medium priority recommendations were made.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Surrey Superfast Broadband	<p>SCC's Corporate Strategy 2012-17 commits the authority to achieving access to superfast broadband (SFBB) for all households and businesses in Surrey.</p> <p>BT's commercial roll out of SFBB-enabling technology will reach some 80% of Surrey's premises by the end of this year. Over time, market-led coverage is likely to expand to 90%.</p> <p>In order to achieve both 100% SFBB coverage and a start to delivery by 2013 in the more rural area in Surrey, SCC has decided that some public investment will be required to incentivise the market. SCC has set aside £20m in its capital programme for the delivery of this project in 2012/13 and 2013/14.</p>	<p>The order in which SFFB will be enabled in the intervention area is at the supplier's discretion in order to minimise overall cost.</p> <p>There is no set of over-arching priorities for the selection of socially excluded residents and small businesses that might particularly benefit from an earlier SFBB upgrade in the very few areas not covered by the standard solution. These properties are called 'infill' properties.</p> <p>Although there is some data available on the need for SFBB, there is not yet a clear set of comparator data on the 'spend' and the 'delivery promise' for each local authority. It is therefore difficult to assess value for money.</p> <p>There is no clear indication of any limit on BT's capacity to fully deliver on all the contracts that it has won across the UK in a timely manner. Delays in receiving approval for State Aid could potentially cause a 'bottleneck' for BT in mobilising its resources in early 2013.</p> <p>An earlier than anticipated national auction of 4G franchise rights is potentially highly significant to both levelling up Internet access and the commercial viability of fixed line SFBB.</p>	Some Improvement Needed	<p>The SFBB Team should seek to engage in soft influencing of BT to give some priority to service delivery in area patches with particular social and economic needs. <b>(M)</b></p> <p>Develop criteria to allocate and prioritise funding for 'infill' properties taking account of factors such as, opportunities to create jobs or tackle social isolation/exclusion. Consider developing community involvement and solutions for SCC residents who may not be able to access 'cable into the home' style Internet. <b>(M)</b></p> <p>Seek reliable information on a standard basis from other authorities which may then allow it to make a clearer assessment of VFM. <b>(M)</b></p> <p>The SFBB Team should seek to engage in soft influencing of BT as soon as possible to ensure that it is ready for a quick start on survey work in Surrey immediately after the Christmas holidays. <b>(M)</b></p> <p>SCC may wish to revisit its strategy on 4G in more depth, particularly now that the award of first licences has been made. It should also update its project risk register for this development. <b>(M)</b></p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Special School – Funding of Residential Places	<p>Currently, funding of residential special schools is based on Surrey County Council (SCC) purchasing a level of capacity at each institution on a planned number of placements. For the 2011/12 school year, Surrey's maintained special schools received £4.1 million of funding from the Council for residential placements. From 2013, central government will change funding arrangements for schools, with levels being calculated based on actual, rather than planned, usage.</p>	<p>Most schools visited for this audit were not offering to pupils the full number of residential places for which they had been given funding in the 2011/12 academic year. Occupancy rates for existing places varied considerably, though the clear trend was a shortfall on the uptake of residential services with half the schools filling less than 50% of funded places.</p> <p>The current practice of not including a residential requirement on a pupil's statement of SEN is not consistent with published SCC SEN strategic objectives. The Auditor could not identify an agreed SCC definition of 'residential accommodation'. In the absence of guidance from the Schools and Learning Service or a requirement on a pupil's SEN statement, schools offered different residential services linked to individual pupil development with insufficient reference to wider SCC strategic objectives.</p> <p>The Auditor is not satisfied that the Schools and Learning Service currently have sufficient management information on residential provision at special schools in order to effectively commission services, conduct robust business planning, or monitor progress against SEN objectives.</p>	Unsatisfactory	<p>The Head of Schools and Learning should consider engaging with the Heads of Surrey's special schools to agree new arrangements for funding residential places which takes into account the number of beds at each school and establishes a defined occupancy rate. <b>(H)</b></p> <p>The Head of Schools and Learning should consider a review which encompasses both strategic planning and current operational practice, and make such revisions to ensure they are consistent with one another. <b>(H)</b></p> <p>The Head of Schools and Learning should consider devising and implementing a precise definition of 'residential accommodation' which precisely defines the service that is being commissioned. <b>(H)</b></p> <p>The Head of Schools and Learning should consider requiring schools, as part of the commissioning process, to report at agreed regular intervals on nightly planned and actual occupancy rates. <b>(H)</b></p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Illuminated street furniture (ISF)	<p>In March 2010 the Council commenced a 25 year PFI contract for the replacement and maintenance of street lighting assets. In parallel with this is a second contract covering maintenance of 'illuminated street furniture', that is signs, bollards etc. Whilst this work is also undertaken by the PFI contractor (Skanska) the contract operates independently from the PFI contract and has its own operational arrangements and performance measures.</p>	<p>Overall our testing indicated that the contract was running smoothly with the contractor achieving the targets set within the contract. Client side management has also been successful in negotiating a reduction in the contractor's rates following a benchmarking exercise with other authorities.</p> <p>It was noted that the contract Schedule of Rates (SoR) had been incorrectly updated in relation to one particular area which had led to overcharging which should now be recovered from the contractor.</p>	Some Improvement Needed	<p>Management should continue to benchmark and assess the performance of the various elements of the ISF contract in order to demonstrate that 'Value for Money' continues to be obtained for the Council and the residents of Surrey. <b>(M)</b></p> <p>Should the contract require renegotiation at any stage in the future then management should consider revisiting the subject of financial deductions. Consideration should be given to the level of these charges to ensure they remain relevant in order to ensure that they remain a viable tool in performance management. <b>(M)</b></p> <p>Management should raise the matter with the contractor and re-examine the SoR to confirm that the appropriate updates have taken effect. Going forward the SoR should be test checked post annual updating to minimise any risk of recurrence. Finally, management should review the contractor's monthly accounts and recover any overcharges they identify. <b>(H)</b></p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Asset Management ICT	<p>Since 2010/11 the council has been engaged in a large scale improvement of its IT infrastructure. This is intended to drive efficiencies in the workplace and replace equipment and software that has reached the end of its life cycle. The value of this investment is in excess of £4 million and thus the management of these assets is crucial to achieve value for money from this investment.</p>	<p>As part of the move to a centralised server based architecture, applications are for the most part stored and deployed to end users from remote Application servers. However, a search (using the Applications Manager tool) for local installations of software identified 35 “unknown” installations.</p> <p>The audit concluded that the new physical devices installed as a result of this project are actively managed and locatable</p>	Some Improvement Needed	IMT to investigate the “unknown” installations and manage appropriately. <b>(H)</b>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Surrey 'TravelSmart' Programme	<p>In July 2011, SCC was successful in its Local Sustainable Transport Fund grant funding bid of £3.9m from the Department of Transport for its TravelSMART scheme.</p> <p>Surrey TravelSMART's aim is to promote economic growth and increase sustainable travel (walking, cycling and public transport) in Guildford, Woking, and Redhill &amp; Reigate.</p>	<p>The DfT state that failure to comply with all the requirements of the grant agreement could result in funding implications. The distribution and discussion of issues raised by various grant award letters and bulletins to date could have been better.</p> <p>Hourly charge-out rates used to cost staff activity on the LSTF project may contain ineligible expenditure. The total time spent on these projects may be understated due to time recording and authorisation issues.</p> <p>Various factors have resulted in underspends against the original 2012/13 allocations for the two LSTF-funded projects. SCC has benefited from a fortuitous offer of re-profiling.</p>	Some Improvement Needed	<p>The Transport Policy Team (TPT) Manager should ensure greater emphasis is given to the details of Grant Determination letters, DfT bulletins and other materials, ensuring these are disseminated and discussed with staff. <b>(M)</b></p> <p>The TPT Manager should review the eligibility issues raised by the Auditor regarding staff charge out rates used in quarterly claims, taking account of any further guidance from the DfT. They should also devise a spreadsheet tool that can amend the staff costs previously charged in claims if needed. <b>(M)</b></p> <p>Improve monitoring of time charged to this project with checking by management on the completeness of timesheet submission and authorisation. <b>(M)</b></p> <p>The LSTF Delivery Board should receive a monthly financial report on grant expenditure incurred. This should include a work-in-progress figure for their elements of delivery and an estimated outturn figure for the year-end. Staff should be set targets to deliver eligible expenditure where appropriate. <b>(M)</b></p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Building maintenance	<p>The County Council's buildings are assets which require proper maintenance in order to ensure that they function as efficiently and effectively as possible in supporting front line services. Deterioration of buildings if not checked can lead to significant future financial burdens, disruption of services and potential legal and health and safety implications.</p>	<p>Following negotiated changes to the method of payment to the contractor an exercise has subsequently been undertaken with the assistance of Procurement which shows that, based around some prudent assumptions, savings in the region of £322,000 or 11.3% for 2011/12 have been secured.</p> <p>Compensation Events (CEs) arise where the nature of works change from that specified impacting on time and / or costs. The contractor should advise the client of these and provide a costed breakdown of the impact on the scheme which the client will review and agree. In all cases looked at by the auditor, where CEs arose there was no supporting documentation detailing how the CE had been costed and any impact assessed.</p> <p>A review of a sample of files indicated that management of works could be enhanced in a number of areas.</p> <p>Condition surveying is a key process underpinning any robust asset management plan. This audit review highlighted a number of concerns, e.g.</p> <ul style="list-style-type: none"> <li>&gt; the large number of entries with either no assessed completion date or cost,</li> <li>&gt; the high number of works categorised as condition 'C' or 'D' (major defects / life expired, potential imminent failure)</li> </ul>	Some Improvement Needed	<p>Management should continue to monitor the information provided by the contractor in particular where this shows a rebate is due. <b>(M)</b></p> <p>Management should ensure that all CEs are supported by a relevant, detailed breakdown of adjustments to costs / timings which will assist in the budget monitoring process. This documentation should be retained on file in support of the variation. <b>(H)</b></p> <p>Based on the review of files a series of recommendations were made on improvements around:</p> <ul style="list-style-type: none"> <li>&gt; Budget setting</li> <li>&gt; Compliance with Procurement SO</li> <li>&gt; Completeness of documentation</li> <li>&gt; Application of contract uplifts</li> <li>&gt; Recovery of overcharged sum <b>(H)</b></li> </ul> <p>Management should ensure that the condition survey information is subject to regular review and updating. Schemes which remain scheduled for previous financial years should be revisited and scheduled as appropriate. <b>(H)</b></p>

<sup>1</sup> **Audit Opinions**

<b>Effective</b>	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
<b>Some Improvement Needed</b>	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.
<b>Major Improvement Needed</b>	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
<b>Unsatisfactory</b>	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

<sup>2</sup> **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





**AUDIT & GOVERNANCE COMMITTEE**  
21 February 2013

**Public Sector Internal Audit Standards**

**SUMMARY AND PURPOSE:**

The purpose of this report is to inform Members of the new Public Sector Internal Audit Standards (PSIAS) which come into effect on 1 April 2013. These standards are mandatory and should underpin the Internal Audit arrangements within the Council. The Chief Internal Auditor will be expected to report on conformance with the PSIAS in her annual report.

**RECOMMENDATIONS:**

With effect from 1 April 2013, the Committee adopts the Public Sector Internal Audit Standards as best practice for the delivery of a quality Internal Audit Service in Surrey County Council (SCC) for the benefit of both the Council as a whole and the residents of Surrey.

**BACKGROUND:**

- 1 The CIPFA Code of Practice for Internal Audit in Local Authorities in the United Kingdom is recognised as best practice and has been adopted by the County Council and previous effectiveness reviews of the effectiveness of Internal Audit have assessed the level of compliance with this standard.
- 2 A collaboration announced by CIPFA and the Institute of Internal Auditors (IIA) in May 2011 has led to the development of a new set of Internal Audit Standards – the Public Sector Internal Audit Standards (PSIAS) - which will provide a coherent and consistent internal audit framework for the whole of the public sector. These new standards - which effectively replace the CIPFA Code of Practice for Internal Audit in Local Authorities in the United Kingdom - were formally published in December 2012 and are effective from 1 April 2013.
- 3 This report sets out the key requirements of the PSIAS and highlights areas where these differ slightly from the CIPFA Code of Practice. This year's review of the effectiveness of the system of internal audit in Surrey Council Council is being undertaken by external assessors from CIPFA and will consider the Council's readiness for the new standards. A report on the findings of this review will be presented to Audit and Governance Committee in March 2013.

**PSIAS – Key Requirements :**

- 4 The PSIAS contain a number of key public sector requirements as follows:
  - (i) Compliance with the IIA Code of Ethics

5 The IIA Code of Ethics sets out key principles and rules of conduct covering the following:

Integrity; Objectivity; Confidentiality; and, Competency

6 Where individual auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation. The PSIAS also require that internal auditors who work in the public sector have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life* (sometimes referred to as the "Nolan Principles")

(ii) Purpose, Authority and Responsibility

7 The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter which should:

- define the terms "board" and "senior management" for the purposes of internal audit activity
- cover arrangements for appropriate resourcing
- define the role of internal audit in any fraud-related work; and,
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities

8 Within Surrey County Council it is anticipated that the Audit and Governance Committee will fulfill the functions of the "board"

(iii) Independence and Objectivity

9 The Chief Internal Auditor must report to a level within the organisation that allows the internal audit activity to fulfill its responsibilities. The Chief Internal Auditor must report functionally to the board. In practice this means the Audit and Governance Committee (as the Board) will be involved in:

- approving the internal audit charter
- approving the risk based internal audit plan
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations

10 The published PSIAS also include some examples of functional reporting to the board which are not typically seen as the responsibility of an Audit Committee in a Local Authority eg:

- approving decisions regarding the appointment and removal of the Chief Internal Auditor;
- approving the remuneration of the Chief Internal Auditor; and,
- approving the Internal Audit budget and resource plan

11 The underlying principle here is that the independence of the Chief Internal Auditor is safeguarded by ensuring that his/her remuneration or performance assessment is not unduly influenced by those subject to audit. In practice it is suggested that this may be achieved through the Chief Executive contributing feedback to the performance appraisal of the Chief Internal Auditor and that feedback is also sought from the Chairman of the Audit Committee.

(iv) Impairment to Independence or Objectivity

12 Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which they had operational responsibility within the preceding year, however internal auditors may provide consulting (advisory) services for activities for which they were previously responsible.

- 13 Approval must be sought from the board (Audit and Governance Committee) for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

(v) Proficiency and Due Professional care

- 14 Engagements must be performed with proficiency and due professional care. Internal auditors must possess the knowledge skills and other competencies needed to perform their individual responsibilities.
- 15 The Chief Internal Auditor must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.
- 16 Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

(vi) Quality Assurance and Improvement Programme

- 17 The Chief Internal Auditor must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This must include both internal and external assessments.
- 18 Internal assessments must include both integral day to day monitoring and supervision of activity as well as periodic self assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.
- 19 An external assessment should be conducted at least once every five years and progress against any improvement plans, agreed following external assessment, must be reported to senior management and the board (Audit and Governance Committee).
- 20 Instances of non-conformance with the PSIAS should be reported to the board (Audit and Governance Committee) and if there are significant deviations these should be considered for inclusion in the Annual Governance Statement.

(vii) Managing the Internal Audit Activity

- 21 The Internal Audit plan must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board (Audit and Governance Committee) must be considered in this process.
- 22 Internal Audit must evaluate the effectiveness and contribute to the improvement of risk management processes.
- 23 Internal auditors must develop and document a plan for each engagement including the engagement's objective, scope, timing and resource allocations.
- 24 Internal auditors must document relevant information to support the conclusions and engagement results.
- 25 The Chief Internal Auditor must deliver an annual internal audit report that can be used by the organisation to inform its governance statement. This annual report must include an internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report should also include:
  - a summary of work that supports the opinion; and,

- a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme (in SCC this is the annual review of the effectiveness of Internal Audit)

#### **PSIAS v CIPFA Code – Key Differences:**

- 26 The PSIAS have been developed following collaboration between CIPFA and the IIA, professional bodies that have complementary strategies and values and a shared commitment to Internal Audit. It therefore comes as no surprise that there are no fundamental differences between the PSIAS and the CIPFA Code of Practice.
- 27 The main differences between PSIAS and the Local Government Code appear to be around the following:

**Independence and Objectivity** – the PSIAS is not so concerned with “line management arrangements” but more with independence of function and reporting.

**Impairment to Independence and Objectivity** – the PSIAS set a timeframe (one year) whereby objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which they previously had operational responsibility.

**Quality Assurance and Improvement Programme** – the PSIAS require an external assessment of the internal audit activity at least once every five years.

**Risk Management** – the PSIAS contain more detail on the role of Internal Audit in risk management

**Overall Opinion** – PSIAS require the annual audit opinion to be accompanied by a statement on how the mandatory standards have been complied with.

#### **IMPLICATIONS:**

- 28 Financial Equalities  
Risk management and value for money
- 29 There are no direct implications (relating to finance, equalities, or value for money) arising from this report.
- 30 With regard to Risk Management, the PSIAS require Internal Audit to evaluate the effectiveness and contribute to the improvement of risk management processes.

#### **WHAT HAPPENS NEXT:**

- 31 A report on readiness for the PSIAS will be presented to the Audit and Governance Committee in March 2013. If necessary the Chief Internal Auditor will agree an improvement plan and report progress on implementation of this to the Audit and Governance Committee as appropriate.

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

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**Sources/background papers:** Public Sector Internal Audit Standards; CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006



**AUDIT & GOVERNANCE COMMITTEE**  
21 February 2013

**LEADERSHIP RISK REGISTER**

**SUMMARY AND PURPOSE:**

The purpose of this report is to present the latest Leadership risk register and update the committee on any changes made since the last meeting.

**RECOMMENDATION:**

Review the Leadership risk register (**Annex A**) and determine whether there are any matters that they wish to draw to the attention of the Chief Executive, Cabinet, specific Cabinet Member or relevant Select Committee.

**LEADERSHIP RISK REGISTER:**

- 1 The Leadership risk register (Annex A) 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. Annex B shows the movement of the risks since they were added to the register.
- 2 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 and also dates of future Select Committee reviews, where known.

**IMPLICATIONS:**

- 3 **Financial**  
Ineffective risk controls or lack of timely action may impact on reputation, costs or service delivery.
- 4 **Equalities**  
There are no direct equalities implications of this report.
- 5 **Risk management**  
Effective risk arrangements will lead to improved governance, value for money and delivery of objectives.

**WHAT HAPPENS NEXT:**

The Leadership risk register will be regularly presented to the Committee.

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# Leadership risk register as at 24 January 2013

Owner: David McNulty

Ref	Directorate register ref	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	<b>Medium Term Financial Plan</b> - 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.	<b>High</b>	- 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	<b>High</b>	Council Overview & Scrutiny Committee - on each agenda  Adult Social Care: - 14 February 2013 (Budget monitoring)  Children & Families: - 30 January 2013 (Budget monitoring)  Education: - 28 January 2013 (Budget monitoring)
L14	ASC5 CAE17 CSF22	<b>Future Funding</b> - 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.	<b>High</b>	- 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 - Notwithstanding 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	<b>High</b>	Audit and Governance Committee: - 3 October 2012 (Funding Strategy update)  Council Overview & Scrutiny Committee: - 5 December 2012 (Funding Strategy)

# Leadership risk register as at 24 January 2013

Owner: David McNulty

Ref	Directorate register ref	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
L7	CAE12 EAI1,2	<b>Waste</b> - Failure to deliver key waste targets (including key waste infrastructure) could lead to negative impact	<b>High</b>	<ul style="list-style-type: none"> <li>- This is a priority issue for the service manager with strong resourcing and project planning in place that is monitored at board level.</li> <li>- Further work with the Districts and Boroughs continue, to review waste plans to achieve the targeted increase in recycling.</li> <li>- Notwithstanding 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.</li> </ul>	Trevor Pugh	John Furey	<b>High</b>	Environment & Transport SC: - 1 March 2012 (Waste Partnership)
L11	ASC12 CEO7 CSF18	<b>Information Governance</b> - 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.	<b>High</b>	<ul style="list-style-type: none"> <li>- Secure environment through the Egress encrypted email system</li> <li>- Internal Audit Management Action Plans in place that are monitored by Audit &amp; Governance Committee and Select Committees</li> <li>- Ongoing communications campaign and training</li> <li>- Monitoring of compliance by Quality Board and Governance Panel</li> <li>- Despite the actions above, there is a continued risk of human error that is out of the council's control.</li> </ul>	Corporate Leadership Team	Denise Le Gal	<b>High</b>	Council Overview & Scrutiny Committee: - Monitored through internal audit reports



# Leadership risk register as at 24 January 2013

Owner: David McNulty

Ref	Directorate register ref	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
L3	CAC2,5,12 CAE3 CEO3	<b>Business Continuity, Emergency Planning and the event of industrial action</b> - Failure to plan, prepare and effectively respond to a known event or major incident results in an inability to deliver key services	<b>High</b>	- The Risk and Resilience Steering Group meets regularly to coordinate and lead on strategic resilience planning. - The Council Risk and Resilience Forum reviews, moderates, implements and tests operational plans. - Services have adequate and up to date business continuity plans. - Continued consultation with Unions and regular communication to staff.	Corporate Leadership Team	Kay Hammond	<b>Medium</b>	Council Overview & Scrutiny Committee: - 13 March 2013 (Business Continuity)
L2	ASC4,9 CAE1,2,16 CAC13 CSF4 EAI4,8	<b>Fit for the Future</b> - 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	<b>High</b>	- 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	<b>Medium</b>	Council Overview & Scrutiny Committee: - 14 November 2012 (Procurement Partnership)
L9	ASC11 CAE13 CSF8	<b>NHS Reorganisation</b> - The Health and Well Being Board does not provide the necessary whole system leadership to implement the Health and Social Care Act.	<b>High</b>	- 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	<b>Medium</b>	Health Scrutiny Committee: - 15 November 2012 (NHS Surrey)

## Leadership risk register as at 24 January 2013

Owner: David McNulty

Ref	Directorate register ref	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
L4	CAE5,7	<b>IT systems</b> - major breakdown and disruption of systems leads to an inability to deliver key services	<b>High</b>	- Additional resilience has been brought about by the go-live of the Primary and Secondary Data Centres. - Design and implementation of a new 64 bit Citrix farm is in progress that will bring resilience and performance enhancements. - Work in progress to increase the performance of login/logout times. - UNICORN Network is fully on track for completion by the end of March 2013.	Julie Fisher	Denise Le Gal	<b>Medium</b>	Council Overview & Scrutiny Committee: - 1 February 2013 (IMT service review)
L5	ASC7,16 CSF6,16	<b>Safeguarding</b> - avoidable failure in Children's and/or Adults care leads to serious harm or death	<b>High</b>	- 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/ Mary Angell	<b>Medium</b>	Children & Families Select Committee and Adult Social Care Committee: - on each agenda

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### 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

## Movement of risks

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

\* Removed from the risk register

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