

Notice of Meeting

Audit & Governance Committee



Date & time
Monday, 24 March
2014
at 10.00 am

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

Contact
Cheryl Hardman
Room 122, County Hall
Tel 020 8541 9075

Chief Executive
David McNulty

cherylh@surreycc.gov.uk

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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 Cheryl Hardman on 020 8541 9075.

Members

Mr Nick Harrison (Chairman), Mr W D Barker OBE (Vice-Chairman), Mr Denis Fuller, Mr Tim Evans, Mr Will Forster and Mr Tim Hall

Ex Officio:

Mr David Hodge (Leader of the Council), Mr Peter Martin (Deputy Leader), Mr David Munro (Chairman of the County Council) and Mrs Sally Ann B Marks (Vice Chairman of the County Council)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 2 DECEMBER 2013

(Pages 1
- 16)

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 (*18 March 2014*).
2. The deadline for public questions is seven days before the meeting (*17 March 2014*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER

(Pages
17 - 36)

To review the Committee's recommendations tracker.

6 EXTERNAL AUDIT - AUDIT PLAN FOR SURREY COUNTY COUNCIL (YEAR ENDED 31 MARCH 2014)

(Pages
37 - 54)

The external auditor Grant Thornton's Audit Plan for Surrey County Council outlines its audit strategy and plan to deliver the audit of the 2013/14 financial statements and to issue its value for money conclusion.

7 EXTERNAL AUDIT - CERTIFICATION OF CLAIMS AND RETURNS

(Pages
55 - 60)

The external auditor Grant Thornton's Certification of Claims and Returns Report summarises the findings from its certification of the Council's claims and returns.

- 8 EXTERNAL AUDIT - GRANT THORNTON FINANCIAL RESILIENCE REPORT** (Pages 61 - 126)
- This is the report from Grant Thornton's third national programme of reviews, which assesses whether local authorities have arrangements in place to ensure their sustainable financial future.
- 9 STREAMLINING AND SIMPLIFYING THE STATEMENT OF ACCOUNTS** (Pages 127 - 134)
- To examine the opportunities to make the annual Statement of Accounts more streamlined and focused on the needs of the users.
- 10 2013/14 REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT** (Pages 135 - 158)
- This report sets out the findings and recommendations from the 2013/14 review of the effectiveness of the system of internal audit in Surrey County Council.
- 11 COMPLETED INTERNAL AUDIT REPORTS** (Pages 159 - 178)
- The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting of this Committee in December 2013.
- 12 INTERNAL AUDIT PLAN 2014/15** (Pages 179 - 210)
- The purpose of this report is to present the Annual Internal Audit Plan for 2014/15 to the Committee.
- 13 TRANSPORT FOR EDUCATION: MAP PROGRESS** (Pages 211 - 226)
- The purpose of this report is to update the Audit and Governance on progress in implementing actions agreed following the audit of Transport for Education completed in March 2013.
- 14 LEADERSHIP RISK REGISTER** (Pages 227 - 234)
- 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.
- 15 WHISTLE BLOWING UPDATE** (Pages 235 - 238)
- Audit and Governance Committee have requested a regular update on whistle blowing, and to keep the profile high through publicity and preventative measures and activities.
- 16 DATE OF NEXT MEETING**
- The date of the next meeting is 29 May 2014.

David McNulty
Chief Executive
 Published: 13 March 2014

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Thank you for your co-operation

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 2 December 2013 at G30, 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 Denis Fuller
Mr Tim Evans
Mr Will Forster
Mr Tim Hall

In Attendance

Cath Edwards, Risk & Governance Manager
Cheryl Hardman, Committee Manager
Sue Lewry-Jones, Chief Internal Auditor
Phil Triggs, Strategic Manager – Pension Fund and Treasury

59/13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

60/13 MINUTES OF THE PREVIOUS MEETING: 2 SEPTEMBER 2013 [Item 2]

The Minutes were agreed as a true and correct record, subject to a couple of minor amendments.

61/13 DECLARATIONS OF INTEREST [Item 3]

There were none.

62/13 QUESTIONS AND PETITIONS [Item 4]

There were none.

63/13 RECOMMENDATIONS TRACKER [Item 5]**Declarations of Interest:**

None.

Witnesses:

Nikki O'Connor, Finance Manager (Assets, Investment & Accounting)

Phil Triggs, Strategic Manager – Pension Fund & Treasury

Key Points Raised During the Discussion

1. In relation to A55/12 (Finance Dashboard), the Chairman informed the Committee that a presentation on the Finance Dashboard would be given to Council Overview and Scrutiny Committee on 30 January 2014. Members of Audit & Governance Committee would be invited to attend.
2. In relation to A1/13 (Business Planning 2013-2018), the Strategic Manager – Pension Fund & Treasury provided an update to the Committee. The main issue at the meeting on 1 February 2013 was a recommendation for the approval of trigger points for reversing the current position on internal borrowing. Regular discussions on this had been held with the Chief Finance Officer. There was a reluctance to rely on trigger points when a wider range of factors would need to be considered. For example, market commentary and consultant's advice would also need to be considered. Trigger points could spur conversations but should not be relied on exclusively.
3. Further to A1/13 (Business Planning 2013-2018), the Chairman informed the Committee that Council Overview and Scrutiny Committee would not be repeating its scrutiny of the draft Treasury Strategy in 2014 and asked if Audit & Governance Committee would like to review the Treasury Strategy before the Council sets Council Tax for 2014/15. The Committee agreed to hold an informal meeting to consider the Strategy early in 2014 (**Recommendations tracker ref: A34/13**).
4. In relation to A3/13 (PAMS), it was noted that an update and demonstration was on the agenda for the day's meeting.

5. In relation to A26/13 (Council Tax), the Finance Manager (Assets, Investment & Accounting) informed the Committee that the Council was regularly receiving monitoring information on collection rates from five to six Borough and District Councils but not from the others. David Harmer, as Chairman of the Welfare Reform Group, was encouraging dual-hatted Members to talk to their Borough and District Council Finance Officers. Other local groups were also pursuing this as a priority. Several Borough and District Councils do not currently have the right systems to allow them to provide the information that we require on a monthly basis. A dual-hatted Member of the Committee disputed the suggestion that Councils do not have the information and pointed to his own Borough Council that had spent months setting up the systems to collate the information. It was proposed that the issue was more to do with transmission of the information to the County Council. The Finance Manager (Assets, Investment & Accounting) suggested that extrapolation of the data which had been sent through to the County Council shows that under-recovery of Business Rates and Council Tax is limited. The Chairman agreed to write to the Leader of the Council about concerns over the sharing of data on Council Tax and Business Rates collection (**Recommendations tracker ref: A35/13**).

Actions/Further Information to be Provided:

The recommendation tracker to be updated to reflect the discussion, as noted above.

Resolved:

That the recommendations tracker was noted and the committee agreed to remove pages 23-27 of the tracker as the actions were completed.

Next Steps:

None.

64/13 GRANT THORNTON 2012-13 ANNUAL AUDIT LETTER AND 2013-14 ANNUAL FEE LETTER [Item 6]

Declarations of Interest:

None.

Witnesses:

Kathryn Sharp, Audit Manager (Grant Thornton)

Daniel Woodcock, Assistant Audit Manager (Grant Thornton)

Nikki O'Connor, Finance Manager (Assets, Investment and Accounting)

Key Points Raised During the Discussion

1. The Audit Manager introduced the report.
2. The Chairman queried whether the planned fee for the Pension Fund audit in 2014 had increased from the fee for the 2013 audit. The Audit Manager confirmed that the fee was £600 higher. This was as a result of how the fee is calculated, with a fixed element of £20,000 and an additional uplift based on a percentage of net assets for the Fund.

3. In response to a query about what kind of information within the financial statements is immaterial or superfluous, the Chairman responded that he had seen a list which proposed information which may be immaterial or superfluous. He offered to share this list with the Member (**Recommendations tracker ref: A36/13**). The Finance Manager (Assets, Investment and Accounting) informed the Committee that officers were now reviewing all notes within the financial statements, with the aim of simplifying the statements and making them more user-friendly. A report could be brought to Committee in March 2014 on what it is proposed for removal (**Recommendations tracker ref: A37/13**). The Committee felt that any decluttering of the Accounts would need to be significant before more people would decide to read them.
4. In response to a question about the inclusion of the Eco Park as a key issue facing the Council, the Audit Manager responded that at the time of writing the letter there was considerable uncertainty over the future of the Eco Park. The progress on the Eco Park will be examined over the next year and the findings will be included within the value for money report.

Actions/Further Information to be Provided:

- i. The Chairman agreed to share a list of proposed immaterial or superfluous information within the financial statements with a Member.
- ii. A report to be brought to Committee on how the financial statements could be simplified.

Resolved:

- a. To NOTE the contents of the 2012/13 Annual Audit Letter;
- b. To NOTE the proposed 2013/14 audit fee.

Next Steps:

None.

65/13 TREASURY MANAGEMENT HALF YEAR REPORT 2013/14 [Item 7]

Declarations of Interest:

During the discussion, it was noted that advice from Deutsche Bank had been provided and Nicholas Harrison declared that he was a Director of the Deutsche Bank UK Pension Scheme.

Witnesses:

Phil Triggs, Strategic Manager – Pension Fund and Treasury

Key Points Raised During the Discussion

1. The Strategic Manager – Pension Fund and Treasury introduced the report.
2. In response to a query about the purpose of the Minimum Revenue Provision, the Strategic Manager – Pension Fund and Treasury explained that it was the amount required to be set aside for the capital repayment of debt.
3. The Strategic Manager – Pension Fund and Treasury informed the Committee that the policy to borrow internally saves significant money on a yearly basis.

4. An enlarged chart under paragraph 18 was tabled. A Member questioned the debt maturity profile, suggesting that the load should be spread more evenly. The Strategic Manager – Pension Fund and Treasury clarified that when the maturity structure was set, debt was cheaper over the long-term. There is the opportunity to reprofile if expedient to do so.
5. The Strategic Manager – Pension Fund and Treasury provided an update on the Icelandic deposits. Advice is being taken from Deutsche Bank on the possible sale of the debt as part of an LGA consortium, which has been considered by the Cabinet. During December 2013 there would be an artificial push down on the price as it was the year-end, and the matter would be picked up in early 2014.
6. Members queried the significant difference in the original estimate of the net interest on short-term cash flow and the year-end projection of net interest on short-term cash flow. Officers informed the Committee that interest receivable was higher than budget due to many Government grants being received earlier in the year than originally envisaged, leading to higher cash balances on deposit.
7. The Strategic Manager informed the Committee that he defined short-term as three to six months and long-term as over a year.
8. Members asked how the Bank of England's announcement that its Funding for Lending scheme would no longer be available for household lending affected the statement in paragraph 20 of the report. The Chairman confirmed that the scheme would continue for business lending.
9. Members asked whether the need for borrowing to fund capital expenditure for school expansions had been included in calculations. Officers responded that if capital plans are approved, it is then the role of the Treasury Manager to ensure that funding is in place.
10. The Strategic Manager – Pension Fund and Treasury confirmed that there had been no external borrowing since 2009/10. At some point over the next three years, it was likely that the policy would be reversed but the timing could not be forecast. It would be dependent on a range of factors.
11. The Chairman highlighted that the Council was now in surplus but that this was likely to be run down over the next few months.

Actions/Further Information to be Provided:

None.

Resolved:

To NOTE the content of the Treasury Management Half Year Report for 2013/14.

Next Steps:

- i. The Pension Fund & Treasury Team will monitor the UK and overseas banking sector and will continue to update this Committee as appropriate.
- ii. In line with the requirements of CIPFAs Code of Practice for Treasury Management, this Committee will receive a full-year report on the council's treasury management position for 2013/14 at the meeting in July 2014.

- iii. The Pension Fund & Treasury Team will prepare the annual Treasury Management Strategy, for consultation with the Audit & Governance Committee, and to be presented as part of the MTFP presented to Council in February 2014.

66/13 INTERNAL AUDIT HALF YEARLY REPORT 2013/14 [Item 8]

Declarations of Interest:

None.

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor
 Diane Mackay, Audit Performance Manager
 David John, Audit Performance Manager

Key Points Raised During the Discussion

1. Chief Internal Auditor introduced the report, explaining that it was a summary of activity within the Internal Audit function, rather than a summary of Audit findings. She confirmed that Internal Audit was on track to meet the Annual Audit Plan. The Chief Internal Auditor suggested that the increased proportion of 'effective' audit opinions and 'green' assessments of Management Actions showed real improvement as a result of audit focus.
2. Members questioned whether the increase in 'effective' audit opinions was because the Council was improving or because the auditors were getting softer. The Chief Internal Auditor stated that she cautiously felt that the Council was improving. The Audit Plan was based on identifying areas of risk. She pointed out that two reports since the end of September 2013 had been found to need major improvements and the full-year results could not yet be forecast. However, if the full-year results still showed an increased proportion of 'effective' audit opinions, Members may wish to challenge whether the Audit Plan was focussed on the right areas. Officers also pointed out that an audit is only a snapshot in time and can only provide a certain amount of reassurance.
3. Members suggested that the percentage of audit days spent on key financial statements had been low during the first half of 2013/14. The Chief Internal Auditor confirmed that most financial systems were tested during the second final quarter of the year so she was not uncomfortable with the current statistics.
4. In response to a query about the marking up of pot holes and the lack of follow-up, the Audit Performance Manager informed the Committee that a report was going to Environment & Transport Select Committee on changes to timescales for dealing with pot holes.
5. Members asked whether there was any difference in the management style since Kier took over the Highways contract. The Audit Performance Manager suggested that the handling of the contract was largely the same although there is a different name. The IT system was improving but it was a slow process.
6. There was a question regarding the possibility of a follow-up audit of gully cleaning. The Audit Performance Manager confirmed that a report was going to Environment & Transport Select Committee shortly which picked up on this issue and that Internal Audit would address it when it next looks at the contract. However, she had heard that there had been improvements.

7. In relation to the Transport for Education Management Action Plan (MAP), a Member asked why the production of clear written procedures for SEN staff had been delayed until after data cleansing had been completed. Officers explained that the data cleansing was already underway and, since the same staff would be involved in producing the written procedures, they had prioritised the data cleansing. There was concern at the explanation of resource constraints preventing SEN officers from being present at SEN transport reviews. It was agreed that the Audit & Governance Committee should receive a further report on the Transport for Education MAP in March 2014, inviting officers from the service to attend (**Recommendation Tracker ref: A38/13**). The Chairman also agreed to write about his concerns to the Chairman and Vice-Chairman of the Children and Education Select Committee, asking them to monitor the situation (**Recommendation Tracker ref: A39/13**).
8. A Member queried why tree stumps were left behind when a tree was removed. The Audit Performance Manager informed the Committee that Council policy is to leave the stumps as they stop people from parking on the verges. The Chairman agreed to ask the relevant Cabinet Member about the policy (**Recommendation Tracker re: A40/13**).

Actions/Further Information to be Provided:

- iii. Audit & Governance Committee to receive a further report on the Transport for Education MAP in March 2014, inviting officers from the service to attend the meeting.
- iv. The Chairman agreed to write about his concerns with regard to the Transport for Education MAP to the Chairman and Vice-Chairman of the Children and Education Select Committee, asking them to monitor the situation.
- v. The Chairman agreed to write to the Cabinet Member for Transport, Highways and the Environment to query the Council's policy on tree stumps.

Resolved:

To NOTE the report and raise matters with Cabinet Member and Select Committee Chairmen as discussed above.

Next Steps:

The Chief Internal Auditor's Annual Report for 2013/14 would be presented to the Committee in May 2014.

67/13 HALF YEAR SUMMARY OF INTERNAL AUDIT IRREGULARITY INVESTIGATIONS AND ANTI FRAUD MEASURES APRIL - SEPTEMBER 2013 [Item 9]

Declarations of Interest:

None.

Witnesses:

Reem Burton, Lead Auditor
David John, Audit Performance Manager
Sue Lewry-Jones, Chief Internal Auditor

Key Points Raised During the Discussion

1. The Lead Auditor introduced the report, highlighting the slight increase in the number of irregularity investigations undertaken on the same period last year.
2. The Chairman reminded the Committee that the Anti-Fraud policy of the County Council had strengthened its wording with regard to the police. He asked whether officers were satisfied that guidance from Babcock 4S to schools was sufficiently robust in references to the police. The Lead Officer responded that Babcock 4S was itself making more regular calls to Internal Audit about potential fraudulent activities. The Chairman asked that officers review Babcock 4S' policy and ensure that it is robust enough (**Recommendations tracker ref: A41/13**).
3. The Chief Internal Auditor informed the Committee that 55,000 letters had been sent to claimants where there is a risk that there has been a fraudulent Single Person Discount claim for council tax. There had been initial own-ups by 839 individuals for the first five District and Borough Councils which have released data. The Discount has been immediately cancelled which releases additional money for the Council.
4. A Member highlighted the work that the Surrey Procurement Group is doing in the area of fraudulent claims for Single Person Discount. Officers confirmed that there is liaison between the two projects.
5. Members asked how much money the Council is defrauded of in total. The Lead Auditor informed the Committee that money which can be demonstrated to be stolen is not material. Examples such as the payments for cleaning services cannot be classed as fraud although they are a breach of agreed process. The Chairman pointed out that publicity about fraudulent activity was important as a deterrent.

Actions/Further Information to be Provided:

Officers to review Babcock 4S' guidance to schools, particularly with regard to fraud, to ensure references to the police are sufficiently robust.

Resolved:

To NOTE the contents of the report.

Next Steps:

None.

68/13 COMPLETED INTERNAL AUDIT REPORTS [Item 10]

Declarations of Interest:

None.

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor

Key Points Raised During the Discussion

1. The Chief Internal Auditor introduced the report, highlighting that the follow-up audit of Purchasing Cards had found that the new processes were effective. She also cited the audit of Blue Badges which was also rated as effective and encouraged Members to read the report as it dispels misconceptions about Blue Badges. The Chief Internal Auditor went on to say that the Social Care Debt audit had found that

major improvement was still needed and that the audit of Children in Care – Health and Dental Checks had found that the situation had actually deteriorated since the previous audit.

2. The Chairman informed the Committee that he had spoken at the Select Committee Chairmen’s meeting about the process for Select Committee review of audit reports. The Chief Internal Auditor tabled a revised process to ensure that Select Committees do consider relevant audit reports (attached as **Annex 1**). The process was due to be discussed again with Select Committee Chairmen that afternoon.
3. A Member queried whether the process would ensure that Chairmen do take action when required. It was suggested that all Internal Audit Reports also be copied to the Select Committee Vice-Chairman. The Chief Internal Auditor reminded the committee that following each meeting she emails all councillors, listing the audit reports considered by the Audit & Governance Committee. She suggested that she include details of the audit opinion and the number of high priority recommendations for each of those audits (**Recommendations Tracker ref: A42/13**). That would alert all Members to areas of possible concern.
4. Members expressed concern that the follow-up audit of Children in Care – Health and Dental Checks had found a deterioration in practice. They pointed out that there had been problems with health and dental checks for several years. The Chief Internal Auditor brought Members attention to the Management Action Plan progress update which rated actions as green based on information given by the service. It wasn’t until a full audit test was conducted for the follow-up audit that evidence was found that the situation had deteriorated. However, she also stated that the issue was concerned with having evidence that checks were taking place rather than that checks are not taking place. The Chairman agreed to write to the Cabinet Member for Children and Families about the Committee’s concerns, copying in all Councillors and the Chief Executive (**Recommendations Tracker ref: A43/13**).
5. Members discussed where responsibility lies for social care debt and asked the Chief Internal Auditor to confirm. The Chairman would also write to the Cabinet Members for Adult Social Care about the Social Care Debt audit (**Recommendations Tracker ref: A44/13**).

Actions/Further Information to be Provided:

- i. The Chief Internal Auditor to include details of the audit opinion and the number of high priority recommendations for each audit considered by the Audit & Governance Committee in her regular email to all councillors.
- ii. The Chairman agreed to write to the Cabinet Member for Children and Families about the Committee’s concerns over the audit of Children in Care – Health and Dental Checks, copying in all Councillors and the Chief Executive.
- iii. The Chairman agreed to write to the Cabinet Members for Adult Social Care about the Social Care Debt audit.

Resolved:

To NOTE the report and take action as set out above.

Next Steps:

None.

69/13 RISK MANAGEMENT HALF YEAR REPORT [Item 11]

Declarations of Interest:

None.

Witnesses:

Cath Edwards, Risk & Governance Manager

Andrew Prior, Insurance Services Group Manager

Key Points Raised During the Discussion

1. The Risk & Governance Manager introduced the report. She informed the Committee that the Continual Improvement Board had recommended changes to the Leadership Risk Register. Once the Register was updated it would be uploaded to S-Net and the link would be sent to the Committee.
2. There was some concern expressed about the Safeguarding residual risk level being set at Medium (Ref: L5). Officers pointed out that Safeguarding is split into various risks at a Directorate level, each with its own risk level attached. The Chief Internal Auditor also highlighted that the recent audit of the Adult Social Care Safeguarding Assurance Process gave some assurance on the adequacy of controls. She informed the Committee that the Strategic Director for Adult Social Care would give an update to Adults Social Care Select Committee on progress against the recommendations from the Serious Case Review of the death of Gloria Foster in March 2014.
3. Members queried the attendance figures for the Council Risk and Resilience Forum. The Risk and Governance Manager offered to circulate the attendance figures to the Committee (**Recommendations Tracker ref: A45/13**).
4. Members queried who had conducted the actuarial audit of the insurance fund. The Insurance Services Group Manager informed the Committee that the actuary had been appointed by the brokers Jardine Lloyd Thompson. Members went on to ask whether the annual audit of the claims handling service had been found to be 'Excellent' because it quickly passes on all claims or because it filters out claims. The Insurance Services Group Manager responded by saying that unlike other authorities, the Council's Insurer permits the claims handling service to manage claims up to the value of its excess, being £100,000 per claim. This is the most cost effective method of claims handling, and provides greater and closer control of claims handling. As there is potential risk to the insurer in permitting this, an annual audit is conducted to monitor the standard of claims handling.
5. A Member asked about the quality of the Institute for Risk Management. The Risk and Governance Manager confirmed that it was a good institute, which was leading the way on risk culture work. She had also undertaken exams with the Institute.

Tim Hall left the meeting.

6. The Chairman suggested that the risk descriptions and controls for Risk L1 (Medium Term Financial Plan), Risk L4 (IT Systems) and Risk L7 (Waste) needed developing (**Recommendations Tracker ref: A46/13**).

Recommendations/Further Information to be Provided:

- i. The Risk and Governance Manager agreed to circulate the attendance figures for the Council Risk and Resilience Forum to the Committee.
- ii. The risk descriptions and controls for Risk L1 (Medium Term Financial Plan), Risk L4 (IT Systems) and Risk L7 (Waste) to be developed.

Resolved:

- a) That the Committee is satisfied with the risk management arrangements;
- b) That the Leadership Risk Register be updated as set out above.

Next Steps:

None.

70/13 REVIEW OF THE INVESTMENT PANEL [Item 12]**Declarations of Interest:**

None.

Witnesses:

Nick Carroll, Finance Manager – Funding & Planning

Key Points Raised During the Discussion

Tim Hall rejoined the meeting.

1. The Finance Manager – Funding & Planning introduced the report.
2. In response to a question about Cabinet membership of the Panel, the Finance Manager – Funding & Planning explained that, due to the changing scope of the Investment Panel, it was no longer particularly relevant to the Cabinet Member for Assets and Regeneration. There was also a clearer distinction between the decision-making role of Cabinet Members and the scrutiny role of the Investment Panel. The process is that the Cabinet approves the main capital programme, officers then produce business plans which the investment Panel reviews to ensure that the business case is sound, providing assurance to Cabinet.
3. A Member queried the overlapping membership of the Investment Panel and the Investment Advisory Board. The Chairman agreed the use of 'Investment' in both the groups' names was confusing but while the Investment Panel is internally focussed, the Investment Advisory Board is externally focussed, and concerned with revenue raising.
4. The Chairman suggested that it would be helpful for the report to include a flow chart showing how the process works when it goes to Council Overview and Scrutiny Committee. He also asked that the remits of all groups mentioned be set out eg the Productivity & Efficiency Panel and the Models of Delivery Board (**Recommendations Tracker ref: A47/13**).
5. The Chairman was satisfied that the Terms of Reference for the Investment Panel does address issues such as low attendance at meetings and the use of email chains for decision making by introducing a quorum for meetings. The Chief Internal Auditor also confirmed that she was encouraged by developments, citing the importance of a quorum and substitute members being limited to the Council Performance Team.

Actions/Further Information to be Provided:

The officer report to Council Overview and Scrutiny Committee to include a process flow chart and the remits of all groups mentioned eg the Productivity & Efficiency Panel and the Models of Delivery Board.

Resolved:

- a) To NOTE the recent changes to arrangements for the Panel; and
- b) To REPORT its findings to Council Overview and Scrutiny Committee
(**Recommendations Tracker ref: A48/13**).

Next Steps:

None.

71/13 GOVERNANCE UPDATE REPORT [Item 13]**Declarations of Interest:**

None.

Witnesses:

Cath Edwards, Risk & Governance Manager
Susan Smyth, Strategic Finance Manager

Key Points Raised During the Discussion

1. The Risk & Governance Manager introduced the report.
2. A Member challenged the membership of the Investment Advisory Board as it includes a number of Cabinet Members. This impacts on the stated purpose of the Board which is to advise the Cabinet. The Strategic Finance Manager explained that advice is forthcoming from senior officers who support the Board and that the Board is non-decision-making.
3. Members asked who manages the established Local Authority Trading Companies. The Strategic Finance Manager informed the Committee that the Shareholder Board represents Surrey County Council as the shareholder in trading companies. Day-to-day running of the company is undertaken by the Directors. There is currently one Local Authority Trading Company.
4. In response to detailed questioning, the officers reiterated that the report was a shortened summary giving progress on areas identified within the Annual Governance Statement.

Actions/Further Information to be Provided:

None.

Resolved:

That the Committee confirmed that it was satisfied with the ongoing governance work.

Next Steps:

None.

72/13 AUDIT & GOVERNANCE COMMITTEE: ANNUAL REPORT 2012/13 [Item 14]

Declarations of Interest:

None.

Key Points Raised During the Discussion

1. The Chairman introduced the report and Members expressed their satisfaction with the Annual Report.

Actions/Further Information to be Provided:

None.

Resolved:

To ENDORSE the 2012/13 annual report of the Committee and to COMMEND it to Council on 11 February 2014 (**Recommendations Tracker ref: R4/13**).

Next Steps:

None.

73/13 PROGRESS REPORT - PROPERTY ASSET MANAGEMENT SYSTEM (PAMS) [Item 15]

Declarations of Interest:

None.

Witnesses:

Nigel Jones, Performance Manager, Property Services

Claire Barrett, Transformation and Delivery Manager, Property Services

Key Points Raised During the Discussion

1. The Transformation and Delivery Manager explained that she was the project sponsor for PAMS, both in Surrey and in Hampshire. The Performance Manager went on to introduce the report. He informed the Committee that the system had gone live in Surrey on 2 April 2013. Hampshire County Council was delayed but would hopefully go live in February/March 2014. He stated that the project team was small and had a small budget to implement the system but it was expecting to come in within budget.
2. Members highlighted property issues such as rent not being paid and asbestos in school and asked if PAMS would prevent these issues from recurring. The Performance Manager confirmed that the system would mean that all information about property would be kept in one place. For example, it will hold all rent payable and received, as well as show where rent is due. As the system is implemented, processes are being reviewed to ensure that safeguards are built in. Information on asbestos is being inputted at the moment and the system will continue to be updated. When a property is acquired, there is a process in place to ensure that data is inputted.
3. In response to a query, the officers confirmed that PAMS would be compatible with SAP.

Actions/Further Information to be Provided:

None

Resolved:

- a) To NOTE the progress made against the implementation plan and recognise the achievements; and
- b) To NOTE the revised project timescale for completion by 31 March 2014.

Next Steps:

To receive a final update on PAMS once fully implemented in May 2014
(**Recommendations Tracker ref: A49/13**).

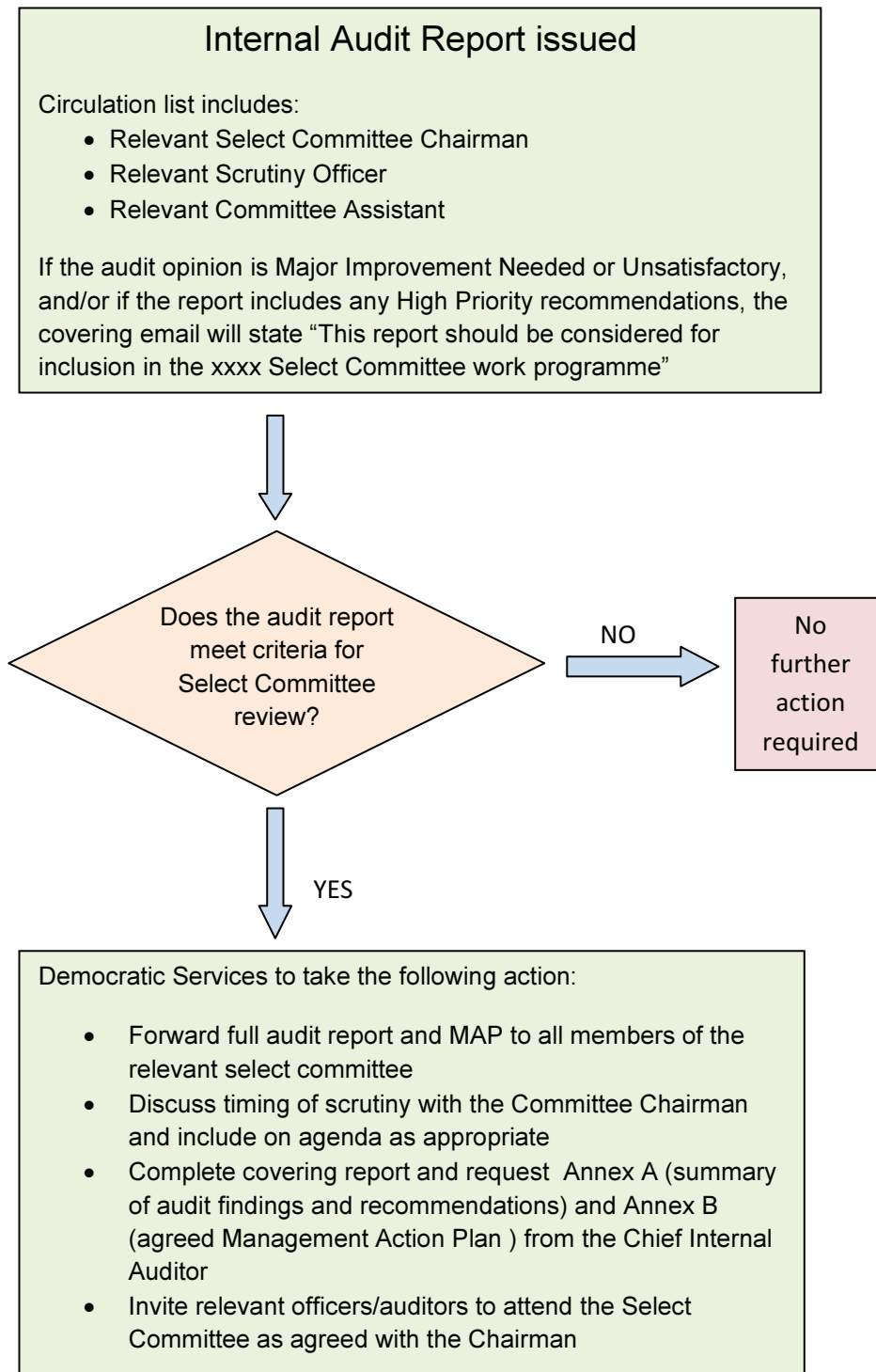
74/13 DATE OF NEXT MEETING [Item 16]

The Committee noted that the next normal meeting is on 24 March 2014.

The Committee agreed to schedule a workshop to develop understanding of complaints handling in Children's Service (**Recommendations Tracker ref: A50/13**).

Meeting ended at: 1.05 pm

Chairman



Note: The Select Committee is encouraged seek assurance from officers that appropriate and timely action is being taken to address the audit recommendations made. The agreed Management Action Plan will be available as part of the Committee papers, but the supporting audit report will not be included with the public committee papers . This will have been previously circulated to committee members.

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**Audit & Governance Committee
24 March 2014**

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 **Annex A**, and the Committee is asked to review progress on the items listed.

The Committee's information bulletin which was circulated by email on 4 March 2014 is attached as **Annex B**.

RECOMMENDATION:

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

REPORT CONTACT: Cheryl Hardman, Regulatory Committee Manager
020 8541 9075
cherylh@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
R3/12	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.</p> <p>A Member Reference Group of the Adult Social Care Select Committee was set up to review whether AIS meets the needs of the directorate. It recommended and pushed for a Rapid Improvement Event on the whole assessment process. This was done in April and the team are currently in the process of implementing the new, more streamlined, less bureaucratic system. As the follow up audit of Direct Payments also received a 'Major Improvement Needed' opinion, it is intended that the Adult Social Care Select Committee will review this again in the Autumn.</p> <p>On 2 September 2013, the Chief Internal Auditor confirmed that social care debt is on the Audit Plan for 2013/14. The Chairman requested to review the issue at a future meeting.</p> <p>On 6 March 2014, Adults Social Care Select Committee reviewed the Social Care Debt: Credit Balances Internal Audit report as part of a wider look at social care debt.</p>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Referral	To	Response
R2/13	24/06/13	2012/13 Annual Governance Statement (37/13)	That the draft Annual Governance Statement be COMMENDED to Cabinet for publication with the Council's Statement of Accounts.	Cabinet	The Annual Governance Statement was presented to Cabinet on 23 July 2013. 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 the governance environment and report to Cabinet where appropriate.

Recommendations (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
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	<p>Implementation of the Finance Dashboard would enable these reports to be developed but implementation has been delayed due to issues with the suppliers.</p> <p>At the meeting on 24 June 2013, the Deputy Chief Finance Officer confirmed that work on the finance Dashboard was on-going and that the system would go live in July 2013.</p> <p>On 2 September 2013, the Chairman confirmed that the Finance Dashboard had gone live. The Committee was invited to attend a presentation being given on 30 January 2014 to Council Overview and Scrutiny Committee on the Finance Dashboard. Given the small numbers who were able to attend the presentation, a further presentation has been arranged for 31 March 2014.</p>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A11/13	18/03/13	Self Assessment on Issues Raised in 'Financial Sustainability of Local Authorities' (25/13)	The Committee to consider progress on the areas for improvement.	Chief Finance Officer	A report is scheduled for the 29 May 2014 meeting.
A32/13	02/09/13	Ethical Standards Annual Review	That the Committee receive an annual report on the operation of the Code of Conduct.	Monitoring Officer	A report will be scheduled for September 2014
A33/13	02/09/13	Ethical Standards Annual Review	That the Committee endorse the Monitoring Officer's view that no further formal training sessions would be required in the next twelve months and that the Monitoring Officer should ensure periodic reminders and guidance to Members are delivered via email starting with a reminder declare gifts and hospitality in the lead up to Christmas.	Monitoring Officer	To review in the new year.
A35/13	02/12/13	Recommendations Tracker	The Chairman agreed to write to the Leader of the Council about concerns over the sharing of data on Council Tax and Business Rates collection	Chairman	A letter was sent to the Leader of the Council, dated 19 December 2013. A response was received dated 7 January 2014.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A46/13	02/12/13	Risk Management Half Year Report	The risk descriptions and controls for Risk L1 (Medium Term Financial Plan), Risk L4 (IT Systems) and Risk L7 (Waste) to be developed.	Risk and Governance Manager	The Risk and Governance Manager to update the Committee on 24 March 2014.
A49/13	02/12/13	Progress Report – Property Asset Management System (PAMS)	To receive a final update on PAMS once fully implemented in May 2014.	Performance Manager	Scheduled for 29 May 2014.

Completed Recommendations/Referrals/Actions

Recommendations – to be deleted

R4/13	02/12/13	Audit & Governance Committee: Annual Report 2012/13	To endorse the 2012/13 annual report of the Committee and to commend it to Council on 11 February 2014.	Council	On 11 February 2014, Council noted the annual report of the Committee.
A39/12	3/09/12	2011/12 Surrey County Council accounts and external audit annual governance report (63/12)	Recommended that Environment & Transport Select Committee should be considering the outcome of the MAXIMO internal audit report	Projects & Contracts Group Manager (Surrey Highways)	<p>A six-month review of the May Gurney contract was considered by the Environment & Transport Select Committee in February 2013. Members were satisfied with the performance figures and supported proposals to improve the highways maintenance programme.</p> <p>On 11 September 2013, the Committee considered a review of achievements and challenges for the May Gurney/Kier Highways maintenance contract over the past 12 months.</p>

Audit & Governance Committee Recommendations Tracking

A1/13	12/02/13	Business Planning 2013 – 2018 (4/13)	The recommendations from the 1 February Council Overview & Scrutiny Committee to the Cabinet include follow up action by the Committee (see Annex A)	Chairman of the Committee.	The Strategic Manager (Pension Fund and Treasury) updated the Committee on 2 December 2013.
A3/13	21/02/13	PAMS (13/13)	The Committee to receive a further update and demonstration of the system once it is implemented	Chief Property Officer/Performance Manager	At the meeting on 24 June 2013, the Chairman requested a progress note to be circulated to the Committee. On 2 September, an update was requested for circulation on whether the system was fully up and running. This was emailed to the Committee on 7 October and was also included in the November 2013 edition of the Committee bulletin. An update and demonstration was provided on 2 December 2013
A26/13	24/06/13	Statement of Accounts 2012/13 (41/13)	That an update on Council Tax collection be provided in September	Finance Manager (Assets, Investment and Accounting)	An update was provided on 2 December 2013. A further action is listed as A35/13.
A34/13	02/12/13	Recommendations Tracker	The Committee agreed to hold an informal meeting to consider the draft Treasury Strategy early in 2014.	Strategic Manager – Pension Fund & Treasury	This was held on 20 January 2014.
A36/13	02/12/13	Grant Thornton 2012-13 Annual Audit Letter and 2013-14 Annual Fee Letter	The Chairman agreed to share a list of proposed immaterial or superfluous information within the financial statements with a Member.	Chairman	The Chairman circulated the list from Grant Thornton on 2 January 2014.

Audit & Governance Committee Recommendations Tracking

A37/13	02/12/13	Grant Thornton 2012-13 Annual Audit Letter and 2013-14 Annual Fee Letter	A report to be brought to Committee on how the financial statements could be simplified.	Finance Manager (Assets, Investment and Accounting)	On the agenda for March 2014.
A38/13	02/12/13	Internal Audit Half Yearly Report 2013/14	Audit & Governance Committee to receive a further report on the Transport for Education MAP in March 2014, inviting officers from the service to attend the meeting.	Chief Internal Auditor	On the agenda for March 2014.
A39/14	02/12/13	Internal Audit Half Yearly Report 2013/14	The Chairman agreed to write about his concerns with regard to the Transport for Education MAP to the Chairman and Vice-Chairman of the Children and Education Select Committee, asking them to monitor the situation.	Chairman	<p>A letter was sent to the Chairman and Vice-Chairman of the Children & Education Select Committee, dated 19 December 2013.</p> <p>An interim response was received, dated 7 January 2014.</p> <p>The Chairman is attending the meeting of Audit & Governance Committee on 24 March 2014.</p>
A40/13	02/12/13	Internal Audit Half Yearly Report 2013/14	The Chairman agreed to write to the Cabinet Member for Transport, Highways and the Environment to query the Council's policy on tree stumps.	Chairman	<p>A letter was sent to the Cabinet Member for Transport, Highways and the Environment, dated 19 December 2013.</p> <p>A response was received, dated 8 January 2014.</p>

Audit & Governance Committee Recommendations Tracking

A41/13	02/12/13	Half Year Summary of Internal Audit Irregularity Investigations and Anti-Fraud Measures April – September 2013	Officers to review Babcock 4S' guidance to schools, particularly with regard to fraud, to ensure references to the police are sufficiently robust.	Audit Performance Manager	The officer response was included in the February 2014 edition of the Committee bulletin (attached as annex 2 of this item).
A42/13	02/12/13	Completed Internal Audit Reports	The Chief Internal Auditor to include details of the audit opinion and the number of high priority recommendations for each audit considered by the Audit & Governance Committee in her regular email to all councillors.	Chief Internal Auditor	The new process has been initiated.
A43/13	02/12/13	Completed Internal Audit Reports	The Chairman agreed to write to the Cabinet Member for Children and Families about the Committee's concerns over the audit of Children in Care – Health and Dental Checks.	Chairman	A letter was sent to the Cabinet Member for Children & Families, dated 19 December 2013. An initial response was received on 19 December 2013 and a final response was received on 13 January 2014.
A44/13	02/12/13	Completed Internal Audit Reports	The Chairman agreed to write to the Cabinet Member for Adult Social Care about the Social Care Debt audit.	Chairman	A letter was sent to the Cabinet Member for Adult Social Care, dated 19 December 2013. A response was received, dated 8 January 2014.
A45/13	02/12/13	Risk Management Half Year Report	The Risk and Governance Manager agreed to circulate the attendance figures for the Council Risk and Resilience Forum to the Committee.	Risk and Governance Manager	Circulated in the February Committee bulletin (attached as annex 2 of this item).

Audit & Governance Committee Recommendations Tracking

A47/13	02/12/13	Review of the Investment Panel	The officer report to Council Overview and Scrutiny Committee to include a process flow chart and the remits of all groups mentioned eg the Productivity & Efficiency Panel and the Models of Delivery Board.	Finance Manager – Funding & Planning	The officer report to Council Overview and Scrutiny Committee on 30 January 2014 incorporated the amendments suggested by Audit & Governance Committee.
A48/13	02/12/13	Review of the Investment Panel	Audit & Governance Committee to report its findings to the Council Overview & Scrutiny Committee	Chairman	The Audit & Governance Committee reported its findings to Council Overview and Scrutiny Committee on 30 January 2014.
A50/13	02/12/13	Date of Next Meeting	To schedule a workshop to develop understanding of complaints handling in Children's Service.	Regulatory Committee Manager	This was held on 20 January 2014.

Audit & Governance Committee

5

Welcome...

Welcome to the Audit & Governance Committee Bulletin.

The purpose of this bulletin is to keep Members and officers up to date with local and national issues relevant to the Audit & Governance Committee.

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Update from previous Audit & Governance Committee meetings

Council Tax and Business Rates Collection	On 2 December 2013, the Chairman agreed to write to the Leader of the Council about concerns over the sharing of data on Council Tax and Business Rates collection. An initial response has been received and was circulated to the Committee on 9 January 2014. The Leader is to raise the issue with the Surrey Leaders' Group.
Transport for Education	<p>On 2 December 2013, the Chairman agreed to write about the Committee's concerns with regard to the Transport for Education Management Action Plan (MAP) to the Chairman and Vice-Chairman of the Children and Education Select Committee, asking them to monitor progress. An initial response has been received and was circulated to the Committee on 9 January 2014.</p> <p>The Chairman of the Children and Education Select Committee has interviewed relevant officers about the Transport for Education audit, and will be attending the next meeting of the Audit & Governance Committee when officers will report back on progress.</p>

Anti-Fraud Measures	<p>On 2 December 2013, officers were asked to review Babcock 4S' guidance to schools, particularly with regard to fraud, to ensure references to the police are sufficiently robust.</p> <p>The Audit Performance Manager has reviewed the Schools Finance Manual, the Surrey Scheme for Financing Schools, and the Babcock 4S online manuals and procedure notes. He has stated that he could find very little in the way of specific references to the Police, or how liaison with the Police should work at a school-level, in any of these sources. The only clear reference to the Police comes from the model Whistleblowing Policy, where it confirms that it is for the Governing Body and the Headteacher (as appropriate) to consider involving the Police as one of a possible number of different local agencies in the investigation of any whistleblowing received.</p> <p>Other references to the Police do exist, but in a non-financial context (e.g. safeguarding and/or drug and alcohol policies, for example).</p>
Social Care Debt Audit	<p>On 2 December 2013, the Chairman agreed to write to the Cabinet Member for Adult Social Care about the Social Care Debt audit. A response has been received and was circulated to the Committee on 21 January 2014. The response explains that Adult Social Care Select Committee will receive an update on progress against the Management Action Plan at its March meeting. The Cabinet Member will also use this report for assurance on progress.</p>
Council Risk and Resilience Forum	<p>On 2 December 2013, the Risk and Governance Manager agreed to circulate the attendance figures for the Council Risk and Resilience Forum to the Committee.</p> <p>The attendance table is attached:</p>
Tree Stump Policy	<p>On 2 December 2013, the Chairman agreed to write to the Cabinet Member for Transport, Highways and the Environment to query the Council's policy on tree stumps. A response has been received and was circulated to the Committee on 9 January 2014. It was confirmed that there was no policy or maintenance approach in place in order to deliberately prevent parking on verges. However, as stump removal requires specialist equipment, it is carried out as a separate maintenance programme.</p>
Children in Care – Health and Dental Checks	<p>On 2 December 2013, the Chairman agreed to write to the Cabinet Member for Children and Families about the Committee's concerns over the audit of Children in Care – Health and Dental Checks. A response has been received and was circulated to the Committee on 14 January 2014. The response outlined the challenges that had led to the problems with Health and Dental Checks over the past couple of years and the actions that had been taken to improve the situation. A progress report scheduled to be taken to the Corporate Parenting Board would be forwarded to the Committee.</p> <p>The Chairman has reviewed the papers and attended the Corporate Parenting Board. He reports that good progress is being made although the March deadline is challenging.</p>
Treasury Management Consultation – follow-up	<p>On 20 January 2014, Audit & Governance Committee held an informal consultation meeting on the Treasury Management Strategy with the Strategic Manager for Pensions and Treasury. Council Overview and Scrutiny Committee was also invited to attend. At the meeting, there were a number of actions for officers.</p> <ul style="list-style-type: none"> • To consider and report back on the inclusion of any spend on investment activity so that the the Strategy is comprehensive. <p>Officer response - to be included as an extra two paragraphs in the strategy:</p>

On 23 July 2013, Cabinet approved a portfolio of investments, covering investment in property and assets and in new models for service delivery. This supports the Council’s stated intentions of enhancing financial resilience in the longer term. These arrangements will allow for investment in schemes that will support economic growth in Surrey provided that these schemes are consistent with the Investment Strategy outlined in the Cabinet report of 23 July 2013.

The strategic approach to investment is based upon the following:

- prioritising use of the Council’s cash reserves and balances to support income generating investment through a Revolving Investment and Infrastructure Fund (the Investment Fund) to meet the initial revenue costs of funding initiatives that will deliver savings and enhance income in the longer term (some of which may be used to replenish the Investment Fund);
 - using the Investment Fund to support investments in order to generate additional income for the council that can be used to provide additional financial support for the delivery of functions and services
 - investing in a diversified and balanced portfolio to manage risk and secure an annual overall rate of return to the Council;
 - investing in schemes that have the potential to support economic growth in the county;
 - retaining assets where appropriate and undertaking effective property and asset management, and if necessary associated investment, to enhance income generation.
- To review and report back on why the 2017/18 figures showing the ratio of financing costs to net revenue stream (Table B2.6 in Appendix B2) drops significantly from 2016/17.

Phil Triggs response below -

The ratio of financing costs to net revenue stream jumps from 4.63% to 5.19%, between 2014/15 and 2015/16, mainly due to the assumption that our net revenue stream (council tax + central government funding) drops by £8.3m between these two years as a result of the decrease in grant for the Business Rate retention Scheme. So the ratio increases as a result of the drop in income.

The incremental impact on council tax increases when the planned capital expenditure funded by borrowing (internal & external) cumulative since 2013/14 increases. Therefore, this indicator jumps from £15.37 to £28.23 between 2014/15 and 2015/16 because cumulative borrowing for capital expenditure is increased by £127m in 2014/15. There is not such a marked increased the following years because there is a much lower level of borrowing for capital expenditure between 2015/16 and 2018/19.

- To schedule a report for Audit & Governance Committee on property investments.

This information will be included within the Treasury Management Annual report when it is brought to Audit & Governance Committee.

Internal Audit update

5

Current Audits	<p>The following audits are currently in progress:</p> <ul style="list-style-type: none"> • Free School Meals • Procurement in Schools • ASC Serious Case Review - recommendation tracking • ASC Safeguarding Assurance Process • Domiciliary Care - External Providers • Waste Data System • Community Improvement Fund • UNICORN • Payroll • General Ledger
Internal Audit Staffing	<p>George Atkin retired on 31 December 2013. George worked on the Corporate and Environment team and was an extremely experienced auditor with particular knowledge of auditing highways processes and procedures.</p> <p>Diane Mackay has announced her intention to retire on 30 April after 23 years in Internal Audit in Surrey County Council. As an Audit Performance Manager, Diane not only managed the work of the Corporate and Environment team, but took the lead on Fraud Prevention including coordinating our response to the National Fraud Initiative. She will be hugely missed.</p> <p>Efforts are currently underway to recruit to both these positions.</p>
2013/14 Review of the Effectiveness of Internal Audit	<p>This year's review of the Effectiveness of the System of Internal Audit is currently underway. The review will focus on:</p> <ul style="list-style-type: none"> · Follow-up of action taken in response to the recommendations arising from the 2012/13 review · Completion of the Checklist for Assessing Conformance with the Public Sector Internal Audit Standards as set out in the Local Government Application Note · Review of the level of Select Committee scrutiny of audits which have been attracted an "Unsatisfactory" or "Major Improvement Needed" opinion and/or include high priority recommendations · Review of Management Action Plan (MAP) progress as reported to Audit and Governance Committee for evidence of appropriate senior officer/Cabinet member focus on red/amber rated actions <p>The findings from this review will be reported to the Audit and Governance Committee in March 2014.</p>

<p>Single Person Discount Data Matching Exercise</p>	<p>Internal Audit are coordinating a data matching exercise with all 11 Surrey District and Borough councils designed to detect individuals who are incorrectly claiming single person discount.</p> <p>As a result of this exercise so far 2,822 people have owned up to no longer being entitled to SPD. This would equate to about £825k extra revenue for SCC for a full year based on the 2013/14 council tax rate and £840k for a full year based on the 2014/15 planned rate. Please note, this is only an indication as entitlement to SPD can change from one year to the next depending on circumstances .</p> <p>Some residents have still not responded to the letters sent out as part of this process. Where no response, despite reminder letters, is received the SDP will be automatically cancelled and invoices sent out to recoup the discount - leading to still more funds being due to the council. A more complete picture of the additional revenue raised as a result of this exercise should be available by April 2014.</p>
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Social Care Debt update

The Adult Social Care Select Committee will receive a social care debt update at its meeting on 6 March 2014. This will be reported to the Audit & Governance Committee in its next bulletin.

Further information

<p>Sheila Little interview</p> <p>17 October 2013</p>	<p>Sheila Little was interviewed by Room 151, an online news service for Section 151 officers, about balancing Section 151 and Local Government Pension Scheme roles.</p>
<p>Business Rates: Using Data from the VfM Profiles</p> <p>October 2013</p>	<p>This briefing from the Audit Commission finds that in 2012/13, councils collected £21.9 billion in business rates out of £22.4 billion due. The amount collected by each council ranged from £1.3 million to £1.6 billion. Councils collect most business rates in the year they fall due, but business rates arrears are substantial and currently stand at £1.2 billion, and in 2012/13, the uncollected in-year amount was £513 million. As this local tax remains to be collected, it cannot currently be used to support the delivery of services. The Commission suggests that councils can maximize business rates by preventing and tackling fraudulent claims for discretionary relief and improving collection rates.</p>
<p>Protecting the Public Purse: Fighting fraud against local government</p> <p>November 2013</p>	<p>The Audit Commission's annual report highlights that £178 million of fraud was detected by local government in the last year. Just over three quarters of that total was detected by one quarter of councils. This is the first year the Commission have required local authorities to separately identify detected frauds against schools in the annual survey, and councils have subsequently reported 191 cases of fraud in schools with a total worth of £2.3 million. The report warns local authorities not to cut funds for fighting fraud as part of austerity measures.</p>
<p>Tough Times</p> <p>November 2013</p>	<p>This report from the Audit Commission suggests that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people. The Commission's research found that the three strategies most widely adopted by councils in response to their financial challenges since 2010/11 were: reducing overall staff numbers; delivering some services more efficiently; and reducing or restructuring the senior management team.</p>

<p>Whistleblowing Commission Report Published</p> <p>November 2013</p>	<p>In February 2013, Public Concern at Work launched the Whistleblowing Commission to review the effectiveness of whistleblowing in UK workplaces to make recommendations for change. The Commission, which is an independent body made up of industry and academic experts, has made 25 recommendations for improving whistleblowing across UK workplaces.</p> <p>The primary recommendation of the Commission is for the Secretary of State to adopt a Code of Practice that could be taken into account in whistleblowing cases before courts and tribunals. The Commission has published a draft Code which sets out clear standards for organisations across all sectors to enable them to have clear whistleblowing arrangements. The Code of Practice is designed to help regulators to assess and inspect whistleblowing arrangements. The Code of Practice can now be picked up by organisations that are looking to achieve the highest standards in ensuring that workers are encouraged to speak up and when they do, that they are listened to.</p>
<p>Funding for Corporate Fraud Investigators announced</p> <p>5 December 2013</p>	<p>In a letter to Local Authority leaders Eric Pickles has said: 'Alongside the roll out of the Single Fraud Investigation Service, DCLG and DWP are investing in local government's capacity to tackle non-welfare fraud. This package of support will include extra funding over 2014-15 and 2015-16 which will be able to support new fraud investigator posts in councils focused on tackling corporate fraud.'</p>
<p>Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition)</p> <p>December 2013</p>	<p>Audit committees are a key component of corporate governance. They provide a high-level focus on assurance and the organisation's arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.</p> <p>This new edition of the CIPFA Guidance updates the core functions of the audit committee in relation to governance, risk management, internal control and audit to reflect the changes since the original edition. These include new legislation affecting audit committees in Wales and the police. The introduction of the Public Sector Internal Audit Standards, annual governance statements and associated guidance are also considered for their impact on the audit committee.</p> <p>Audit committee roles in relation to value for money, counter-fraud, and partnerships, amongst others, have also been included for the first time in detail. This reflects the real development that has taken place in many audit committees over the last few years. The guidance also includes a greater focus on the factors that support improvement. These include the knowledge and skills that audit committee members require and a focus on where the audit committee adds value. The publication will provide practical support to those wishing to evaluate their existing committee and plan improvements.</p>
<p>Local Audit and Accountability Bill receives Royal Assent</p> <p>30 January 2014</p>	<p>A Local Audit and Accountability Act that aims to lead to £1.2 billion worth of savings has received Royal Assent. The Act will bring about the final closure of the Audit Commission and in its place create a new framework for local audit. The Government suggests that the new system will maintain existing standards of audit but local bodies will take responsibility for choosing their own auditors. The National Audit Office will set the standards for public audit and the Financial Reporting Council will oversee quality. The Act also provides for new transparency measures, so citizens and the press now have the right to film and tweet from any local government body meeting.</p>

<p>Council recovers from Iceland to top £1 billion following the sale of Landsbanki claims</p> <p>4 February 2014</p>	<p>The majority of councils which had their money invested with the failed Icelandic bank Landsbanki have now recouped the majority of their deposits by selling their claims. The sale of most councils remaining claims against LBI (formerly Landsbanki Islands hf) in the winding up proceedings was organised through a competitive auction to ensure the highest possible price was achieved. Selling the claims now eliminates the risk of any further loss of value, for example, through the depreciation of the Icelandic krona against the sterling.</p>
<p>Third of council chief executives fear for their council's ability to deliver legal duties</p> <p>6 February 2014</p>	<p>A survey carried out by the MJ and Local Government Information Unit (LGIU) has found that more than a third of council Chief Executives believe there is a danger their authority will not have enough funding to deliver legal duties. The findings will heighten calls for reform of the local government finance system, which nine out of ten respondents (89%) said was not fit for purpose, with 85 percent also saying they wanted the ability to vary business rates and with 50 per cent of respondents asking for the localisation of various finance streams.</p>

Updates from other Committees

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

<p>Cabinet</p>	<p>At its meeting on 26 November 2013, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • Regulation of Investigatory Powers Act 2000 – Updated Corporate Policy & Protocol • Budget Monitoring Report for October 2013 <p>At its meeting on 17 December 2013, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • Budget Monitoring Report for November 2013 • Adult Social Care Local Authority Trading Company Business Case <p>At its meeting on 4 February 2014, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • Corporate Strategy 2014 – 2019 • Revenue and Capital Budget 2014/15 to 2018/19 • Monthly Budget Monitoring Report
<p>Council Overview & Scrutiny Committee</p>	<p>At its meeting on 7 November 2013, the Committee considered the following reports:</p> <ul style="list-style-type: none"> • Budget Monitoring September 2013 <p>At its meeting on 4 December 2013, the Committee considered the following report:</p> <ul style="list-style-type: none"> • Budget Monitoring & Quarterly Business Report <p>At its meeting on 30 January 2014, the Committee considered the following report:</p> <ul style="list-style-type: none"> • Corporate Strategy & Budget Report 2014-2019 • Budget Monitoring – Quarter 3 • Review of the Investment Panel
<p>Adult Social Care Select Committee</p>	<p>At its meeting on 16 January 2014, the Committee considered the following reports:</p> <ul style="list-style-type: none"> • Adult Social Care Local Authority Trading Company Business Case

Children & Education Select Committee	At its meeting on 27 January 2014, the Committee considered the following reports: <ul style="list-style-type: none"> • Internal Audit Report – Review of Health & Dental Checks – Children in Care 2013/14 • Children’s Services Annual Complaints Report 2012/13
Environment & Transport Select Committee	At its meeting on 12 December 2013, the Committee considered the following reports: <ul style="list-style-type: none"> • Surrey Highways Customer Service & Resident Satisfaction • Gully Cleaning Update <p>At its meeting on 10 January 2014, the Committee considered the following report:</p> <ul style="list-style-type: none"> • Surrey Highways – New Carriageway Investment Plan
Surrey Pension Fund Board	At its meeting on 15 November 2013 , the Board considered the following reports: <ul style="list-style-type: none"> • Pension Fund Administration Strategy • Key Performance Indicators • Pension Fund Risk Register • Revised Statement of Investment Principles • LGPS: Call for Evidence on the Future Structure of the Local Government Pension Scheme • Ill Health Retirement Insurance • Manager Issues and Investment Performance

Upcoming

The next meeting of the Audit & Governance Committee is on 24 March 2014. The following items are on the agenda:

- External Audit – Audit Plan
- External Audit – Certification of Claims and Returns
- National Financial Resilience Report
- Internal Audit Plan
- Effectiveness Review of the System of Internal Audit
- Leadership Risk Register
- Completed Internal Audit Reports
- Transport for Education: Management Action Plan
- Simplifying the Financial Statements
- Whistle blowing Update

Committee Contacts

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Priority	Dir	Service	Meetings / Workshops Attendance					
			25.02.13	18.04.13	09.05.13	17.09.13	08.10.13	12.11.13
1	ASC	Personal Care and Support	Yes	Yes	Yes	Yes	Yes	No
1	ASC	Mental Health	No	No	No	No	Yes	Yes
1	ASC	Service Delivery	No	No	Yes	Yes	No	No
1	CAC	Registration	Yes	Yes	Yes	No	Yes	No
1	CAC	Coroner	Yes	Yes	Yes	No	No	No
1	CAC	Fire & Rescue	Yes	No	No	No	No	No
1	CAC	Customer Services	Yes	No	Yes	Yes	Yes	Yes
		Information Management & Technology	Yes	Yes	No	Yes	No	No
1	BS	Property Services	Yes	Yes	Yes	Yes	Yes	Yes
1	CEO	Emergency Management	Yes	Yes	Yes	Yes	Yes	No
1	CEO	Public Health	No	No	No	No	No	No
1	CEO	Communications	No	No	No	No	No	No
		Children's Services and Safeguarding	No	No	No	No	No	No
1	CSF	Safeguarding	No	No	No	No	No	No
1	EAI	Highways	No	Yes	No	Yes	Yes	No
2	ASC	Policy & Strategy	Yes	Yes	Yes	Yes	Yes	Yes
2	ASC	Commissioning	No	No	No	No	No	No
2	BS	Shared Services	Yes	Yes	Yes	No	No	No
2	BS	Human Resources	Yes	No	Yes	Yes	Yes	Yes
2	BS	Finance & Risk	Yes	Yes	Yes	No	Yes	Yes
2	BS	Procurement	No	Yes	No	Yes	No	No
2	CSF	Young People	No	Yes	No	No	No	No
2	CSF	Schools & Learning	No	No	No	No	No	No
2	CSF	Strategy	No	No	No	No	No	No
2	CAC	Trading Standards	Yes	Yes	Yes	No	Yes	No
2	EAI	Environment	Yes	Yes	Yes	Yes	Yes	Yes
2	EAI	Economy, Transport & Planning	No	Yes	No	Yes	Yes	No
3	CAC	Directorate Support	Yes	Yes	Yes	No	Yes	No
3	CAC	Library Services	Yes	Yes	Yes	No	Yes	No
3	CAC	Heritage	Yes	Yes	Yes	No	Yes	No
3	CAC	Adult Community Learning	Yes	Yes	Yes	No	Yes	No
3	CAC	Surrey Arts	Yes	Yes	Yes	No	Yes	No
3	CAC	Community Safety Team	Yes	Yes	Yes	No	Yes	No
3	CEO	Policy & Performance	No	No	No	Yes	Yes	Yes
3	CEO	Legal services	Yes	Yes	No	Yes	No	No
3	CEO	Democratic Services	No	No	No	No	Yes	No
3	CEO	Legacy Team	No	No	No	No	No	No
3	CSF	Resources	No	No	No	No	No	No

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Audit & Governance Committee
24 March 2014

External Audit – Audit Plan

Purpose of the report:

Grant Thornton's Audit Plan for Surrey County Council outlines its audit strategy and plan to deliver the audit of the 2013/14 financial statements and to issue its value for money conclusion.

Recommendations:

It is recommended that:

1. The Audit and Governance Committee note the work that Grant Thornton plans to undertake to deliver the audit and issue its value for money conclusion.

Introduction:

2. International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which the external auditor is required to communicate with those charged with governance (the Audit & Governance Committee).
3. The Audit Plan outlines the external auditor Grant Thornton's audit strategy and plan to deliver the audit, while the Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Financial and value for money implications

4. The work that Grant Thornton plans to undertake is included within its 2013/14 audit fee.

Equalities and Diversity Implications

5. There are no equalities and diversity implications in respect of the plan.

Risk Management Implications

6. None.

Next steps:

Grant Thornton shall report the findings from its audit to the Audit & Governance Committee in July 2014.

Report contact: Kathryn Sharp, Senior Audit Manager, Grant Thornton

Contact details: Kathryn.E.Sharp@uk.gt.com



The Audit Plan for Surrey County Council

Year ended 31 March 2014

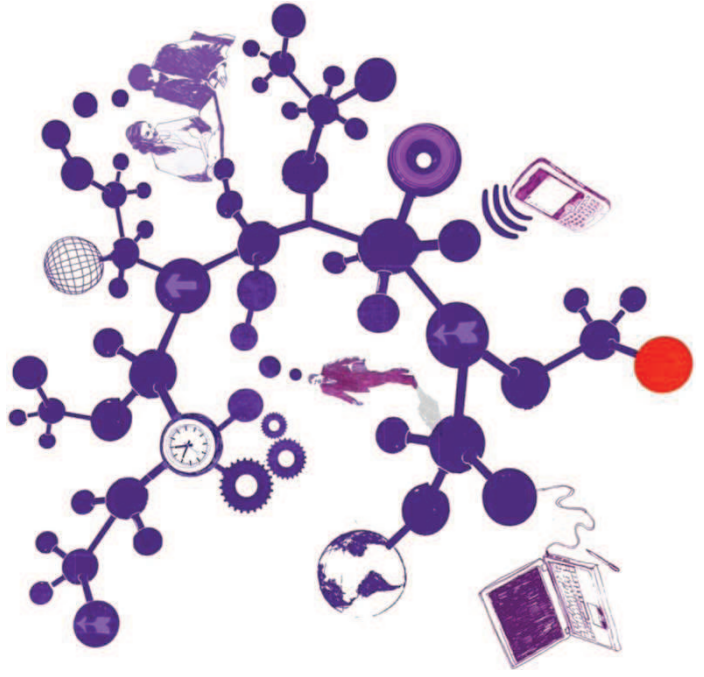
24 Mar 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

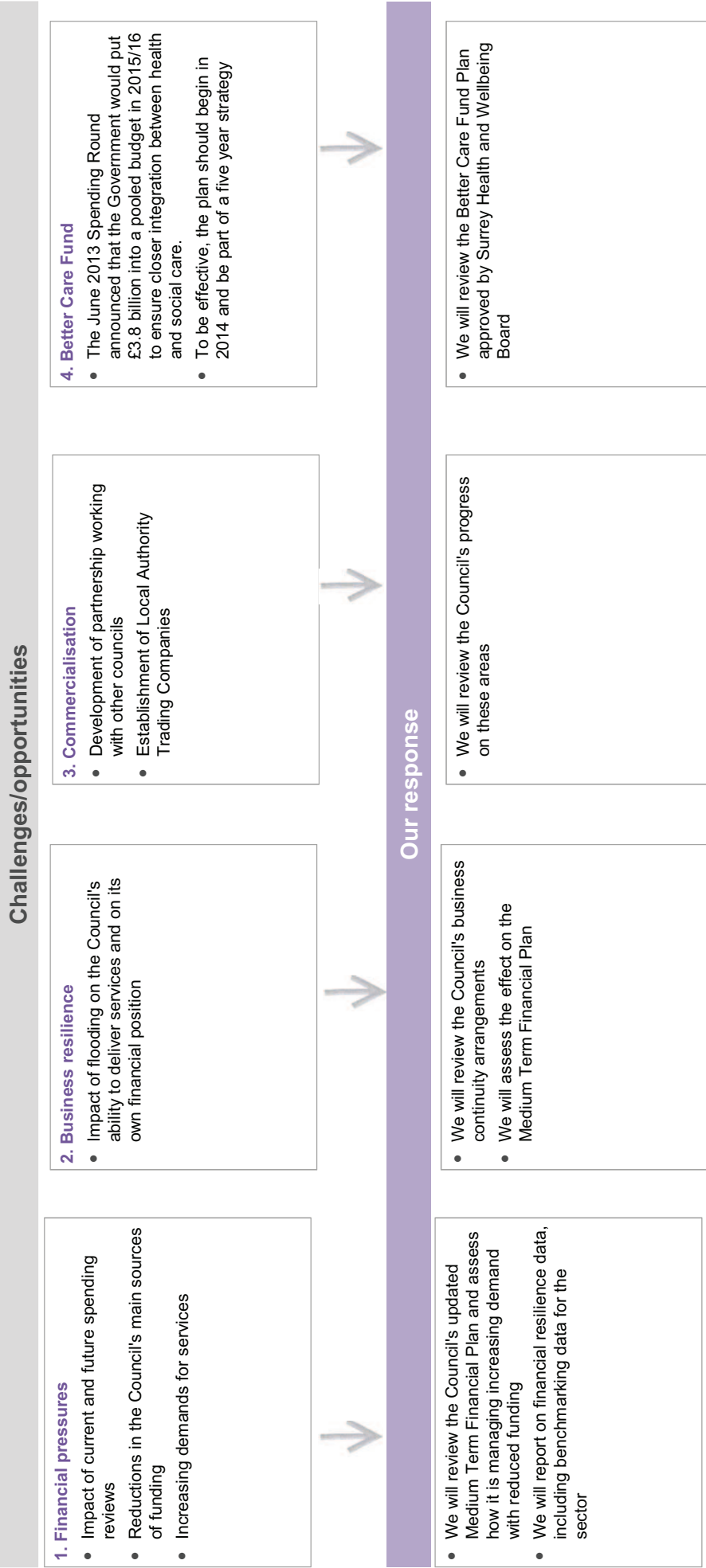
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2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Results of planning audit work
8. Planned interim audit work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



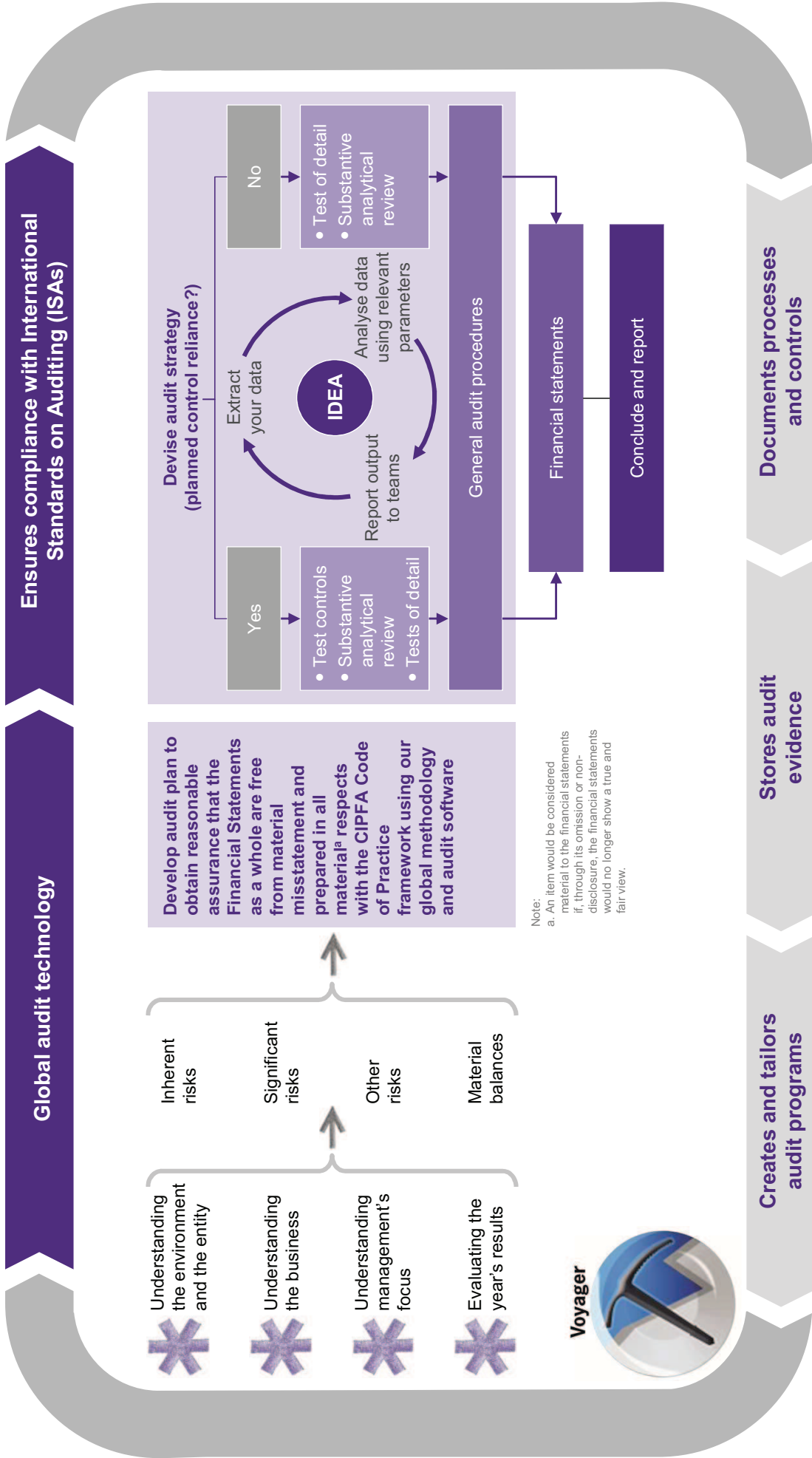
Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements			
<p>1. Financial reporting</p> <ul style="list-style-type: none"> Changes to the CIPFA Code of Practice Clarification of Code requirements around PPE valuations Changes to NDR accounting and provisions for business rate appeals Transfer of assets to Academies 	<p>2. Legislation</p> <ul style="list-style-type: none"> Local Government Finance settlement Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> Annual Governance Statement (AGS) Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> The impact of 2013/14 changes to the Local Government Pension Scheme (LGPS)
		<p>5. Financial Pressures</p> <ul style="list-style-type: none"> Managing service provision with less resource Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion The Council completes grant claims and returns on which audit certification is required

Our response	
<p>We will ensure that</p> <ul style="list-style-type: none"> the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing schools are accounted for correctly and in line with the latest guidance 	<ul style="list-style-type: none"> We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate
<ul style="list-style-type: none"> We will review the arrangements the Council has in place for the production of the AGS We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management
<ul style="list-style-type: none"> We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> We will carry out work on the WGA pack in accordance with requirements We will certify grant claims and returns in accordance with Audit Commission requirements

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work planned:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Testing of material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	Identification and walkthrough of controls	Testing of payments for completeness, classification and occurrence
Employee remuneration	Employee remuneration accrual understated	Identification and walkthrough of controls	Attribute and / or substantive testing of payroll records
Property, Plant & Equipment	PPE activity not valid	Identification and walkthrough of controls	Substantive testing of additions in year
Property, Plant & Equipment	Revaluation measurement not correct	Identification and walkthrough of controls	Substantive testing of revaluations in year

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Follow up the progress the Council has made in implementing the recommendations raised in our 2012/13 Financial Resilience Report
- Review the revised Medium Term Financial Plan in the light of the Local Government finance settlement
- Review the Better Care Fund plan for Surrey
- Review the Council's value for money assessment of its Waste PFI scheme

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. We will issue a separate report in respect of VfM with detailed findings.

Results of planning audit work

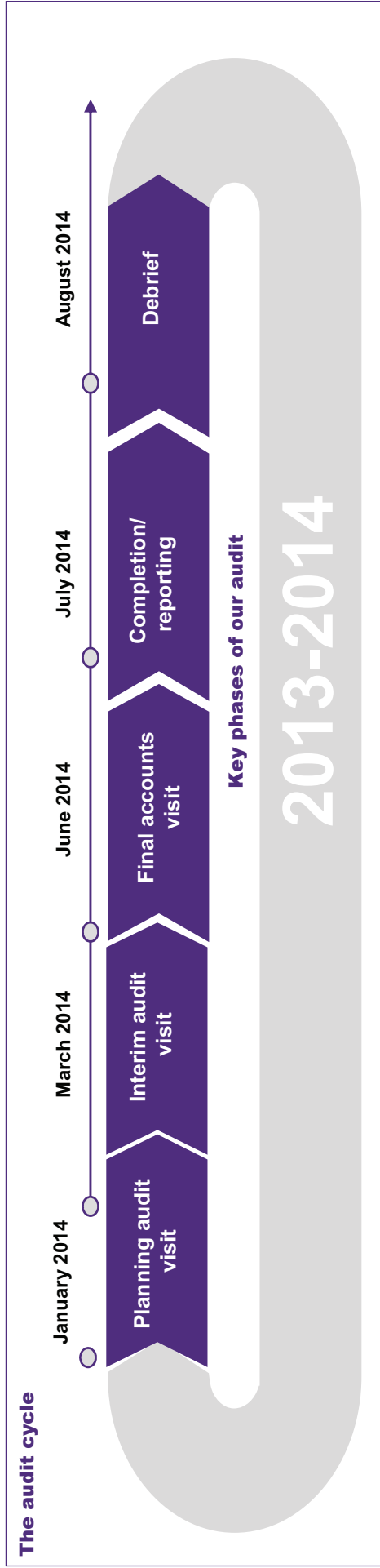
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Streamlining and decluttering	<p>We have worked with your finance team on streamlining your accounts preparation process, including reducing any extraneous detail (decluttering) in the financial statements.</p> <p>Once the Audit and Governance Committee have reviewed the proposed decluttering of the financial statements we will continue to work with the finance team on improving the financial statements.</p> <p>We presented to a finance team 'Lunch and Learn' session on audit requirements and working papers.</p>	<p>The Council's closedown plan and our audit timetable have been condensed to enable audited financial statements to be presented to the Audit and Governance Committee on 31 July 2014.</p>

Planned interim audit work

	Work to be performed
Review of information technology controls	Our information systems specialist will carry out a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also follow up the minor control recommendations that were raised last year.
Journal entry controls	<p>We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>We will undertake detailed testing on journal transactions recorded for the first eleven months of the financial year, by extracting 'unusual' entries for further review.</p>
Early substantive testing	<p>We will carry out early substantive testing of the following areas</p> <ul style="list-style-type: none"> • Operating expenses • Employee remuneration • Waste PFI operator's and accounting models • Additions to property, plant and equipment • Related party transactions • Investment properties • Holiday pay accrual • Opening balances testing
Value for money	<p>We will review the progress that the Council has made in implementing the recommendations we raised in our 2012/13 Financial Resilience Report.</p> <p>We will carry out a desk top review of the Council's Better Care Fund Plan.</p>

Key dates



Date	Activity
January 2014	Planning audit visit
March 2014	Interim site visit
March 2014	Presentation of audit plan to Audit and Governance Committee
June - July 2014	Year end fieldwork
July 2014	Audit findings clearance meeting with Chief Finance Officer
July 2014	Report audit findings to those charged with governance
July 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	189,464
Grant certification	4,700
Total fees (excluding VAT)	194,164

Fees for other services

Service	Fees £ (excluding VAT)
Review of VAT treatment of adult social services	1,500

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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Audit & Governance Committee
24 March 2014

External Audit – Certification of Claims and Returns 2012/13

Purpose of the report:

The external auditor Grant Thornton's Certification of Claims and Returns Report summarises the findings from its certification of the Council's claims and returns.

Recommendations:

It is recommended that:

1. The Audit and Governance Committee note the findings from Grant Thornton's work.

Introduction:

2. The external auditor (Grant Thornton) is required to certify some of the claims and returns submitted by the Council. This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
3. Grant Thornton has certified two claims and returns for the financial year 2012/13 relating to expenditure of £66.4 million.
4. The report summarises Grant Thornton's 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.

Financial and value for money implications

5. The Audit Commission set an indicative scale fee for grant certification based on 2010/11 certification fees for each audited body. The indicative scale fee for Surrey County Council for 2012/13 was £4,200. The final fee was reduced to £3,420 as there was no longer a requirement to certify the Initial Teacher Training return.

Equalities and Diversity Implications

6. There are no equalities and diversity implications in respect of this report.

Risk Management Implications

7. None.

Next steps:

None required.

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20 February 2014

Dear Sheila

Certification work for Surrey County Council for year ended 31 March 2013

We are required to certify certain of the claims and returns submitted by Surrey County Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

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.

We have certified two claims and returns for the financial year 2012/13 relating to expenditure of £66.4 million. Further details of the claims certified are set out in Appendix A.

There is one issue arising from our certification work which we wish to highlight for your attention. This relates to the need to resolve the underpayment of employer and employee contributions to the Teachers' Pensions Scheme in respect of honoraria.

We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 was £4,200. The final fee was reduced to £3,420 as there was no longer a requirement to certify the Initial Teacher Training return. This is set out in more detail in Appendix B.

Yours sincerely

Kathryn Sharp
For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2012/13

Claim or return	Value (£)	Amended?	Amendment (£)	Qualified?	Comments
Teachers Pensions Return	53,625,987	Yes	-	Yes	<p>We qualified this return for two reasons.</p> <p>The first relates to the need to resolve the underpayment of employer and employee contributions to the Teachers' Pensions Scheme in respect of honoraria. The 2012/13 return was not adjusted to take the underpayment into account, pending advice from the Teachers' Pensions Agency.</p> <p>The second reason is that included within the short term pensions figure (£10,976.20) is £2,829.30 which comprises payments made to dependants of spouses of deceased pensioners who had a pension before 2007. These payments are made by the Council and are not part of the Teachers' Pensions Scheme. They had been coded to Teachers' Short Term Pensions in the Council's accounting system in error. The Council will make the necessary adjustments to correct the error in the 2013/14 return.</p> <p>The return originally submitted for certification did not include the Analysis of Contributions by Tier in Section 3. The Council's system for analysing this information was implemented in the last 3 months of the year, with the figures for the first 9 months being calculated retrospectively. There was a very small difference (34p) between the figure for Employer Tier 1 contributions per the Council's supporting analysis (£57,882.00) and that included on the return (£57,881.66). Our testing of prime documents did not identify any errors.</p>
Walton Bridge	12,814,877	Yes	(249,851)	No	<p>During our review the Council identified that the incorrect expenditure amount had been recorded and provided us with an amended claim. Our testing did not identify any other errors.</p>

Appendix B: Fees for 2012/13 certification work

Claim or return	2011/12 fee (£)	2012/13 indicative fee per fee letter (£)	2012/13 actual fee (£)	Variance (£)	Explanation for variances
Teachers Pensions Return	6,347	2,600	2,600	(3,747)	Changes to the contents of the return amended the scope of our work.
Walton Bridge	820	820	820	0	
Initial Teacher Training	1,743	780	-	(1,743)	There was no requirement to certify this return in 2012/13.
Reporting	720	-	-	(720)	Included within our work on individual claims and returns.
Total	9,630	4,200	3,420	(6,210)	

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Audit & Governance Committee
24 March 2014

External Audit – Grant Thornton Financial Resilience Report

Purpose of the report:

This is the report from Grant Thornton's third national programme of reviews, which assesses whether local authorities have arrangements in place to ensure their sustainable financial future.

Recommendations:

It is recommended that:

1. The Audit and Governance Committee note the findings of Grant Thornton's review (attached as **Annex 1**), and the citing of Surrey County Council as a good practice case study.

Introduction:

2. Grant Thornton's reviews examined in detail key indicators of financial performance, strategic financial planning and financial governance and control arrangements across a sample of 40% of local authorities in England.
3. The 2012 report identified a series of potential 'tipping point scenarios' that might affect some authorities. During this year's reviews and through wider dialogue with the sector, these tipping point scenarios have been validated as possible or probable. 79% of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.
4. A presentation has been attached as **Annex 2**.

Financial and value for money implications

5. None.

Equalities and Diversity Implications

6. There are no equalities and diversity implications in respect of this report.

Risk Management Implications

7. None.

Next steps:

Grant Thornton shall re-assess the Council's financial resilience arrangements as part of its work on the value for money conclusion for 2013/14.

Report contact: Kathryn Sharp, Senior Audit Manager, Grant Thornton

Contact details: Kathryn.E.Sharp@uk.gt.com

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2016 tipping point? Challenging the current

Summary findings from our third year of financial health checks of English local authorities
December 2013



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Introduction

Local authorities have so far met the challenges they face as pressures mount on their services and finances. But these challenges are set to increase and authorities will have to work harder to ensure they stay financially resilient.

Local authorities are managing the financial challenges they face and delivering against their financial plans. However, the funding reductions are some of the largest in the public sector and set to get deeper. Meanwhile, demographic and economic pressures on authorities' services are increasing.

This report summarises the issues and good practice that emerged from our third national financial health reviews; and looks at how local authorities are coping. It shows that improvements noted in our last survey have in some cases reversed this year. All authorities will need to work hard across a range of important areas to ensure that they avoid this position.

Our third year of financial health checks

We published our report 'Towards a tipping point?' in December 2012. The report examined the resilience of local government to the financial, economic, demographic, policy and other challenges that the sector faces. It also looked at how effectively the sector delivered the first year of the front-loaded 2010 spending review, and how it was planning for the medium-term.

Our analysis was based on a national programme of financial health check reviews that we conducted during 2011 and 2012. We have repeated these reviews during 2013 and this report updates our findings and highlights the trends that are emerging in the sector.

The wider picture

The Chancellor of the Exchequer announced the 2010 spending review (SR10) to parliament on 20 October 2010. This formed a central part of the coalition government's response to reducing the national deficit, with the intention to bring public finances into balance during 2014/15.

The savings introduced in the four-year SR10 period – from 2011/12 to 2014/15 – represent the largest reduction in public spending since the 1920s. Revenue funding to local government is to reduce in real terms by 28% by 2014/15, excluding schools, fire and police, with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were partially front-loaded, with 8% cash reductions in 2011/12. These reductions followed a period of sustained growth in local government spending, as it increased by 45% between 1997 and 2007.

The Chancellor has subsequently announced that public finances will not be brought back into balance during the lifetime of the current parliament. The next spending round period (2015/16) was announced on 26 June 2013 (SR13). Local government will face a further 10% funding reduction. **Financial austerity is expected to continue until at least 2017.**

The funding reductions come at a time when demographic changes and recession-based economic pressures are increasing demand for some services. For example, demand for social care, and debt, housing and benefits advice is rising. Meanwhile, demand for some paid-for services, such as planning and car parking, is reducing. At the same time, local authorities continue to manage the implications of the government's policy agendas – such as those relating to localism and open public services – that should see a significant shift in the way public services are provided. This includes partnership working with other public bodies, such as the NHS.

Promoting good practice

To meet these significant challenges, local authorities must improve their efficiency and productivity, reduce their costs, and have sustainable medium-term financial plans (MTFPs) to ensure their financial health remains robust.

This report summarises the important issues, themes and good practice that have emerged from our third national programme of financial health reviews. It provides an up-to-date picture of how local authorities are coping with the service and financial challenges that they face.

This report draws on benchmarking data provided by the Audit Commission and other stakeholders. It uses the Audit Commission's broad thematic approach for assessing the value for money arrangements in place in local authorities.

Our approach: analysing key areas

The focus of our financial health check reviews of individual authorities was on the 2013/14 financial planning period and the delivery of 2012/13 budgets. The research included a desktop review of key documents, interviews with key stakeholders to validate our findings and – new for 2013 – the findings from a survey completed for 120 of the reviewed authorities.

Analysis for our previous two reports was based on reviews of 24, or 7%, of all English local authorities. This year it is based on 138, or 40% of all, English local authorities. This larger sample size increases the validity of our findings and has allowed us to segment our results by local authority type and by region.

We analysed the following thematic areas:

- **Key indicators of financial performance**

Benchmarked analysis on key indicators of the financial health of authorities, such as reserve balances, long-term borrowing, liquidity, and staff sickness absence levels

- **Strategic financial planning**

Are local authorities setting their budget in the context of a longer-term financial strategy and an MTFP that includes the SR10 and SR13 periods?

Is the MTFP realistic? Are assumptions around inflation, income levels, demographics and future demand for services modeled and based on reasonable predictions?

- **Financial governance**

High quality financial governance and leadership is critical in meeting the financial management challenges that authorities face, and for securing a sustainable financial position. Good basic systems, processes and controls are important. But do local authorities have the right overall financial culture in place?

- **Financial controls**

Are local authorities managing within their budgets? Do they have a robust way of challenging budget monitoring and reporting arrangements to ensure they are fit for purpose? Can they respond to the ever greater need to demonstrate value for money and achieve efficiencies?

Within each of these themes, we considered a number of categories (outlined in Table 1) and gave each a risk rating using the criteria provided in Table 2.

Table 1 Themes and categories for analysis

Theme	Category
Key indicators of financial performance	Schools balances*
	Reserve balances
	Performance against budget
	Workforce
	Borrowing
	Liquidity
Strategic financial planning	Focus of MTFP
	Adequacy of planning assumptions
	Scope of MTFP and links to annual planning
	Review processes
	Responsiveness of the plan
Financial governance	Understanding the financial environment
	Executive and member engagement
	Overview of key cost categories
	Performance management of budgets
	Accuracy of reporting
Financial controls	Performance management of budgets
	Performance of savings plans
	Key financial systems
	Finance department resources
	Internal audit arrangements
	External audit arrangements
	Assurance framework/risk management approach

*For single tier and county councils only

Table 2 Risk rating criteria

Green	Arrangements meet or exceed adequate standards Adequate arrangements identified and key characteristics of good practice appear to be in place
Amber	Potential risks and/or weaknesses Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the authority is taking forward areas where arrangements need to be strengthened
Red	High risk The authority's arrangements are generally inadequate or may have a high risk of not succeeding

* These ratings do not imply excellent, good, weak or poor performance. They are based on whether arrangements appear to be adequate or inadequate.

We have also drawn on our analysis from 2011 and 2012 to identify trends in how the sector is responding to the financial challenges it faces.

2016 tipping point?

8

The local government sector has continued to deliver and remains financially strong, but funding reductions will start to bite harder and deeper after 2015. County and district councils are faring well, but metropolitan authorities less well.

Our first report in 2011 identified a high level of confidence in the sector that savings targets would be achieved during 2011/12, the first year of SR10. Our 2012 report noted the sector had delivered during 2011/12, but local government's resilience over the medium-term remained far less certain.

Our 2012 report identified a number of important factors leading

to uncertainty in local government financial planning. It proposed that a 'tipping point' may be on the horizon for some authorities. We noted that authorities do not share the same level or types of risk, so not all may experience a tipping point.

Since the publication of this report, we have undertaken extensive dialogue across the sector on the concept of

tipping point scenarios and found a high degree of resonance and agreement. The scenarios in Table 3 were all seen as possible, some even probable, and include some new scenarios developed during this dialogue. These scenarios therefore represent a broad sector view and are not in all cases shared by individual local authorities, or by Grant Thornton.

Table 3 Tipping point scenarios

Tipping point scenario	Description
Decision paralysis	Local authorities fail to make the challenging but necessary decisions required to manage financial and other challenges. This has been identified as a potentially over-arching tipping point
Statutory	A local authority can no longer meet its statutory responsibilities to deliver a broad range of services with the funding available, leading to legal challenges and protests from impacted stakeholders
Financial	The Section 151 officer is unable to set a balanced budget, leading to an unbalanced budget report to members in line with Section 114 of the Local Government Finance Act 1988 (England and Wales); or where the increased uncertainty leads to budget overspends that reduce reserves to unacceptably low levels; or where an authority demonstrates characteristics of an insolvent organisation, such as a failure to pay creditors. Bankruptcy is a potential outcome of this scenario, as has happened for some US local authorities, most recently Detroit
Industrial	In response to pay restraints, changes to terms and conditions and job losses, employees and trade unions enact prolonged strike action, leading to major service disruption and long-term industrial relations disputes
External	A major supplier fails, due to general economic conditions, leading to significant service disruption and reputational damage to the authority. A further banking/financial crisis would increase the risk of this scenario
Incremental	Multiple, smaller failures in individual service areas lead to an eventual critical mass of tipping points
Militancy	A local authority ignores or defies one or more statutory obligations
Civil disturbance	Where service cuts run so deep that the dissatisfaction of users leads to widespread civil disturbance, as was experienced in relation to the Community Charge/Poll Tax. This could impact on business continuity and extreme and prolonged civil disturbance could impact significantly on the overall resilience of an authority
Doomsday	A further banking/financial crisis leads to even greater levels of austerity, over a significantly longer timeframe

The summary position by local authority type

While the overall high proportion of green ratings indicates strong financial health during 2012/13, Figure 1 demonstrates that some local authority types are more financially resilient than others.

County councils are performing strongly, which perhaps is no surprise given these are typically the largest authorities. They have the resource, capacity and resilience to manage pressures the best. The variation in government funding reductions across different types of authority is also a key factor. The Audit Commission's

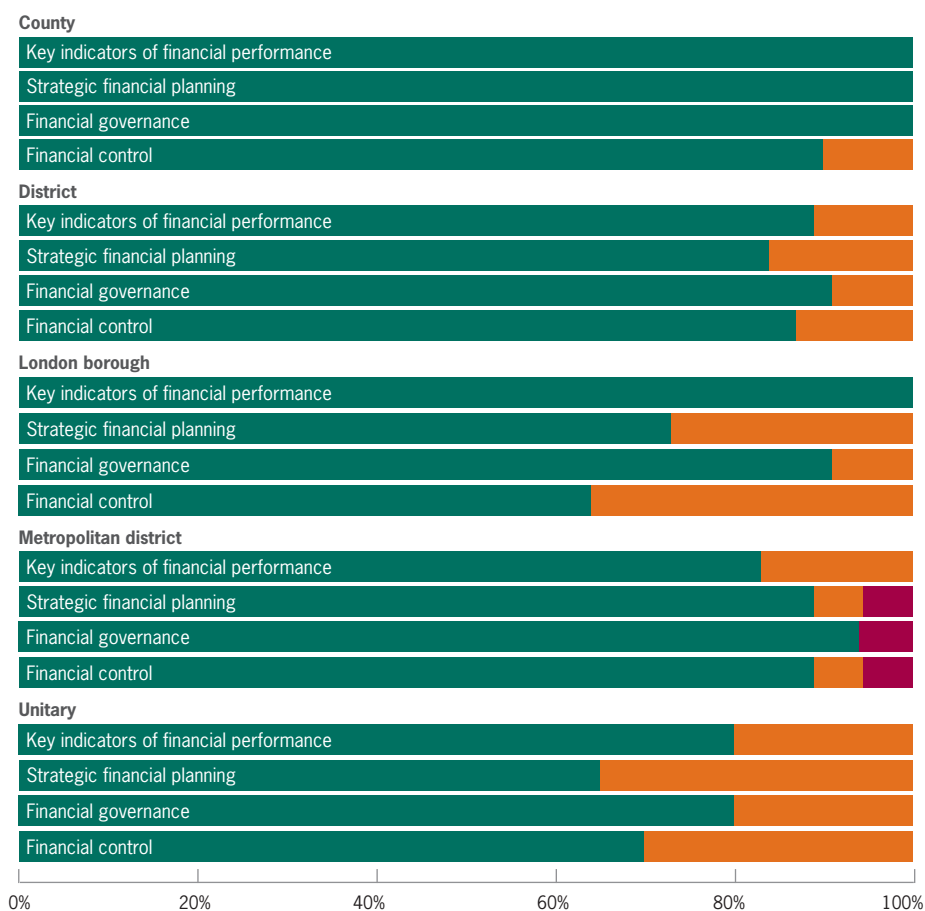
'Tough times 2013' report noted that real-term funding reductions since 2010/11 average 19.6% across all local authority types, but county council budgets show the smallest reduction at 16.4%.

District councils are also performing well, but unitary councils have the lowest green ratings for three of the four areas. This was validated by our survey with 40% of unitary councils fearing a tipping point in the short-term, compared to an average of 20% for other local authority types.

Perhaps the most striking feature of this segmented analysis is that metropolitan districts are the only authority type to receive red ratings for overall thematic areas. This supports the fact that the most high profile council leaders to publicise financial difficulties are typically from metropolitan districts. 'Tough times 2013' also notes that metropolitan districts have faced the highest funding reductions from 2010/11 to 2013/14, at 22.5%.

However, the issues at metropolitan districts are limited to a small number of authorities and overall they are performing well.

Figure 1 Summary ratings by local authority type 2012/13



The summary position by region

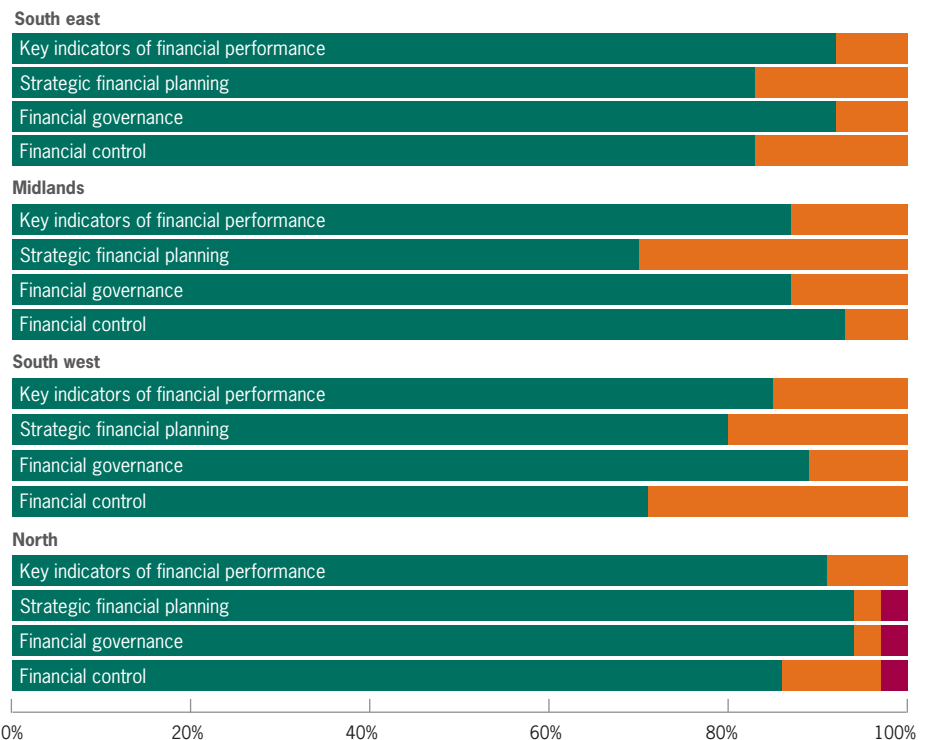
There are regional variations in the financial health of local government (Figure 2).

The north has the highest level of green ratings for strategic financial planning (94%) and financial governance (94%). It also has the second highest green ratings for key indicators of financial performance (91%) and financial control (86%). This makes it the best performing region overall. However, the north is the only region with red ratings. This reflects the ratings received by metropolitan districts, which are predominantly located in this region.

The south west has the lowest level of green ratings in two areas (85% for key indicators of financial performance and 71% for financial control) and has the second lowest level of green ratings for the other two areas (80% for strategic financial planning and 89% for financial governance). This makes it the worst performing region overall.

The picture for the Midlands is mixed. It has the lowest level of green ratings for two areas (70% in strategic financial planning and 87% in financial governance) but the highest level of green ratings (93%) for financial control. The south east has the highest level of green ratings (92%) for key indicators of financial performance and

Figure 2 Summary ratings by region 2012/13



the second highest level of green ratings for two other areas (83% for strategic financial planning and 92% for financial governance) making it the second strongest region overall.

The lowest green rating for regions was 70% (the Midlands, for strategic financial planning) and the lowest green rating for local authority types was 64% (London boroughs, for financial control).

Overall summary position

While there are variations across regions and local authority types, the overall picture for 2012/13 is that the majority of councils were rated green.

2016 tipping point?

The sector has shown great resilience and focus and carried on with the delivery of local services. During his announcement of the 2015/16 spending round in June 2013, the Chancellor gave specific credit to local government for the scale of savings it has delivered to date. The Chancellor did not highlight other parts of the public sector in the same way, implying that local government leaders are more capable of meeting the national austerity challenge than other parts of the public sector. The level of additional funding reductions in SR13 also demonstrates that the government is continuing to rely on local government's ability to deliver savings to support the national budget position.

By the end of 2015/16, local government will have seen spending reduce by 35% compared with 8% in education and a 4% increase in health. We support the view that local government leaders have shown a continued capacity to adapt and innovate to deliver significant change and realise efficiencies and savings. Our findings also indicate that, while there will be significant future challenges in the medium-term, the sector is likely to ride out the storm until the end of 2014/15 – 80% of authorities in our survey do not anticipate a tipping point during this period.

But the position will vary and this national picture masks regional variations. The majority of councils

(97%) in the south east – with the exception of a single London borough – did not feel they were approaching a financial tipping point. The results for councils in the south west and Midlands were 69% for both regions, while for those in the north the figure was 83%. Instead, [the majority of councils felt a tipping point would be faced in 2015/16 or 2016/17](#) (46% and 33% respectively) with the remainder considering it would be in 2017/18 or later.

Most local government leaders are realistic enough to accept that a change of government following the 2015 election would not see a radical change to the funding levels forecast by the coalition government. In this context, [some commentators harbour serious doubts about the sustainability of the current model of local government beyond 2014/15](#).

To respond to this challenge, we consider that:

- authorities will need to have a relentless focus on generating additional sources of revenue income as government grant continues to fall. The sector believes it is unrealistic this focus should be on fees and charges to the public. Rather their focus, where market conditions allow, should be on areas such as: investments in the commercial property portfolio; increased commercialisation of services and local authority trading; regeneration and inward investment to boost local economic activity;

and generating higher income from business rates. Effective realisation and reinvestment of capital receipts is also a crucial part of the local authority agenda

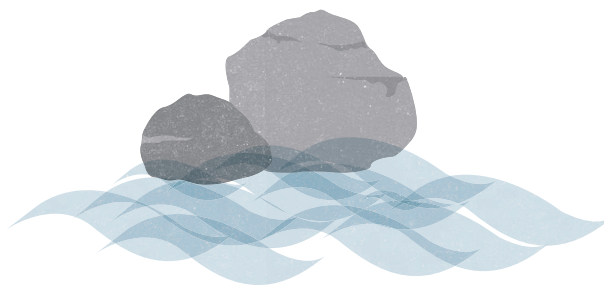
- the trend towards increased use of alternative delivery models with public, private and third sector partners will also need to accelerate. This should include shared services and strategic partnering arrangements. A move towards full-blown strategic commissioning models will mean a fundamental change for councils. Our 2014 report 'Responding to the challenge: alternative delivery models in local government' examines this trend in more detail
- local authorities will need to keep a sustained focus on health integration and embedding best practice across the country
- some form of re-organisation, statutory or otherwise, will be a necessity for many authorities
- authorities need to continue and, in some cases, sharpen their focus on housing development. They must work closely with local enterprise partnerships (LEPs) to support effective and sustained projects funded by monies earmarked for the New Homes Bonus. This should go hand in hand with the broader framework for supporting wider economic development across districts, sub regions and wider economic areas.

Our survey identifies an increasing trend towards councils seeking to commercialise their services to provide additional revenue streams. But this varies by council type and by region. While it is still a minority of all councils (19%) that are considering this approach, it is more common in county and unitary councils (25% and 33% respectively). The south west has the lowest level (13%) of councils considering this approach, and the south east has the highest level at 23%.

We will continue our dialogue with the sector to monitor the outcomes of key questions, such as:

- will adult social care demands overwhelm those councils responsible for delivering these services?
- can the most socially deprived parts of the country cope with increasing welfare costs?
- will the economy revive outside London and the south east?
- how will councils manage the risks associated with business rates?
- will London and the south east be able to overcome the housing crisis and a rise in homelessness?
- can districts survive with fewer and fewer staff?

Our summary findings from our 2013 reviews, and the trends between our 2011, 2012 and 2013 reviews, are set out in the following chapters. The appendix provides a checklist of good practice evidenced at local authorities. We will be undertaking a fourth year of financial health reviews of local authorities during 2014. This will relate to the 2014/15 financial planning cycle and the delivery of budgets and savings plans during the 2013/14 financial year. We will publish the summary results of our fourth year of reviews during autumn 2014.



Our survey identifies an increasing trend towards councils seeking to commercialise their services to provide additional revenue streams.

Key indicators of financial performance

Our third year of benchmarking data shows green ratings declining across most key financial criteria. Red ratings appeared in some areas for the first time. The biggest fall in green ratings for 2012/13 was in level of sickness absence which was also the worst performing area overall.

Our previous reports noted that, while local government accountants have an understanding of the use of financial ratios to interpret financial statements, this skill has traditionally only been applied to procurement exercises. Thus the application of financial ratios to local authority financial statements for the purpose of inter-authority benchmarking remains a recent development.

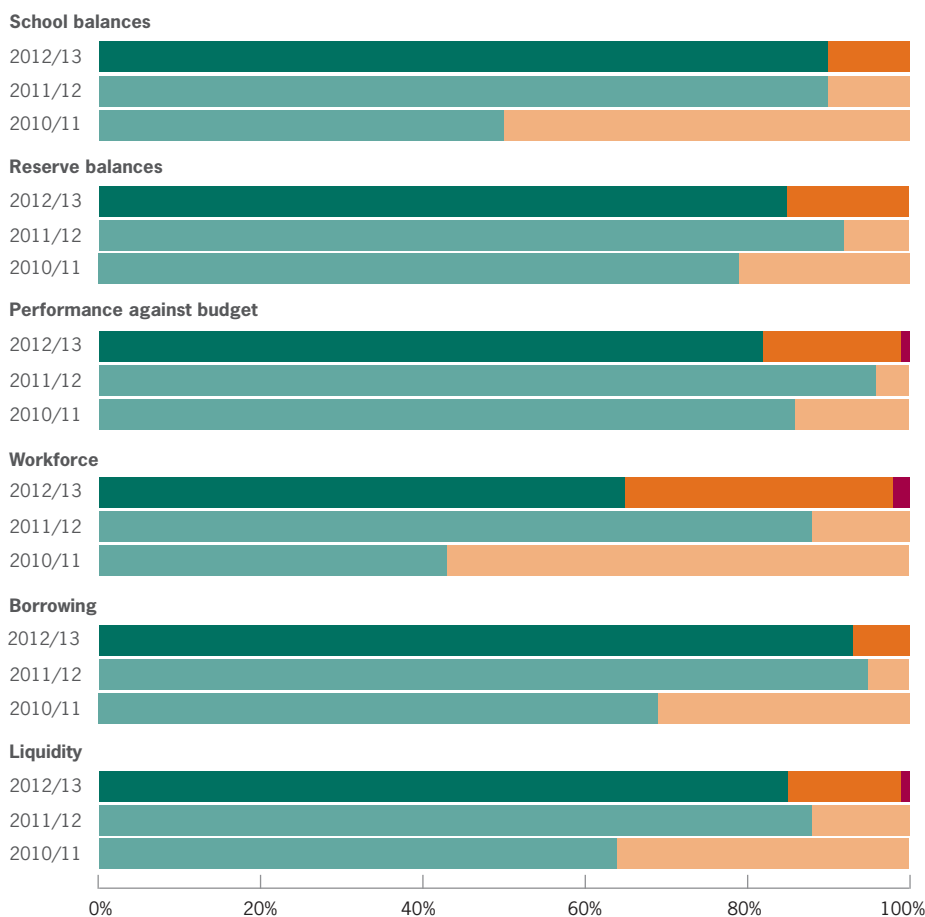
Figure 3 provides a summary of our ratings for selected key indicators of financial performance for the last three years. For each authority, we benchmarked key indicators against their nearest neighbour group. The overall trend was an improving one between 2010/11 and 2011/12 but this trend has been reversed in all but one category in 2012/13.

Schools balances

For single tier and county council (STCC) authorities with responsibility for education, we analysed the ratio of schools balances as a proportion of dedicated schools grant (DSG). Green ratings increased from 50% in 2010/11 to 90% in 2011/12, then remained at 90% in 2012/13.

An important factor in this trend is that schools continue to adopt a cautious approach to financial management due to concerns over

Figure 3 Key indicators of financial performance



future funding levels. In many cases, this leads to annual underspends. Where this is not the case, authorities will need to seek to influence good financial management strongly, due to their limited controls over school

spending. As schools move to academy status, DSG will reduce, which will impact on this ratio. In addition, authorities face a risk of funding any deficit when a school transfers to academy status.

Reserve balances

We noted in our first report that authorities had generally acted prudently over a long period, but we were starting to see them use general fund reserves to fund revenue expenditure. In 2010/11, 79% of authorities were rated green, increasing to 92% in 2011/12. The level of green ratings fell to 85% in 2012/13, indicating that pressures associated with delivering SR10 are beginning to impact on some authorities. **Less than half of the councils in our survey (42%) had set aside reserves** to cover shortfalls in savings plan delivery. This indicates that the majority have confidence in the delivery of savings over the lifetime of their MTFP. This approach had regional variations, with the position being much higher (62%) in the south east.

While the sector as a whole increased reserve levels during 2012/13, in cash terms there is a trend of reducing reserve levels in real terms for some in all local authority types, with metropolitan districts being the most likely to reduce reserve levels during 2012/13, according to 'Tough times 2013'. It will be critical for councils to monitor their general and earmarked reserve levels carefully to ensure they maintain financial resilience during SR10 and SR13.

Performance against budget

The track record of local authorities in our sample in managing revenue and capital budgets has been generally good. 86% were rated green for 2010/11 and 96% rated green in 2011/12. We recognised in our second report that, as 2011/12 was the first year of SR10 funding reductions, and these reductions were front-loaded to 2011/12, this represented a significant achievement for the sector.

The level of green ratings remains high, but 2012/13 saw a reduction to 82% and the first level of red rating (1%) indicating increased delivery challenges for some authorities. **Ratings were affected by significant unplanned underspends on capital programmes, which have an economic, as well as service delivery, impact.**

Workforce

The focus for this indicator was the level of sickness absence. Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or holding a larger workforce complement than is desirable. Absence also damages service levels, either through staff shortage or lack of continuity.

Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. 57% of authorities received amber ratings in 2010/11 and this reduced significantly to 12% in 2011/12. This indicates that authorities were managing absenteeism proactively.

However, absence management will remain a challenge for authorities during SR10, particularly given the context of significant pressures on staff to deliver 'more for less'. **This conclusion is supported by an increase in amber ratings to 33% in 2012/13 and the first red rating (2%) for this category.** Furthermore, workforce received the lowest level of green ratings (65%) in this theme, and was the lowest across all four themes for 2012/13.

Less than half of the councils in our survey (42%) had set aside reserves to cover shortfalls in savings plan delivery.

We noted in our first report that authorities had generally acted prudently over a long period, but we were starting to see them use general fund reserves to fund revenue expenditure.

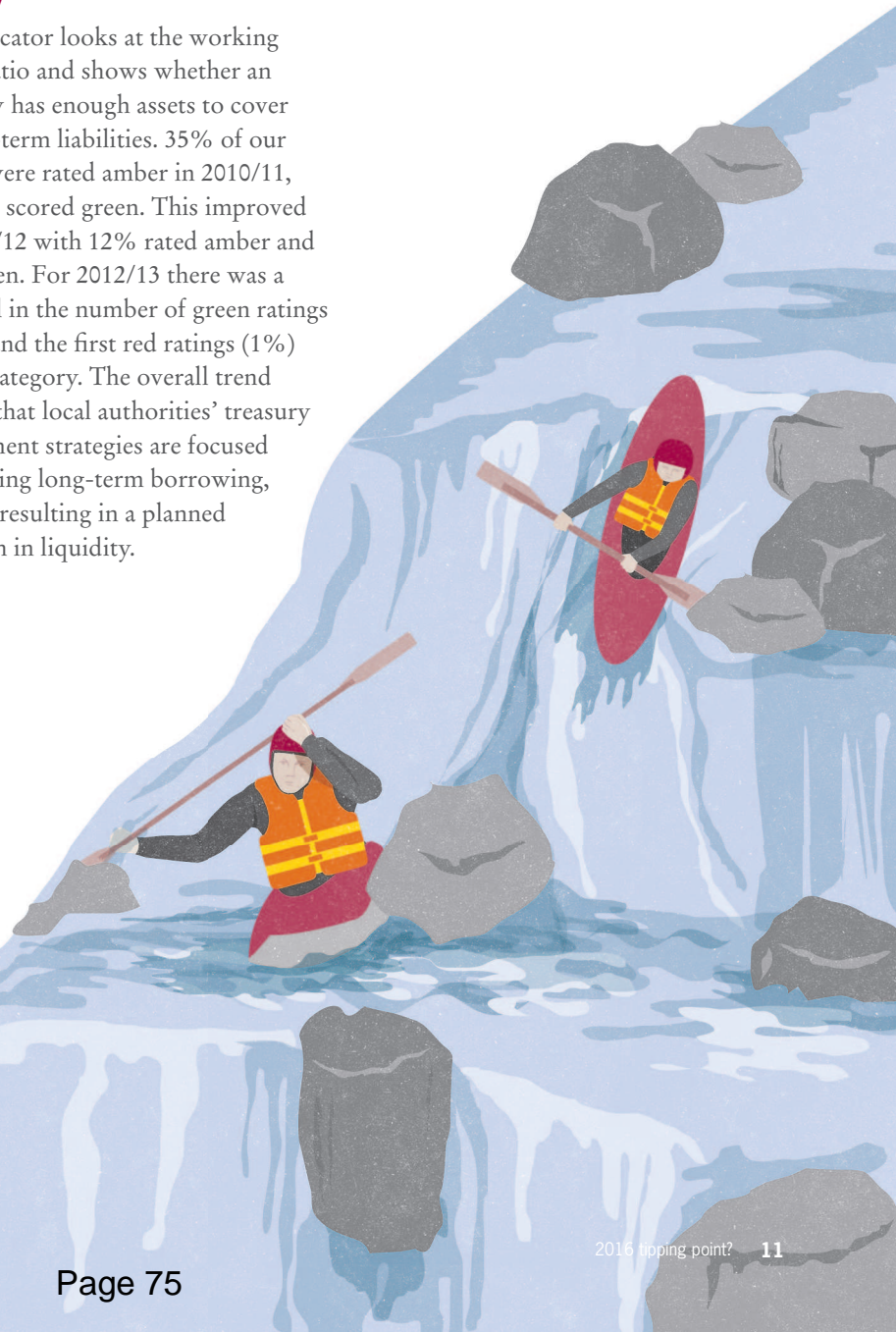
Borrowing

We reviewed long-term borrowing as a proportion of long-term assets and as a share of tax revenue. The majority (69%) of authorities in our sample in 2010/11 had an appropriate ratio of long-term borrowing to long-term assets, and long-term borrowing as a share of tax, indicating that the level of borrowing was geared effectively. The trend across our sample improved for 2011/12 with 95% of authorities rated green and long-term borrowing ratios reducing. The number of green ratings fell slightly to 93% in 2012/13.

An important trend is authorities delivering strategies for reducing high interest-bearing, long-term borrowing and moving to internal and short-term, external borrowing. This is to take advantage of improved lower level borrowing rates. It also reflects greater caution with long-term borrowing following the experience of investment in Icelandic banks.

Liquidity

This indicator looks at the working capital ratio and shows whether an authority has enough assets to cover its short-term liabilities. 35% of our sample were rated amber in 2010/11, and 65% scored green. This improved for 2011/12 with 12% rated amber and 88% green. For 2012/13 there was a slight fall in the number of green ratings to 85% and the first red ratings (1%) for this category. The overall trend remains that local authorities' treasury management strategies are focused on reducing long-term borrowing, which is resulting in a planned reduction in liquidity.



Strategic financial planning

Many areas of strategic financial planning in local government have improved over the last year but some remain behind their 2010/11 levels in terms of green ratings – meanwhile some red ratings have appeared for the first time. Adequacy of planning assumptions is still the weakest area.

Figure 4 provides a summary of our ratings for selected key indicators of strategic financial planning.

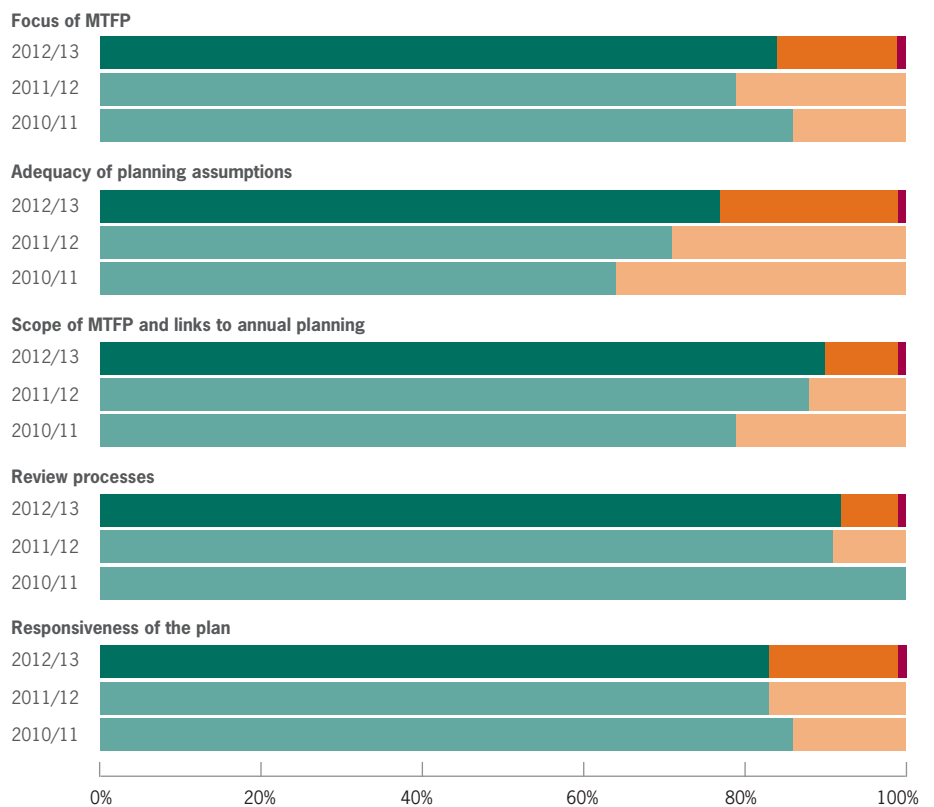
Strategic financial planning had the best overall rating across our sample for 2010/11, but saw a reduction in some ratings in 2011/12. The overall trend has been one of improvement in 2012/13. The main findings are set out below.

Focus of MTFP

86% of our sample received a green rating for 2010/11. This reduced to 79% for 2011/12, but increased to 83% in 2012/13. However, 2012/13 received the first red rating (1%) for this category. **Authorities with lower ratings typically need to improve scenario planning, develop a robust financial model underpinning the plan, and move away from an annualised approach to financial planning.**

Our survey highlighted that the majority of councils have MTFPs that end between 2015/16 and 2017/18, providing a three- to five-year planning horizon. This is reasonable practice given the alignment to the SR10 and SR13 spending rounds. However, **a minority of councils have a shorter planning horizon, which does not cover the full SR10/SR13 period.** Only a small number of councils have an MTFP planning horizon of

Figure 4 Strategic financial planning



more than five years. This trend was consistent across all regions.

The majority of councils had at least part of their savings plan still under development for 2014/15 and 2015/16 (73% and 80% respectively). **16% of councils still had savings to identify for the current year of 2013/14. This could be a significant risk for these councils.**

This pattern was broadly consistent across all council types.

Of those councils with a gap in their savings plans over the period 2013/14 to 2015/16, the average annual gap represented no more than 4% of their 2011/12 gross revenue expenditure (GRE). However, there were **a small number of councils with savings gaps**



Good practice case study

Sheffield City Council

Sheffield introduced outcome-based financial planning when developing its 2013/14 budgets. This supported the new strategic outcome plan for the city, which has a 12-year horizon (2013 to 2025).

The plan:

- sets the strategic direction for delivering the outcomes over this period
- provides the framework for decisions about where to allocate resources
- defines the performance measures to help track progress towards delivery.

The council introduced a strategic outcomes board to oversee the development and delivery of the plan and associated governance arrangements, with directors accountable to the board for realising the benefits of the plan.

The business model for delivery against the strategic outcome plan is built around:

- outcome-led investment, to achieve the outcomes for the city and to make a difference to Sheffield and its people
- outcome-led commissioning of projects that will contribute directly to achieving a step change to the outcomes for local people and businesses.

This approach has improved long-term decision making, prioritised the use of resources, and identified where new sources of funding or income need to be pursued.

The council is using a robust and transparent lessons learned process when reviewing the first year of outcome-based financial planning, to ensure this new approach becomes fully embedded across the organisation.

not require external support. However, the use of external support and advice varied regionally, with the practice most common for counties (50%) and least common for districts (9%).

For single tier councils, the average annual savings requirement in each year over the period 2013/14 to 2015/16, was between 2% and 4% of 2011/12 GRE. For districts, the average savings requirement was between 1% and 2% for all three years. There were a small number of councils, primarily single tier, with savings plans in excess of 5% of 2011/12 GRE.

Of those councils with a gap in their savings plans over the period 2013/14 to 2015/16, the average annual gap was just over 56% of the average savings plan requirement in 2013/14 and 62% in 2014/15, rising to 80% for 2015/16. This pattern was broadly consistent across all council types. Where councils had identified income generation as an important contributor towards closing the funding gap, or as part of savings plans, the average annual contribution was between 8% and 13% of the total savings requirement for the period 2013/14 to 2015/16.

in excess of 5% of 2011/12 GRE in at least one year. This pattern was broadly consistent across all council types. These saving gaps are less than is common in the NHS, where over 5% of GRE is increasingly seen.

Adequacy of planning assumptions

This was the weakest category in relation to financial planning for 2010/11 and 2011/12, with 36% and 29% of the sample, respectively, rated amber. It was again the weakest category for 2012/13 but amber ratings had reduced to 22%. This indicates that, while there

is significant uncertainty regarding finances over the medium-term, planning assumptions are improving for the majority of authorities. The position for a minority of authorities is worsening, reflected by the first red rating (1%) for this category.

Many local authorities still need to ensure they have the skills and capacity to develop and maintain an effective financial model that underpins their MTFP. 85% of councils in our survey believe they have appropriate skills in-house to develop savings plans, or plan to develop capacity internally and do



Good practice case study

Stevenage Borough Council

Stevenage Borough Council has adopted a priority based budgeting (PBB) approach based on a methodology developed by Aberdeen City Council, to meet its need for a three year forecasted funding gap of £3 million. Central to the PBB process is a full citizen engagement programme with local people to establish their service priorities and a determination of their preferences between tax increases, service cuts and raising fees and charges. This informed the development of a range of savings proposals over the three year timeframe. After internal officer challenge, these were put to members in the form of a Leaders Services Priority Group whose membership included majority and opposition councillors, front and backbench members. Over a period of eight weeks, members ranked all savings proposals into a priority order that reflected future challenges and the results of the engagement programme. This has succeeded in producing a detailed savings programme which addresses the council's funding gap, via a permanent shift away from short-term 'salami-slicing' to a well-managed longer-term process.

Scope of MTFP and links to annual planning

78% of our sample was rated green for this category for 2010/11 and this had increased to 88% for 2011/12. This increased again to 90% in 2012/13, but also received its first red rating (1%).

88% of councils surveyed started reviewing savings options during the first quarter of the year prior to which the savings relate, and this was broadly consistent across all regions. This is good practice because authorities must extend planning cycles to ensure they have adequate time to identify and approve savings before the start of the year to which they relate.

Good practice authorities also demonstrate effective integration of the service and financial planning processes. A small minority of authorities are introducing innovative outcome based financial planning approaches.

Review processes

100% of our sample was rated green for this category for 2010/11. This decreased to 91% for 2011/12, and has improved slightly to 92% for 2012/13. This indicates that the majority of authorities have effective processes for the regular review of the MTFP and the associated assumptions, including appropriate scrutiny from elected members and the audit committee.

While amber ratings have reduced from 9% to 7%, this category has received its first red ratings (1%).

Authorities received lower ratings because of weaknesses in the presentation of the financial plan to members and other stakeholders.

This included: inadequate supporting information, such as the impact of future demographic changes and other corporate risks; and a lack of benchmarking and other analytical techniques to support and explain the rationale for key financial decisions.

Responsiveness of the plan

86% of our sample was rated green for this category for 2010/11. This reduced to 83% for 2011/12, and has remained at 83% for 2012/13. The category received its first red rating (1%) for 2012/13. **Reasons for poor ratings include lack of an effective process to ensure regular reviews and updates of the plan and associated medium-term financial strategy (MTFS), and lack of evidence to support how financial and service risks are being mitigated.**





Good practice case studies



Eden District Council

Recognising that it faced a significant revenue deficit, the council developed a strategy to increase income, reduce costs and support community service provision.

Key elements were:

- **income** – the council worked with a national supermarket to develop some of its underused land for a major retail development which has generated a major rental income
- **costs** – by re-tendering its long-term contracts for municipal and leisure services substantial savings were made whilst adding some new services
- **community service provision** – some services have been transferred to community groups. A significant grant fund was established to support local communities to develop new and improved services.



Warwick District Council

The MTFS is prepared over a five year period and currently runs to 2018/19. Long range financial forecasting has been very accurate, largely as a result of the projections being regularly updated so as to be responsive to the most up to date information, notably with regard to government funding announcements. This allows long-term planning and decision making to facilitate achieving financial balance. The latest forecast is that recurrent savings of £1.975 million will need to be achieved by 2018/19. This will necessitate the General Fund Budget, currently £16 million, reducing to £14 million by 2018/19.



Sevenoaks District Council

The council implemented a rolling ten year budget which includes the use of short-term surpluses to build up an earmarked reserve, to be drawn down over the remainder of the period to ensure a balanced budget across each of the ten years. This has allowed the council to take a longer-term view on service transformation. The rolling ten year budget is accompanied by a four year savings plan and is underpinned by robust assumptions and efficient, high quality services that reduce the risk of unforeseen challenge or failure.



Manchester City Council

The council has set out a strategic framework and budget setting principles to inform decision making and to take a sustainable approach to achieving budget savings. There is a focus on providing leadership for reform – promoting economic growth, reducing worklessness and dependency and promoting private sector investment. By safely reducing demand for high cost services, the council plans to maintain resources to fund universal services to support the city's economy to grow and enable and places to prosper.



London Borough of Croydon

Croydon Council is challenging existing practices and methodologies to develop strategic and long-term financial plans that consider alternative solutions. The council is fundamentally reviewing all service provision and undertaking a completely different approach to building up the budget for 2015/16 and 2016/17 where significant shortfalls in the medium-term forecasts have been identified. The council brought forward the timeframe for the agreement of the 2014/15 budget to allow greater focus on this longer-term strategy. The council is already engaging with budget holders and members in order to agree some of the key decisions early.



Financial governance

8

Our sample indicates a growing maturity amongst councils in understanding the financial environment and areas such as managing forecast overspends. But challenges remain, especially in areas of reporting such as transparency of saving plans.

Figure 5 summarises our ratings for selected key indicators of financial governance.

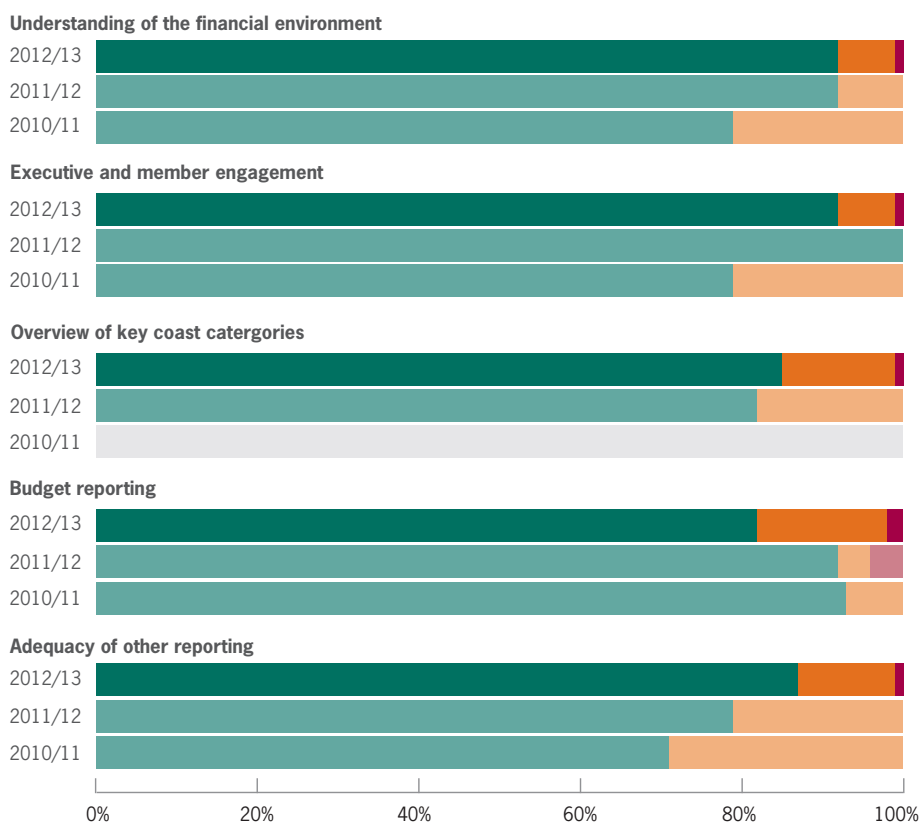
Understanding of the financial environment

79% of our sample was rated green for 2010/11. This increased to 92% for 2011/12, and fell slightly to 90% for 2012/13. 2012/13 also received its first red rating (1%).

Senior leadership continue to recognise the importance of communicating the impact of SR10 and SR13 to all staff and elected members. Many also recognise the need for greater consultation with their local communities on spending and saving priorities.

With the focus on protecting front-line services, back office functions such as finance have seen significant reductions in staff numbers. As noted in our previous reports, an important trend across many authorities in response to these reductions is placing greater financial management responsibilities on service managers and budget holders; and enhancing job descriptions and competencies to reflect this change. In parallel to this, the finance function is providing higher level and more targeted support to services.

Figure 5 Financial governance



Our third year of reviews indicates that the implementation of these changes by both finance and service staff has been mixed, and they are not yet embedded in many councils. Failure to embed these changes represents a risk to future effective financial management.

Executive and member engagement

Our 2010/11 review rated 79% of our sample as green. This increased to 100% for 2011/12, but fell to 92% for 2012/13, which also saw the first red rating (1%).

The role of member engagement in, and scrutiny of, financial planning and financial management is critical. The funding environment is placing ever greater demands on elected members, who must have appropriate and frequent financial information as well as the right skills to fulfil this critical role. **While the overall ratings indicate effective engagement, this is not the case in a minority of councils.**

Overview of key cost categories

This category was introduced in our second year of reviews, having previously formed part of 'Executive and member engagement'. It rated 82% of our sample green in 2011/12, increasing to 85% in 2012/13, when it also received its first red rating (1%).

Features of those receiving amber or red ratings included an unclear scheme of delegation, lack of consistency in the application of unit cost data, and a lack of tracking information in monitoring internal audit recommendations to audit committee.

Budget reporting

71% of our sample were rated green for 2010/11. This increased to 79% for 2011/12. In 2012/13, it rose again to 82%, but also received its first red rating (2%). This was the lowest score for a category in financial governance for all three years, but the trend is improving and reflects a reasonable position overall.

Local authorities continue to face challenges managing volatile, demand-led, budgets. Our sample indicates a growing maturity amongst councils in managing forecast overspends corporately, rather than within departmental silos, which is good practice. However, the challenges of setting appropriate budgets and then spending within them, or generating forecast levels of income, continues to be one of the main risks and challenges.

Weak financial year-end forecasts, resulting in unexpected revenue underspends or overspends during the final quarter, and significant unplanned underspends on the capital programme, were key reasons for authorities receiving amber or red ratings.



Good practice case study

London Borough of Barnet

The council is at the forefront of the move by local government bodies to a more commissioning-focused model of governance and service provision. From April 2013, the council moved to its new commissioning council structure. This includes an assurance group responsible for providing independent oversight to the strategic commissioning board and to members, so that the council's decision making is effective and appropriate risk management arrangements are in place and being used effectively by the council's lead commissioners and its delivery units. While the effectiveness of the new arrangements will require testing over time, initial indications from officers show they are working well and are helping to focus the council's senior team on how resources can best be used in a joined-up way across all services rather than a silo based approach.

Adequacy of other reporting

We continue to find that most authorities provide comprehensive levels of timely financial reporting to senior management and members. Within the top performing councils, there is a growing trend towards considering financial monitoring reports alongside performance and workforce data, which is good practice. However, the overall trend is falling, with 93% of our sample rated green for 2010/11, reducing to 92% for 2011/12, and falling again to 87% in 2012/13.

This category included the only red rating (5%) in our 2011/12 programme of reviews, and this red rating fell to 1% for 2012/13. Factors leading to red ratings have not changed. They include a lack of consistent timing in the reporting of financial and other performance information, and changes to how information is presented during a financial year. **Other factors were: limited frequency of reporting; lack of reporting on savings; failure to use graphics; a propensity to use lengthy narrative; and cabinet reports including only forecast year-end outturn position, not the actual position against a profiled budget.**

Most authorities continue to use risk-based exception reports, allowing them to make decisions on corrective action and to allocate responsibilities



Good practice case study

Solihull Metropolitan Borough Council

Decision making is based on clear business cases for investment and LEAN reviews provide detailed analysis for cost reduction initiatives. The main reporting vehicle is Aligning our Resources to our Priorities (ARTOP). ARTOP meets monthly, is chaired by the director of resources, and its role is to monitor progress against the delivery of all of the savings in the current three year medium-term financial strategy (MTFS) 2013/14 to 2015/16. ARTOP is a sub group of the corporate leadership team (CLT) and reports the outcomes of each of its meetings to CLT as part of a monthly financial report. Savings are identified three years in advance, and for the current financial year 85% of all savings have been delivered, with progress well under way for the two subsequent years.

for these actions. In most cases, year-end forecasts are effective in providing no surprises. However, a minority of authorities do not apply commitment accounting fully, which poses a risk to the provision of accurate outturn forecasts. Given the importance of reporting savings programmes, our survey highlighted the following.

Frequency of reporting savings plans

It is critical, given the scale of savings required by all councils, that the executive receives progress updates frequently. Our survey identified that the position varies by local authority type. The majority of single tier councils report on the progress of savings plans to cabinet, or equivalent, either monthly or quarterly (35% and 44% respectively). County and district councils tend to favour quarterly reporting (63% and 67% respectively). **A significant minority of councils of all types (23%) report savings plan progress to cabinet less frequently.**

The most common frequency of reporting savings plan progress to non-cabinet members or equivalent is quarterly (49%). However, most of the remainder (38%) report less frequently than this and only a small number (13%) report to non-cabinet members on a monthly basis in some form.

The majority of councils of all types (63%) report savings plan progress to the corporate management team or equivalent on a monthly basis. A minority report quarterly (19%) and the remainder at other intervals (weekly or fortnightly).

Reporting savings plans separately

It is important that savings programmes are reported transparently, and that savings are not reported within base budget financial monitoring information. Overall, the sector has room for improvement. While more than two thirds of single tier and county councils reported progress against savings plans separately during the year, a significant minority do not take this approach. For district councils, the split is more even with just under half taking this approach to monitor savings delivery.

The south east bucks the national trend with all counties reporting progress against savings plans separately during the year, which is good practice. However, less than half of single tier councils and less than a third of district councils in this region have not taken this approach to monitor savings delivery.

It is important that savings programmes are reported transparently, and that savings are not reported within base budget financial monitoring information. Overall, the sector has room for improvement.

Reporting countervailing savings

Countervailing savings, used in response to slippage or non-delivery, were reported to members in a transparent way at the majority of single tier and county councils (58% and 63% respectively) and just under half of the district councils. This leaves a significant minority of councils where changes to the savings plans were not reported in a transparent way. The south east was the worst performing region, with countervailing savings reported to members transparently in a minority of single tier and county councils (27% and 0% respectively); and in just under two thirds of the district councils. This leaves, for the south east region, a significant proportion of councils (52%) where changes to the savings plans were not reported transparently.

This lack of transparency could mean that, if a reduced budget which incorporates agreed savings does not overspend at year end, it could be considered a success, when the reality may be that other factors have led to the break-even position or underspend. For example, management decisions to hold vacancies that did not form part of the original savings plan may be hidden from management information and the consequent impact on service delivery may not be identified.

This approach is not unique to local government – it is common across the public sector. But given the level of savings being delivered, and still to be delivered, it is critical key stakeholders know whether the savings agreed have been delivered as planned.



Good practice case studies

8



Shropshire Council

The council is building on the work already undertaken on strategic commissioning to factor in area based and local commissioning, either directly itself or by co-commissioning with its partners. Local commissioning will be led by local members alongside partners in the public, private and voluntary sector to help redesign services based on demand in a locality with a focus on prevention. This will help shape community outcomes and priorities which will inform commissioning activity. The commissioning and governance of place will also be managed and led locally, creating a local approach to commissioning of services.



Copeland Borough Council

Copeland Borough Council consulted on a two year savings programme for 2013-2015. The approach was aimed at delivering a policy led budget where feedback from the consultation informed the council's strategy for the next three years. This was vital as the council felt it had exhausted the sharing and efficiency agenda and financially could not continue to fund all the discretionary services previously provided. This was a fundamental change to the role of the council with views sought on alternatives, priorities and mitigations, all aimed at ensuring the council had a strong evidence base for safe decision making.



Kent County Council

Kent County Council recognised that a strategic focus was required to deliver the significant financial challenge they faced. A project management approach was developed via project initiation documents (PIDs) for all savings over £200,000. The responsible directorate/manager prepares a PID identifying how savings will be delivered, the quantum of savings and project milestones. The budget programme board (BPB) was established to oversee the process. This is a mixed group of members and officers chaired by the cabinet member for finance. Meetings focus on holding budget holders to account for their PIDs which are assessed 'at risk'. This process has been a significant contributory factor to the delivery of the majority of savings plans in the past two years.

While more than two thirds of single tier and county councils reported progress against savings plans separately during the year, a significant minority do not take this approach.

Financial controls

This year green ratings increased across nearly all the key indicators in this area. However, 2012/13 also saw red ratings appear for the first time in all of those indicators. One of the biggest areas of improvement in green ratings has been ‘Key financial systems’.

Figure 6 provides a summary of our ratings for selected key indicators of financial controls.

Budget setting and monitoring

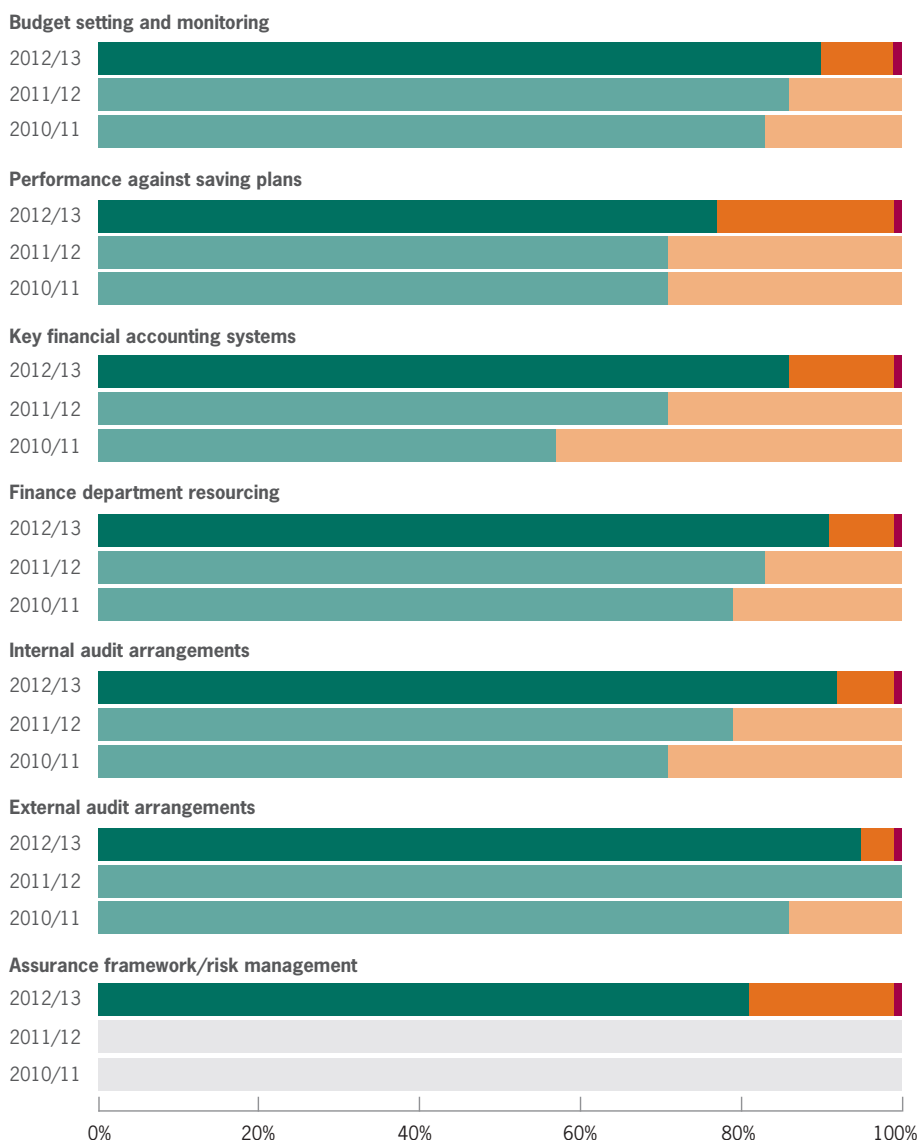
The financial controls in place to ensure effective performance management of budgets were generally good for 2010/11, with 83% of our sample rated green. This improved slightly for 2011/12 with 86% rated green, and improved again in 2012/13 (90%). However, 2012/13 also saw the first red rating for this category (1%).

Those authorities who scored amber or red typically still need to improve the accuracy of financial reporting. They can do this, for example, by: having accurate budget profiles; an improved understanding of cost drivers; and better use of benchmarking, trend analysis and unit costs. They also need a more effective approach to presenting financial information.

Performance against savings plan

Local authorities have traditionally had a good track record of delivering efficiencies and savings. Most authorities were able to manage the 2010/11 in-year funding reductions effectively with 71% of our sample rated green. For 2011/12, that position remained at 71%. Given the context of front-loaded, year one SR10 savings,

Figure 6 Financial controls



this is a considerable achievement. Councils continued to deliver and the level of green ratings increased to 77% for 2012/13. However, a small number of councils are now facing significant risks, with the first red ratings for this category (2%) appearing in 2012/13. For the first time, this category received the lowest green ratings in the financial controls theme.

Approach to monitoring savings

It is good practice to adopt a risk-based approach to monitoring savings, such as the use of red-amber-green (RAG) ratings. The majority of single tier and county councils (60% and 88% respectively) used RAG ratings to help understand the risk associated with delivering individual savings. However, a significant minority of single tier councils (40%) and the majority of district councils did not use this kind of analysis.

There are also regional variations. In the south west, less than half of single tier and county councils (45% and 100% respectively) used a RAG rating approach while the majority of single tier councils (55%) and the majority of districts (78%) did not use this kind of analysis. **In the Midlands, the majority of single tier and county councils (57% and 100% respectively) did use RAG ratings. However, a significant minority of single tier councils (43%) and the majority of districts did not use this kind of analysis.** This indicates ineffective processes or a potentially weak financial position.



Good practice case study

Surrey County Council

The council has not completed stand-alone annual budgets for a number of years, but produces five year budgets from which annual budgets are set. This means future years' budgets are more detailed, reliable, and allow changes between years to be more readily identified (ie capital projects spanning a number of years). This results in greater transparency, efficiency and more achievable in-year budgets. It allows senior managers to plan longer-term with a greater degree of certainty.

As part of the budget setting process the council considers a number of scenarios and applies the most suitable. It completes a number of draft budgets throughout financial planning cycle, and engages with the business and voluntary sector, communities, trades unions, all members, and residents at each stage. Elected members and senior managers are supported in their strategic financial management by revenue and capital budget monitoring reported in month, a quarterly 'hard close' of the accounts (including all the primary statements) and an early close and publication of the statement of accounts. This provides the base information and confidence in the council's financial systems and financial management arrangements to be able to make long-term decisions.

Approach to managing savings

The majority of single tier and county councils (70% and 75% respectively) took a project management approach to savings projects and programmes, which is good practice. However, a significant minority of single tier and county councils, and just over half of district councils, did not use this kind of process. The region where this approach was most prevalent was the Midlands, with the majority of single tier and county councils (86% and 50% respectively) using project management techniques to manage savings. However, a significant minority of single tier and county councils, and the majority of districts did not use this kind of process.

The majority of single tier councils (60%) and half of the counties had to identify alternative savings during 2012/13 as a result of slippage or non-delivery of savings plans. The majority of district councils (84%) did not have to resort to these measures. We have already noted that, for some councils, there is a lack of transparency in how these savings are reported to members.

Key financial systems

57% of our sample was rated green for 2010/11. This increased to 71% in 2011/12 and 86% in 2012/13. This was the lowest level of green ratings for financial controls in both 2010/11 and 2011/12, but not for 2012/13. However, the first red ratings (1%) were also received in 2012/13.

Councils typically have well-established systems and procedures for producing reliable financial monitoring and forecasting information. They use these alongside related performance information to support decisions. We noted in our previous reports that many authorities are considering enhancing the functionality of their key financial systems to ensure the burden of producing work around financial information does not fall to non-financial managers, given the reduction in finance staff. While they continue to make progress, such changes take time to specify, procure and implement. In the context of reducing finance resource and increasing financial management responsibilities within services, authorities in this position will have to monitor the risks associated with such work around solutions carefully.

Finance department resourcing

78% of our sample was rated green for 2010/11, which increased to 83% for 2011/12. Green ratings increased again to 91% for 2012/13 but this year also received the first red ratings (1%). This improving trend indicates that most authorities have been able to manage the impact of funding reductions to this part of the back office. **The potential inability of finance teams to withstand planned and unplanned absences in providing support to services remains a key risk for councils. This is especially the case given the widespread reductions in staff numbers and delivery of major savings at a time when services are taking on enhanced financial management responsibilities.**

Internal audit arrangements

The majority of authorities in our sample (71%) were rated green for 2010/11 and this increased to 79% for 2011/12. This increased again to 92% for 2012/13, but this year also saw the first red ratings (1%).

Most councils continue to: apply a risk-based approach to audit planning and involve services in the planning process; have a robust process for preparing and reporting the annual governance statement, and an engaged audit committee. Amber or red-rated authorities had weaknesses such as audit plans that were too focused on reviewing traditional back office processes (such as low level financial controls) at the expense of more risk-focused work (such as assurance on delivery of key projects and programmes, including savings). **Other areas of weakness included significant reduction to internal audit resource – impacting on effective delivery of the annual audit plan – and a lack of effective follow up on internal audit recommendations.**

External audit arrangements

We rated 86% of our sample green for 2010/11 and this increased to 100% for 2011/12. The level of green ratings fell to 96% in 2012/13 and this year saw the first red ratings (2%). **The reason for amber and red ratings varied, but included: the council receiving a qualified value for money conclusion; ineffective responsiveness of accountants to queries raised by external auditors; and weaknesses with benchmarking and understanding unit cost information.**



Good practice case study

Gloucestershire County Council

The council uses Verto, a project management package, to record and monitor the delivery of individual savings plans that make up the total 'Meeting the Challenge' savings programme for the council. This system facilitates accountability, ownership and supports delivery through input from a wide cross section of the council. Specifically, each savings programme goes through a number of gateways that ensure plans are robust and deliverable. To facilitate deliverability, each savings plan uses Verto to identify and secure the support services it needs to succeed. The support services include finance, needs analysis, HR, risk and asset management colleagues ensuring corporate ownership.

Assurance framework/risk management approach

This is a new category for 2012/13, for which 81% of authorities received a green rating, and 2% a red rating. While the majority of councils have adopted effective approaches to risk management, a minority have not. Reasons for non-green ratings included: infrequent reporting of risks to members; out of date risk management documentation; failure of the corporate management team to quality assure risk registers effectively; lack of alignment of risk registers to corporate priorities; poor risk ownership; and a lack of effective risk escalation procedures.

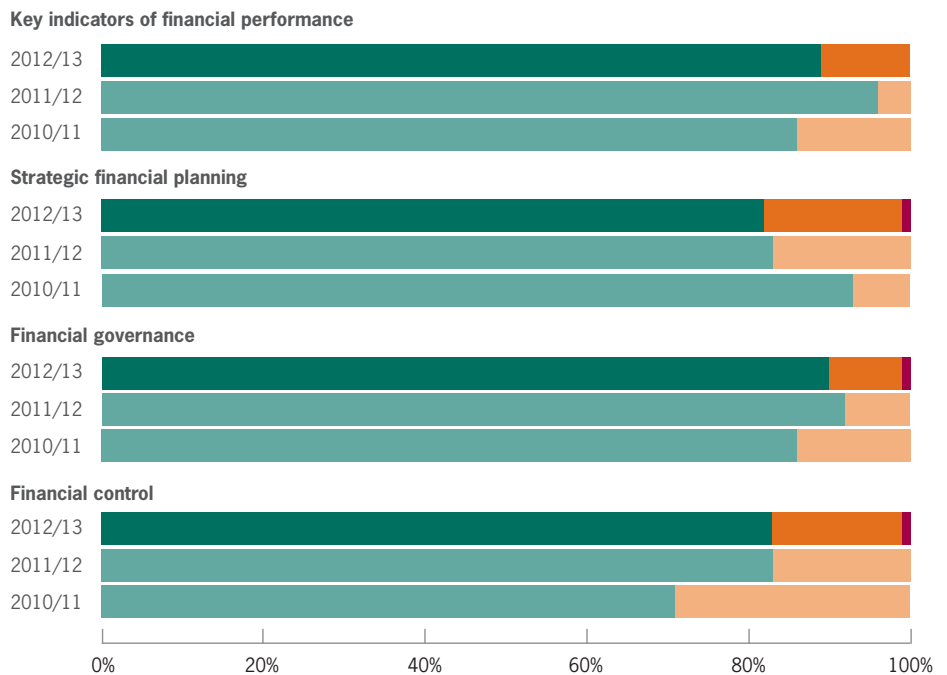
Summary and conclusions

Overall, local authorities are delivering against their financial plans. However, the challenges are increasing; some improvements in the last survey have reversed this year; and a small number of authorities now have insufficient arrangements to ensure financial resilience. Authorities will need to work hard in all these key areas to stay in robust financial health.

Figure 7 provides a summary of the overall ratings for each of the four themes. The overall trend for many of the categories we rated was an improving position between 2010/11 and 2011/12. This was demonstrated by three of the four overall themes, apart from strategic financial planning, showing improved ratings. This trend has reversed in our third year of reviews, with three of the four thematic areas receiving lower overall levels of green ratings than for 2011/12, albeit, in most cases, small reductions.

17 of the 22 categories received red ratings in 2012/13, when there were no red ratings at all during 2010/11 and only one category – adequacy of reporting in the financial governance – received a red rating during 2011/12. As a consequence, three of the four overall themes received red ratings in 2012/13. While these represent a small proportion of authorities in our sample (1% to 2%), it indicates that a minority of authorities do not have adequate arrangements in place to ensure they will remain financially resilient. A summary for each theme follows.

Figure 7 Summary ratings over time – all councils



The overall trend for many of the categories we rated was an improving position between 2010/11 and 2011/12. This was demonstrated by three of the four overall themes, apart from strategic financial planning, showing improved ratings. This trend has reversed in our third year of reviews, with three of the four thematic areas receiving lower overall levels of green ratings than for 2011/12.

Local authorities demonstrated strong **strategic financial planning**, during our 2010/11 review, with 93% in our sample receiving a green rating. This declined to 83% for 2011/12, the only thematic area that saw a fall in the overall green rating. This trend continued with a small reduction to 82% for 2012/13, and the theme received its first red rating (1%). For the first time, this theme received the lowest overall green rating.

Local authorities continue to face increased difficulty planning for the medium-term in what remains a greatly challenging and uncertain period. **It remains critical that authorities improve their scenario planning and their use of sensitivity analysis on key assumptions in their financial models.** As we noted in our 2012 report, we believe councils can learn directly from the financial modelling analysis required by foundation trust applicants in the NHS.

Our 2010/11 reviews indicated that the weakest thematic area was **financial control**, with 71% of authorities receiving a green rating. Our 2011/12 reviews highlighted an improvement, with 83% of our sample receiving a green rating. The rating stabilised at 83% for 2012/13, but received its first red rating (1%).

An important risk that local authorities need to continue managing in this area is embedding the changes resulting from reductions in finance staff and the associated increase in financial responsibilities of service managers and budget holders. A significant minority of authorities also need to improve the way they manage savings programmes, either by introducing project management rigour, or in the way that they report and monitor delivery risks.

Authorities demonstrated good **financial governance** during our 2010/11 reviews, with 86% receiving green ratings. This increased to 92% for 2011/12 but fell slightly to 90% in 2012/13. This theme received its first red rating (1%) during 2012/13.

Local authorities will need to ensure that financial governance arrangements remain robust. **An important area of improvement for many in the sector is ensuring the appropriate frequency of reporting savings programmes to members, including greater transparency on the use of countervailing savings. This is so stakeholders can better understand the impact on service delivery and policy decisions, where such alternative savings are being applied to pre-agreed targets.**

86% of authorities were rated green for **key indicators of financial performance** for 2010/11 and this increased to 96% for 2011/12. Green ratings fell to 89% for 2012/13, but this was the only theme not to receive any red ratings during 2012/13.

For all but one category in this thematic area, the trend has been an increasing level of green ratings and reducing levels of amber ratings between 2011/12 and 2012/13. The overall position indicates that local authorities are treating the financial challenges they face seriously, and delivering against their financial plans. **However, three categories received red ratings for the first time – liquidity, performance against budgets and workforce – highlighting significant financial pressures for a minority of authorities.**

Workforce received the lowest rating in this theme, and was the lowest rating (65% green) across all four themes. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. The pressures on staff to deliver “more for less” will be a key challenge for the sector over the medium-term.

Comparison to the health sector

We undertook similar reviews of all our NHS trust clients for 2010/11, 2011/12 and 2012/13, and of a sample of our foundation trust (FT) clients for 2012/13. In the two prior years, we undertook reviews of all our primary care trust (PCT) clients and for 2012/13 we consulted with our clinical commissioning group (CCG) clients about their initial experiences.

The methodology used for our reviews of health bodies was the same as that used for local authorities, and the summary results for our sample of health bodies are set out in Figure 8.

Despite the government maintaining NHS funding levels, health bodies again received lower ratings than local authorities for 2012/13, with significantly lower levels of green ratings across themes, though there has been improvement in all themes since 2011/12. This appears to be one beneficial effect of NHS trusts going through the FT application process, which requires high levels of rigour over processes for planning, governance and control.

Figure 8 Summary ratings – Health sector

Key indicators of financial performance



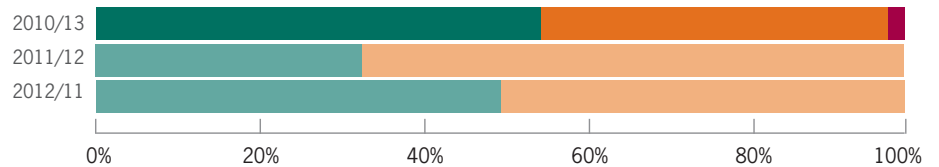
Strategic financial planning



Financial governance



Financial controls



Despite the government maintaining NHS funding levels, health bodies again received lower ratings than local authorities for 2012/13, with significantly lower levels of green ratings across themes, though there has been improvement in all themes since 2011/12.

These reviews revealed that:

- cost improvement programmes (CIPs) are not delivering effectively. 44% of trusts and 31% of FTs did not achieve their planned savings in 2012/13; half of trusts and a quarter of FTs relied on non-recurrent savings; and half of trusts and FTs had future savings programmes where we had concerns about achievability. The level of savings required is also the main factor putting CCGs at financial risk.
- non-recurrent support obscures the picture on resilience: 32% of NHS trusts and 23% of FTs either relied on non-recurrent external revenue support to break even in 2012/13, or were expecting to receive such support during 2013/14. This is also reflected in a National Audit Office report '2012/13 update on indicators of financial sustainability in the NHS' which suggests that, without this sort of support, nearly a quarter of NHS trusts would have been in deficit in 2012/13.
- workforce issues are increasing. We observed high levels of turnover at board level at a quarter of clients, rising levels of temporary staff at two thirds of clients, and higher than targeted levels of sickness absence at 90% of NHS trusts. The trend being upward at most clients.

Partners working together in health economies need to aspire to delivering the best quality of patient care within available resources. This will not always be achieved through existing pathways, in existing settings. Local leaders will need to challenge the notion of "What is best for my organisation?" and replace it with "What is best for the patient?". Healthcare providers and commissioners will need to work together with local authorities in the field of health and social care if all the parties are to benefit from the recently-announced Integration Transformation Fund.

Our findings indicate that local authorities are performing significantly better than NHS bodies. To avoid a deterioration in their ratings, local authorities should consider whether any lessons can be learned from the NHS, to help manage their own financial sustainability, and mitigate the chances of a declining position.

Our full analysis of the financial health of the NHS is available in our report 'Alternative therapy – strengthening NHS financial resilience' which was published in November 2013.



Our findings indicate that local authorities are performing significantly better than NHS bodies. To avoid a deterioration in their ratings, local authorities should consider whether any lessons can be learned from the NHS, to help manage their own financial sustainability, and mitigate the chances of a declining position.



About us

8

Dynamic organisations know they need to apply both reason and instinct to decision making. At Grant Thornton, this is how we advise our clients every day. We combine award-winning technical expertise with the intuition, insight and confidence gained from our extensive sector experience and a deep understanding of our clients.

Grant Thornton UK LLP is a leading business and financial adviser with client-facing offices in 25 locations nationwide. While we understand regional differences and can respond to needs of local authorities, our clients can also have confidence that our team of local government specialists is part of a firm led by more than 200 partners and employing over 4,400 professionals, providing personalised audit, tax and specialist advisory services to over 40,000 clients.

Grant Thornton has a well-established market in the public sector, and has been working with local authorities for over 30 years. We are the largest employer of CIPFA members and students and our national team of experienced local government specialists, including those who have held senior positions within the sector, provide the growing range of assurance, tax and advisory services that our clients require.

We are the leading firm in the local government audit market, and are the largest supplier of audit and related services to the Audit Commission, and count 40% of local authorities in England as external audit clients.

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This depth of experience ensures that our solutions are grounded in reality and draw on best practice. Through proactive, client-focused relationships, our teams deliver solutions in a distinctive and personal way, not pre-packaged products and services.

Our approach combines a deep knowledge of local government, supported by an understanding of wider public sector issues, drawn from working with associated delivery bodies, relevant central government departments and with private-sector organisations working in the sector

We take an active role in influencing and interpreting policy developments affecting local government and responding to government consultation documents and their agencies. We regularly produce sector-related thought leadership reports, typically based on national studies, and client briefings on key issues. We also run seminars and events to share our thinking on local government and, more importantly, understand the challenges and issues facing our clients.

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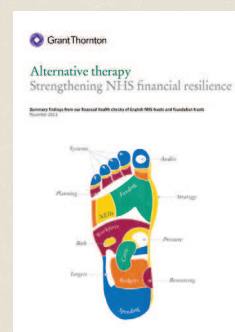
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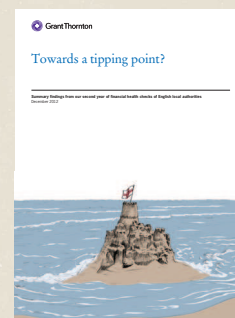
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Other reports in this series:



Alternative therapy: Strengthening NHS financial resilience 2013



Towards a tipping point? Financial health checks of English local authorities 2012



Surviving the storm: how resilient are local authorities? 2011



Appendix

Good practice checklist

Key indicators of financial performance	✓	X	Comments
Regular monitoring of key indicators of financial performance			
The authority operates within a locally determined appropriate level of reserves and balances			
The general fund balance is maintained at or above the locally agreed minimum level			
Working capital is at, or above, a ratio of current set by the Section 151 officer			
Manageable levels of long-term borrowing within prudential borrowing limits			
Targets have been set for future periods in respect of key indicators, such as reserve balances and prudential indicators			
The authority has a track record of spending to budget and proactively managing forecast overspends in-year			
A robust organisational approach and focus on absence management to improve productivity, reduce costs and enhance customer service			
Strategic financial planning	✓	X	Comments
Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities			
Service and financial planning processes are integrated			
The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working			
Annual financial plans follow the longer-term financial strategy of the authority			
There is regular review of the MTFP and the assumptions made within it. The authority responds to changing circumstances and manages its financial risks			
The authority has performed sensitivity analysis on its financial model using a range of economic assumptions including the impact of SR10 and SR13			
The MTFP is linked to and is consistent with other key strategies, including workforce			
KPIs can be derived for future periods from the information included within the MTFP			
Zero based budgeting on priority based budgeting is used to improve strategic prioritisation during the financial planning cycle			
Effective treasury management arrangements are in place			
Financial governance	✓	X	Comments
There is a clear understanding of the financial environment the council is operating within			
Regular and transparent reporting to members. Reports include detail of action planning and variance analysis			
Actions have been taken to address key risk areas			
The chief finance officer is a key member of the leadership team			
Officers and managers across the authority understand the financial implications of current and alternative policies, programmes and activities			
The leadership ensures appropriate financial skills are in place across all levels of the organisation – for example, a good understanding of unit costs and cost drivers			
The leadership fosters an open environment of open challenge to financial assumptions and performance			
There is an effective scheme of delegation, ensuring clarity of financial responsibilities and accountabilities			
There is engagement with stakeholders, including budget consultations			
There are comprehensive policies and procedures in place for members, officers and budget holders which clearly outline responsibilities			
Internal and external audit recommendations are not overdue for implementation			
Committees and cabinet regularly review performance and it is subject to appropriate levels of scrutiny			
There are effective recovery plans in place (if required)			

Financial control	✓	X	Comments
Budgets are robust and prepared in a timely fashion and the authority has a good track record of operating within its budget			
Budgets are monitored at an officer, member and cabinet level and officers are held accountable for budgetary performance			
Financial forecasting is well-developed and forecasts are subject to regular review, including trend analysis, benchmarking of unit costs, risk and sensitivity analysis			
Budget profiles are accurate and regularly monitored			
There is particular focus on monitoring income related budgets			
Savings programme reporting includes effective management information on countervailing savings and the use of RAG ratings			
The capacity and capability of the finance department and service departments are fit for purpose for effective financial planning and financial management			
Key financial systems have received satisfactory reports from internal and external audit			
Financial systems are adequate for future needs, for example commitment accounting functionality is available			
There is an effective internal audit which has the proper profile within the organisation and agreed internal audit recommendations are routinely implemented in a timely manner			
There is an assurance framework in place which is used effectively by the authority and is how business risks are managed and controlled			
The annual governance statement gives a true reflection of the organisation			





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EPI1041





Tipping Point 2016?

Challenging the current

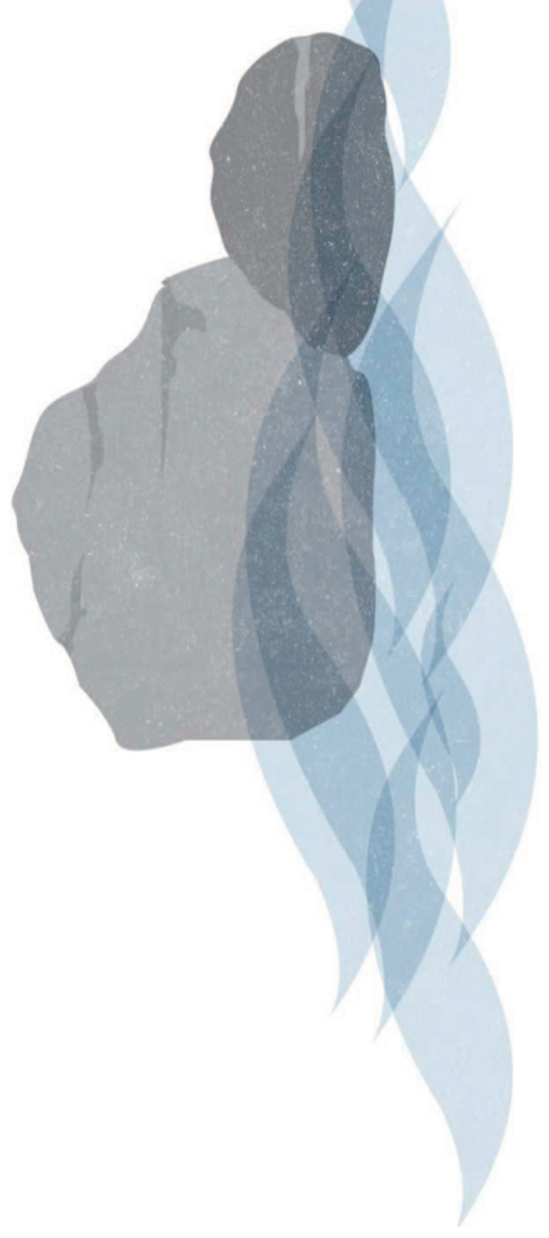
Surrey County Council Audit & Governance

Committee

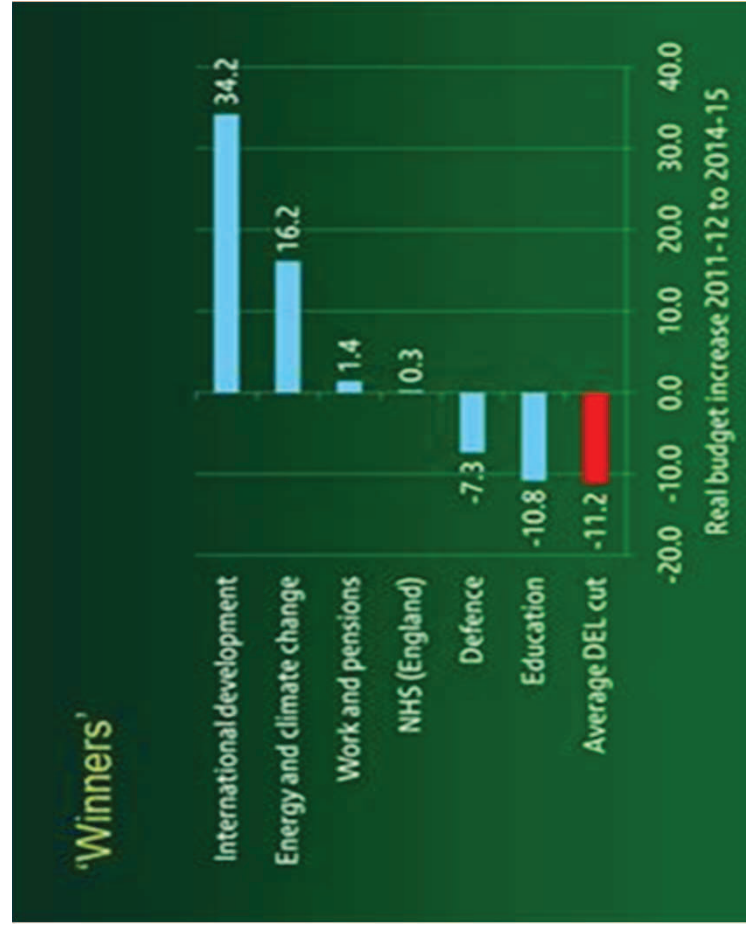
24 March 2014

Agenda

- The national picture
- Financial health of the sector
- The future?



The national picture – SR10



Source: Joseph Rowntree Foundation,

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And then there's SR13

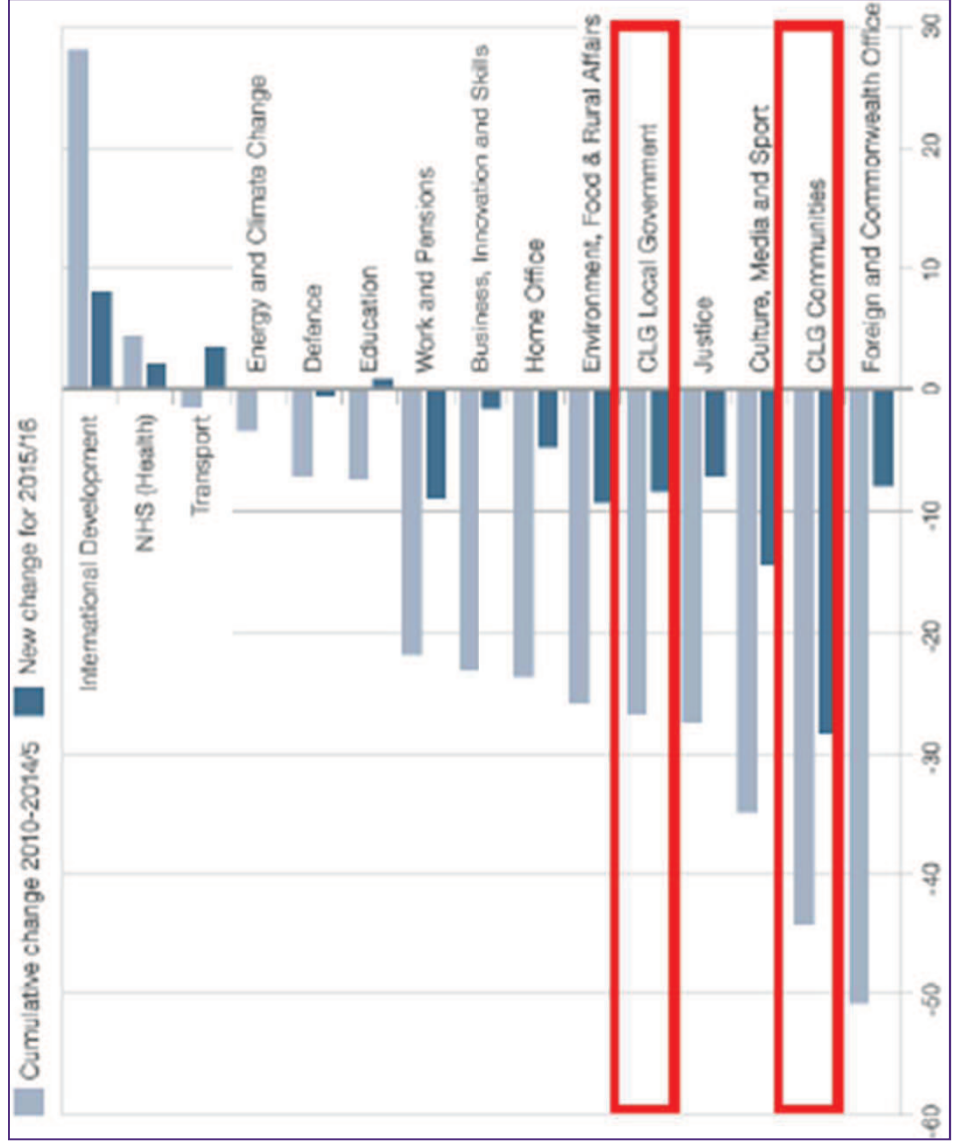
- Spending round for 2015/16 announced in June 2013
- A further 10% funding reduction for local government...
- By the end of 2015/16, local government will have seen spending reduce by 35% compared with 8% in education and a 4% increase in health

	Baseline ¹ 2014-15	Plans 2015-16	Per cent Year-on-year real growth
Departmental Programme and Administration Budgets			
Education ²	52.8	53.2	-1.0
NHS (Health)	108.3	110.4	0.1
Transport	3.5	3.2	-0.3
Local authorities	1.2	1.1	-10.0
DCLG local Government ³	25.6	23.5	-10.0
Business, Innovation and Skills	13.6	13.0	-5.9
Home Office	10.4	9.9	-6.1
Justice	6.8	6.2	-10.0
Law Officers' Departments	0.5	0.5	-5.0
Defence	23.9	23.9	-1.9
Foreign and Commonwealth Office ⁴	1.2	1.1	-6.3
International Development	8.3	8.5	1.1
Energy and Climate Change	1.0	1.0	-8.0
Environment, Food and Rural Affairs	1.7	1.6	-0.6
Culture, Media and Sport	1.2	1.1	-7.0
Work and Pensions	5.5	5.0	-9.5
DWP non-baselined funding ⁵	1.9	0.9	-
Scotland ⁶	25.6	25.7	-1.5
Wales ⁷	13.6	13.6	-1.8
Northern Ireland ⁸	9.6	9.6	-1.5
HM Revenue and Customs	3.2	3.1	-5.0
HM Treasury	0.1	0.1	-10.0
Cabinet Office ⁹	0.4	0.3	-10.1
Single Intelligence Account	1.6	1.7	3.4
Small and Independent Bodies ¹⁰	1.3	1.3	-2.0
Spending commitments not yet in budgets ¹¹	-	1.1	-
Reserve	2.8	2.8	0.0
Special Reserve	1.8	1.0	-44.1
Localised business rates ¹²	-17.2	-17.6	-
Total Resource DEL excluding depreciation	316.0	312.9	-2.7
Adjustment for Allowance for Shortfall, Budget Exchange and non-baselined funding	-0.4	0.0	-
Total Resource DEL excluding depreciation forecast	315.7	312.9	-2.6
Memo:			
Local Government 'savings' ¹³	54.8	54.8	-2.3

Source: Spending Round 2013, HMT, June 2013

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Put these together



Source: HM Treasury and Institute for Fiscal Studies

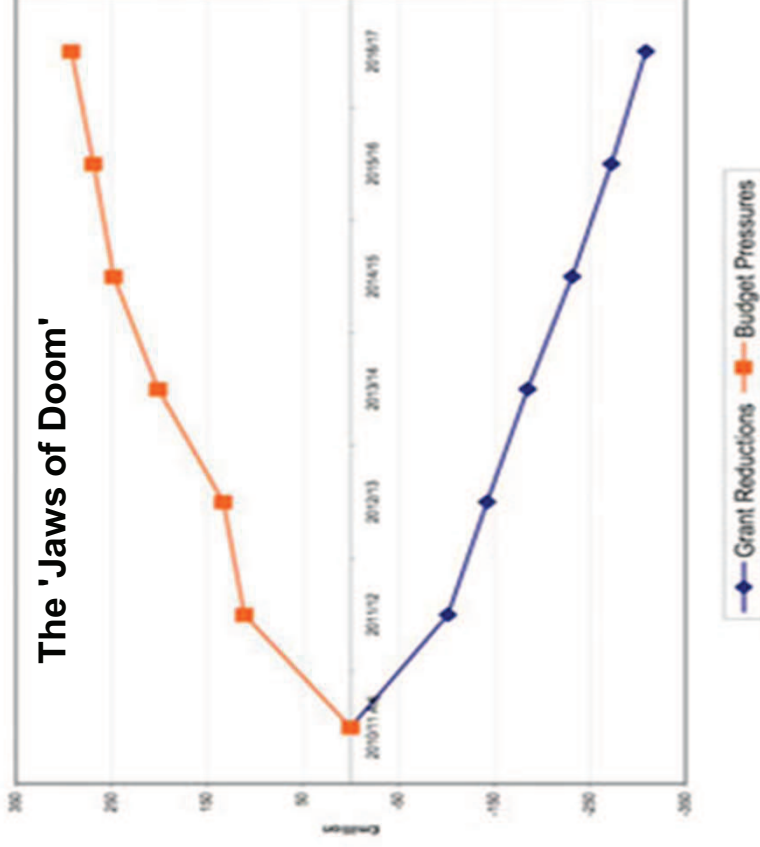
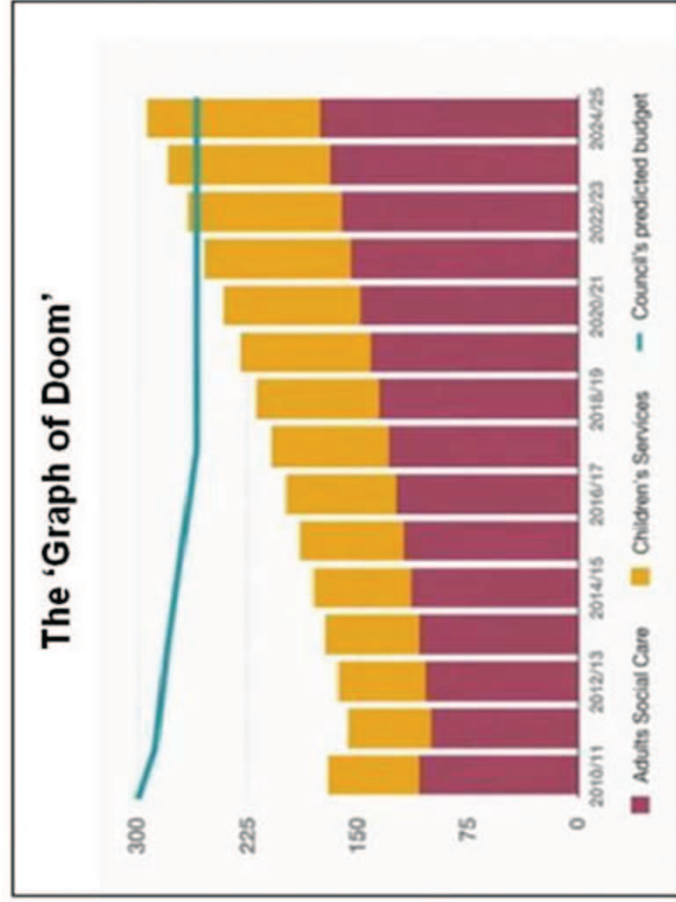
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It is not only reductions in grant funding

- **reducing** income from **fees and charges**
- **demographic pressures** and increasing complexity of need
- **welfare reform**, and increases to local government welfare related spending
- **restrictions** on additional **Council Tax funding**
- **localisation of business rates**
- implementing other **Government policies**, such as academies, health and wellbeing boards, integration of health and social care, LEPs, etc
- **limitations** on the ability to **finance capital projects**

Many authorities have predicted doom



Source: London Borough of Barnet, June 2012

Source: Birmingham City Council, Dec 2012

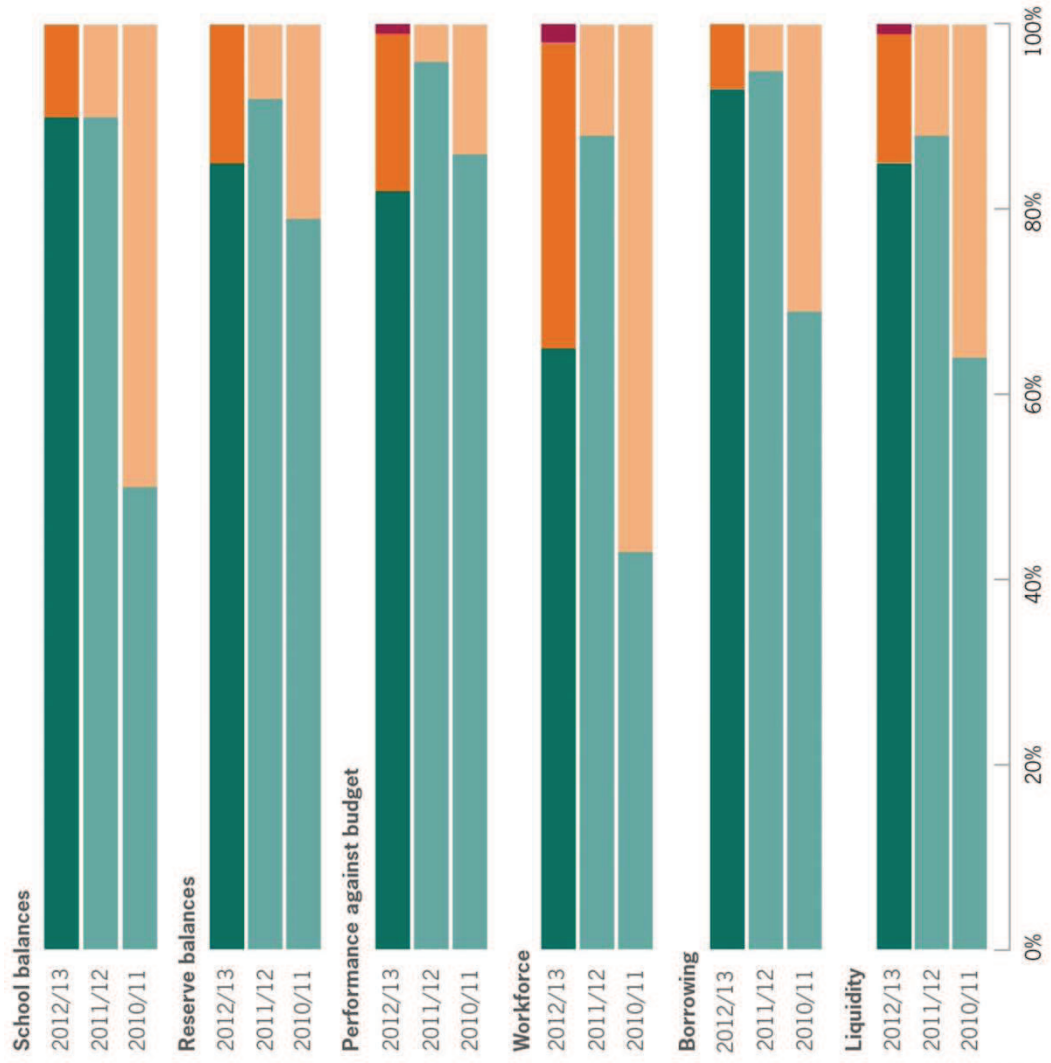
So what is the current position?

- GT national programme of reviews examining financial health of local authorities
- Surviving the storm (2011)
- Towards a tipping point? (2012)
- Challenging the current (2013)



Key indicators of financial performance

Summary results



Key indicators of financial performance

Key observations

Good practice:

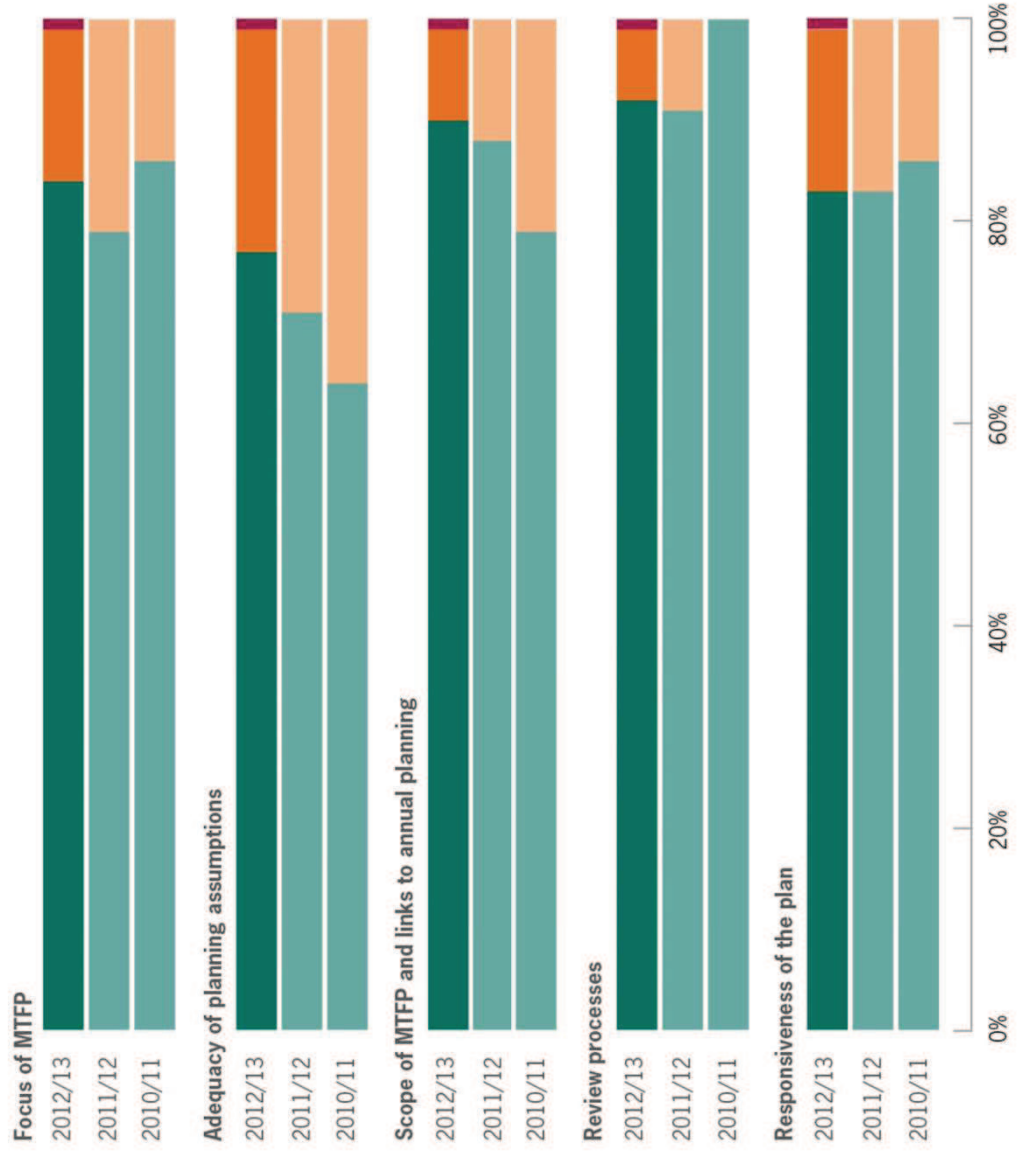
- 2012/13 budget management generally good
- long-term borrowing generally appropriate

Risks:

- challenges with volatile budgets
- trend of reducing reserves
- planned reductions to liquidity
- unplanned absence a particular challenge



Strategic financial planning Summary results



Strategic financial planning

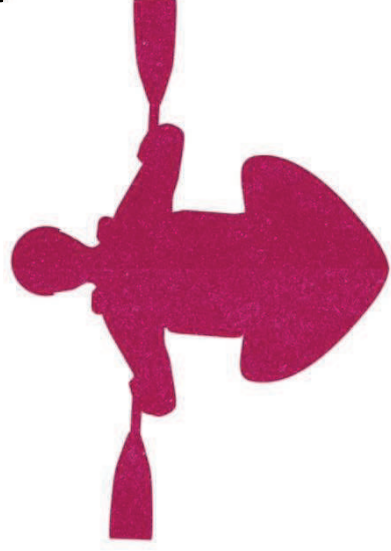
Key observations

Good practice:

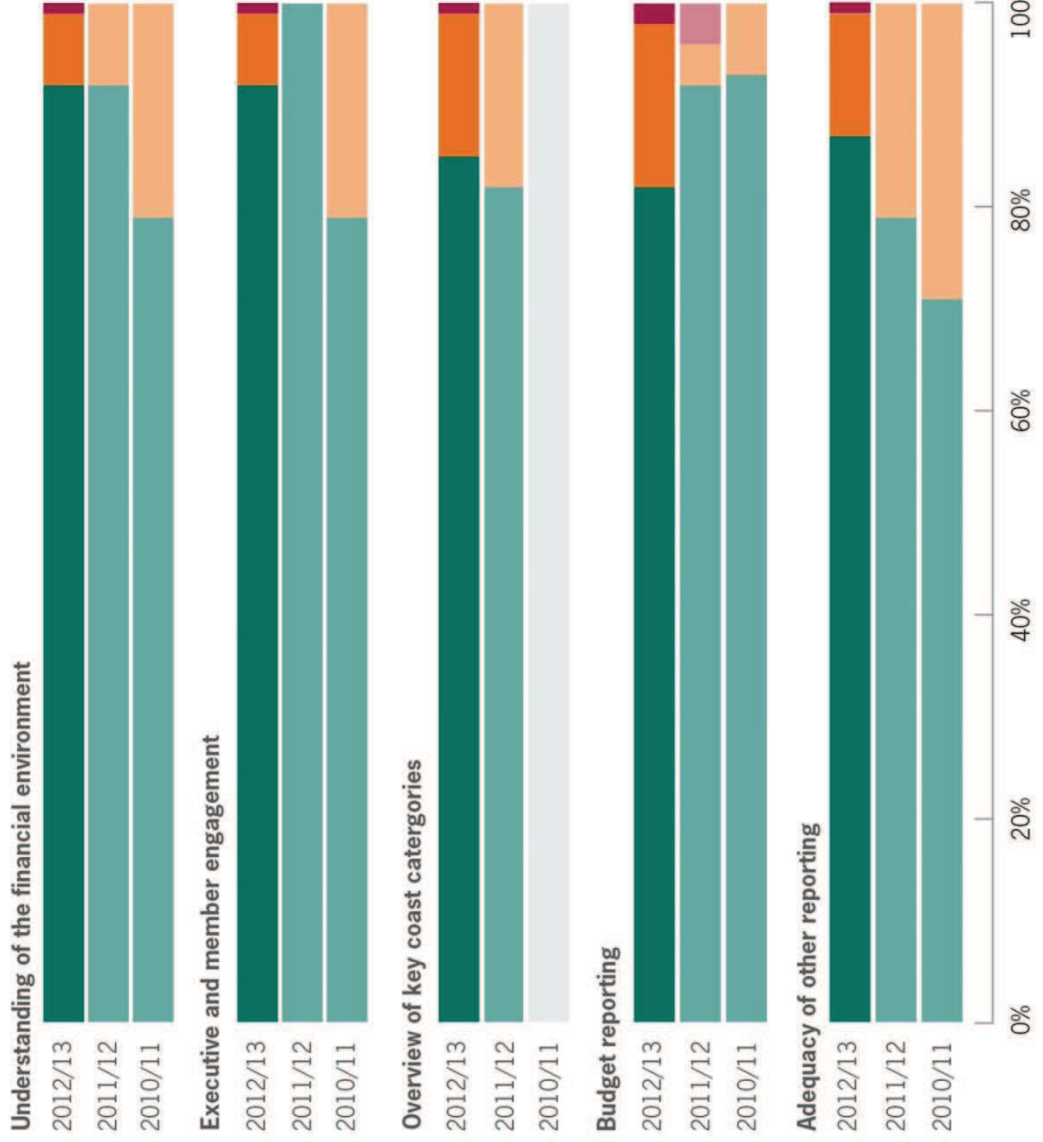
- MTFPs aligned to SR10 and corporate priorities
- effective review processes
- key assumptions understood

Risks:

- strategic finance skills
- scenario planning
- sensitivity analysis
- corporate prioritisation approach



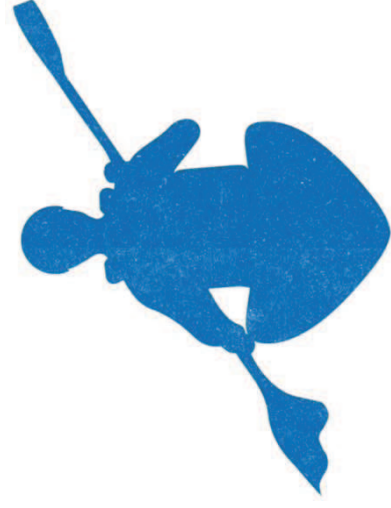
Financial governance Summary results



Financial governance Key observations

Good practice:

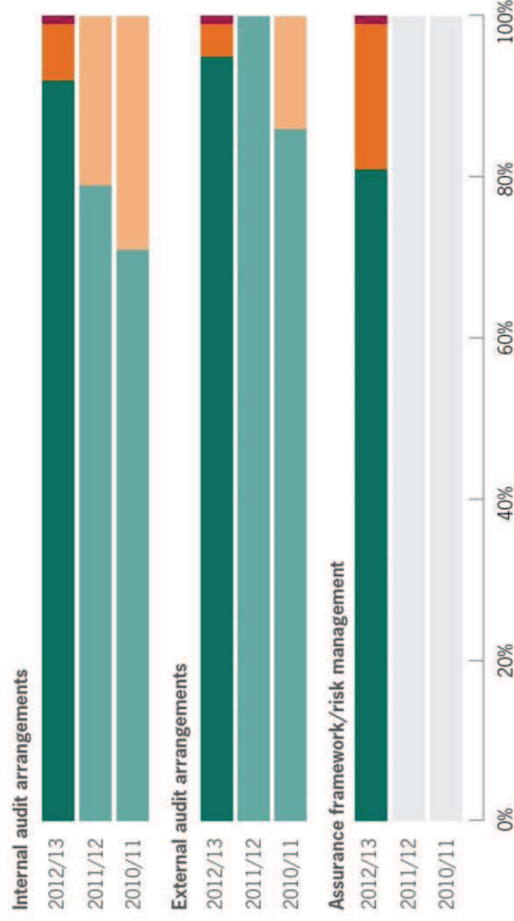
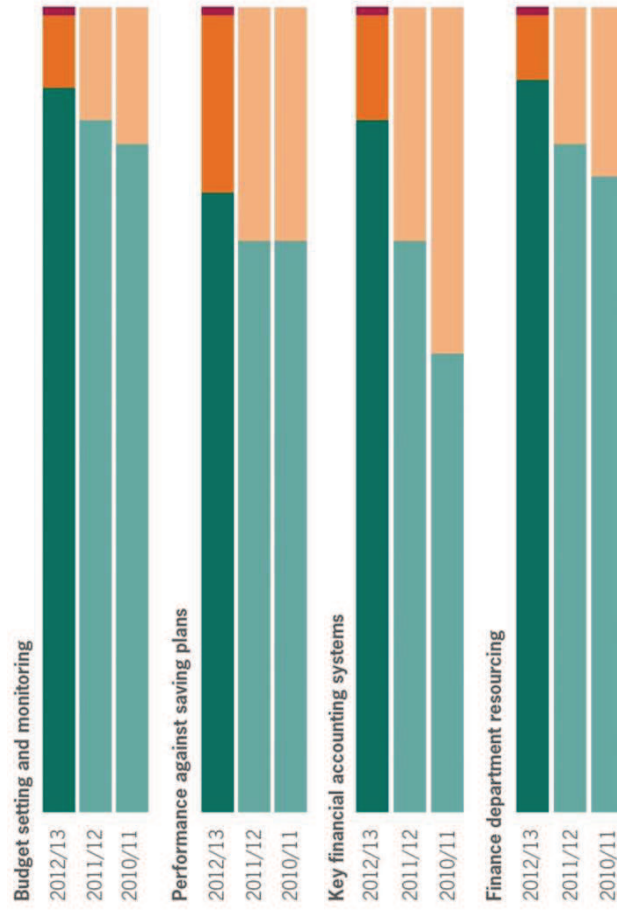
- financial reporting
- member engagement
- managing overspends corporately



Risks:

- cultural change required by services (financial management)
- governance (third party service delivery)
- transparency in reporting savings
- capital programme underspends

Financial controls Summary results



Financial controls Key observations

Good practice:

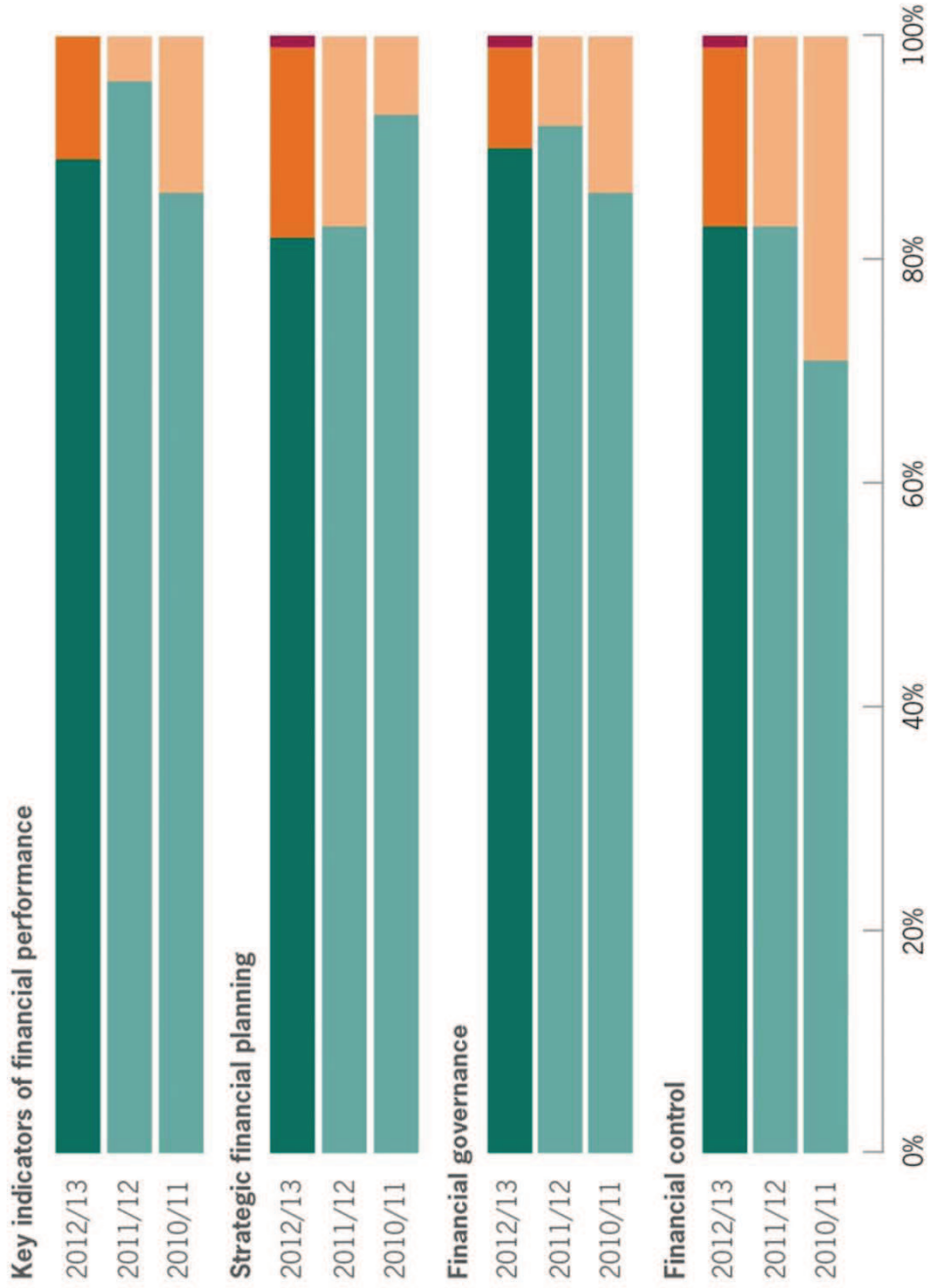
- financial controls in place for effective performance management
- internal audit risk based audit plans
- RAG rating of savings

Risks:

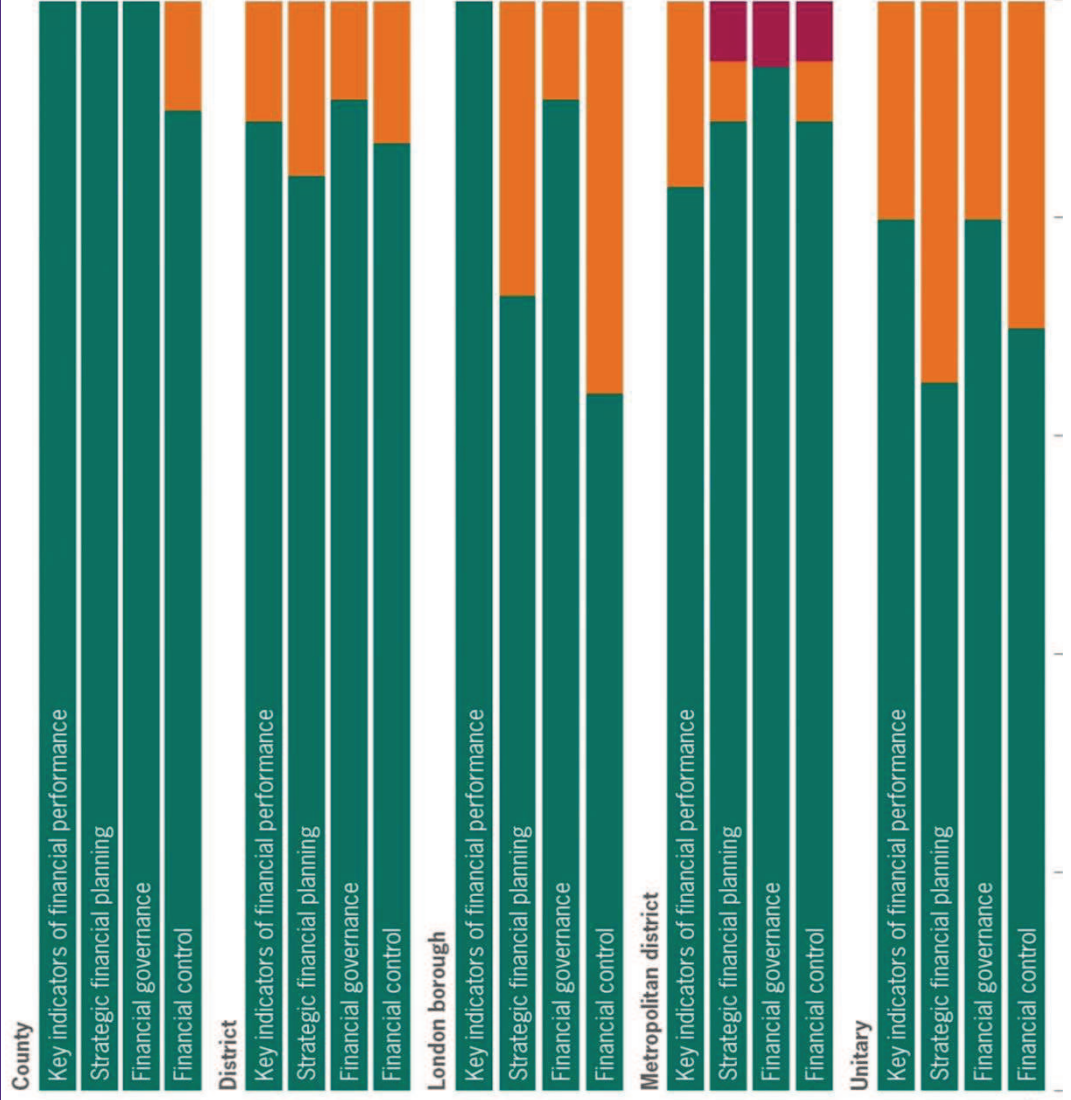
- reduction in finance resource
- financial systems - fit for purpose?
- use of unit costs, benchmarking, trend analysis
- use of countervailing savings



Summary results

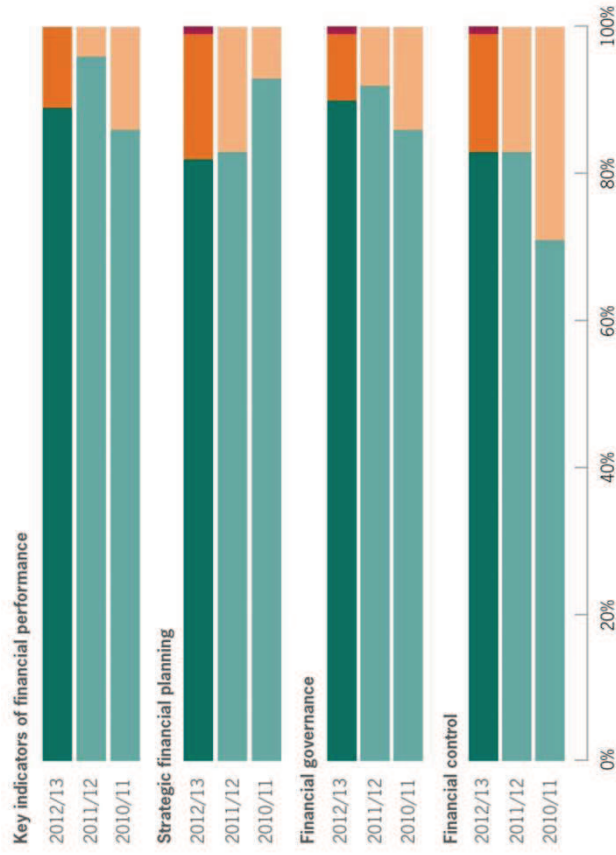


Summary results: by local authority type

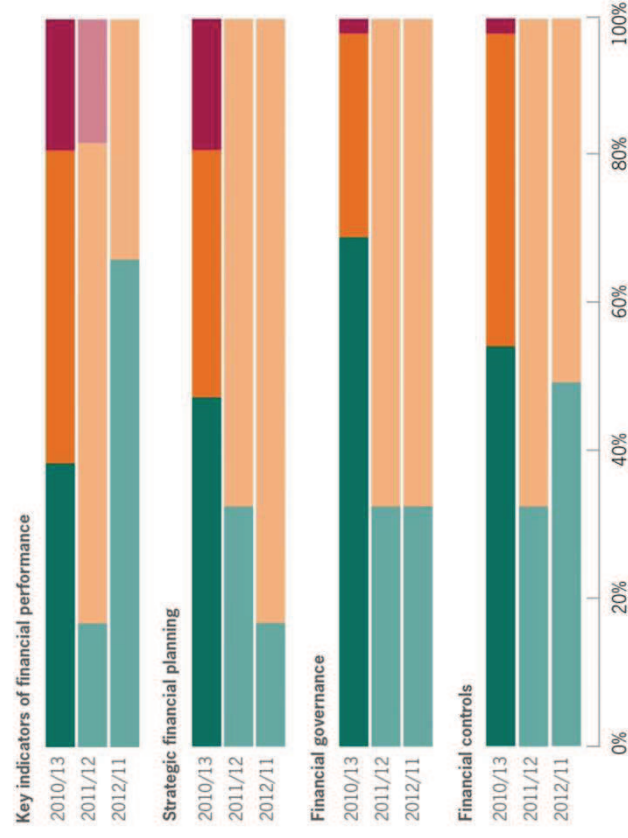


Summary results: Comparison with health

Local government



Health sector

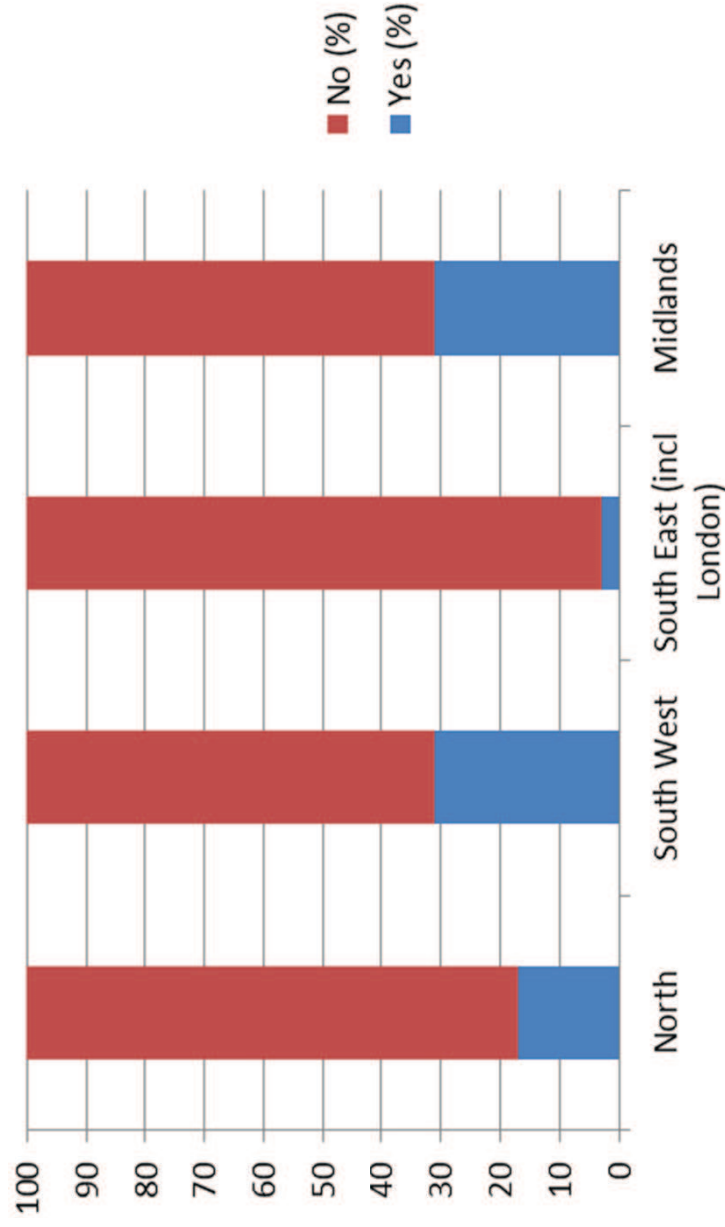


- Local authorities not alone
- But performing better than NHS bodies
- Opportunity for cross-learning
- Importance of integrating health and social care

Towards a tipping point...

- Our findings indicate significant challenges in the medium-term
 - **but** the sector is likely to ride out the storm until the end of 2014/15
- 80% of authorities in our survey do not anticipate a tipping point during this period
 - **but** the majority of councils felt a tipping point would be faced in 2015/16 or 2016/17

Tipping point by 2014/15?

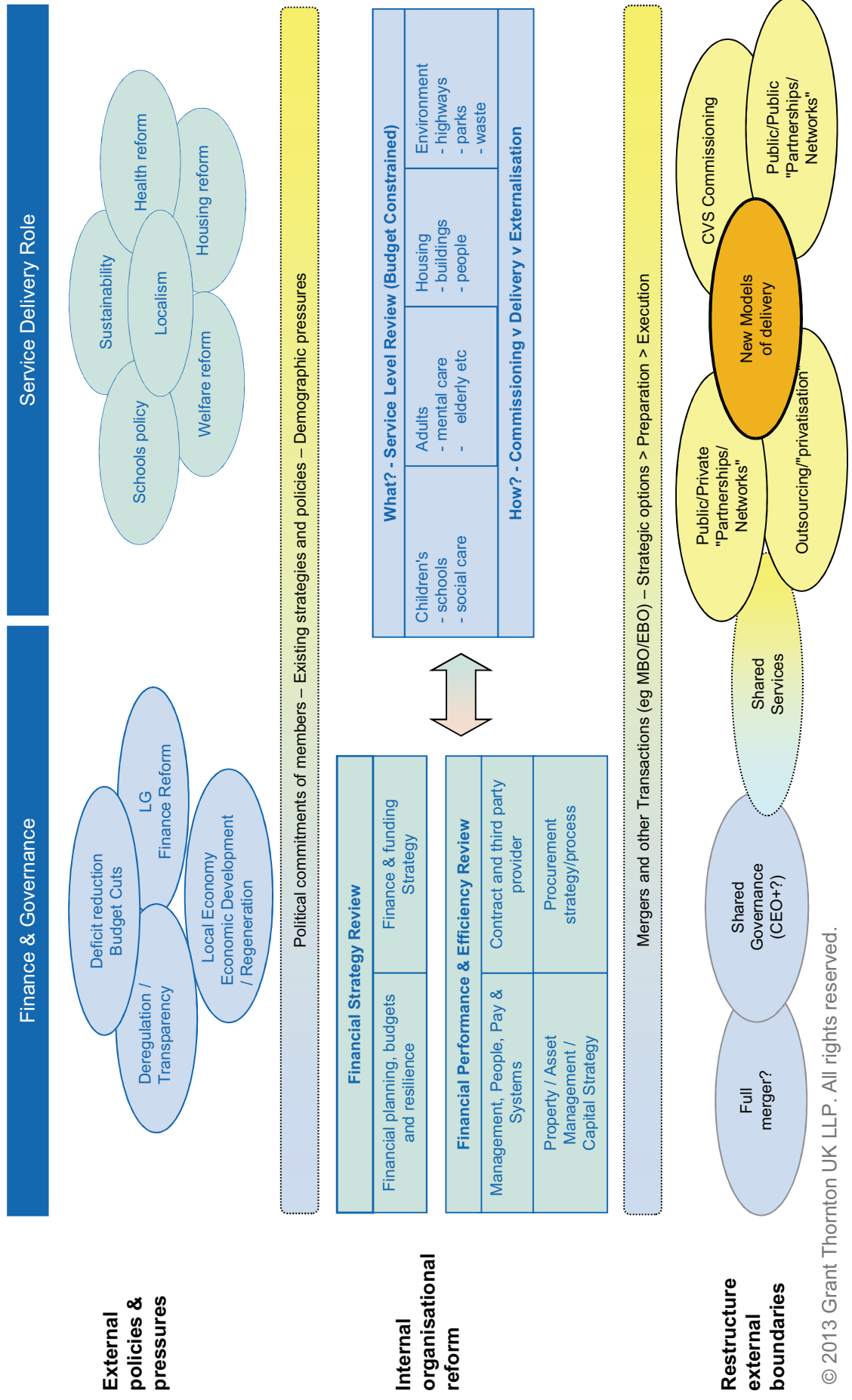


- The majority of councils felt a tipping point would be faced in 2015/16 or 2016/17

Responding to the challenge

- Some form or re-organisation (statutory or otherwise)
- Sustained focus on partnerships such as health integration
- Greater focus on generating additional sources of revenue
- Accelerate the trend to alternative delivery models

Reorganisation, partnerships etc...



Alternative delivery models

Shared services

- Management teams
- ICT
- Legal services
- Revenues and benefits
- Payroll
- Finance
- Internal audit
- Waste services

Outsourced services

- Financial services
- Leisure
- ICT
- Waste
- Housing maintenance
- Highways maintenance

Local authority companies:

- ICT
- Human resources
- Finance
- Economic regeneration
- Building control
- Housing development

Joint ventures

- Financial services
- Leisure
- Economic regeneration
- Joint regeneration schemes
- Housing repair

Other types

- Trusts
(eg leisure, museums)
- Joint commissioning
- Spin offs / Mutuals

What does the future hold?

Challenges:

- Legislative changes
- Innovation
- Continuing austerity
- Changing delivery landscape
- Local government
– but not as we know it!

Risks:

- Delivering savings in the medium term
- Failure to meet statutory responsibilities
- Potential tipping points...



2016 Tipping Point? Challenging the current

<http://www.grant-thornton.co.uk/en/Publications/2013/2016-tipping-point-Challenging-the-current/>



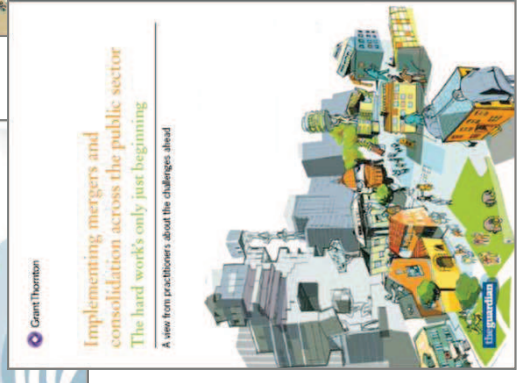
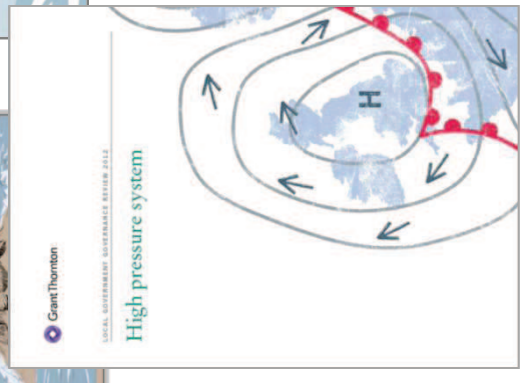
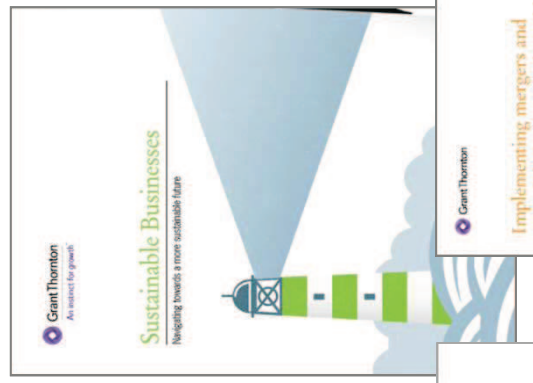
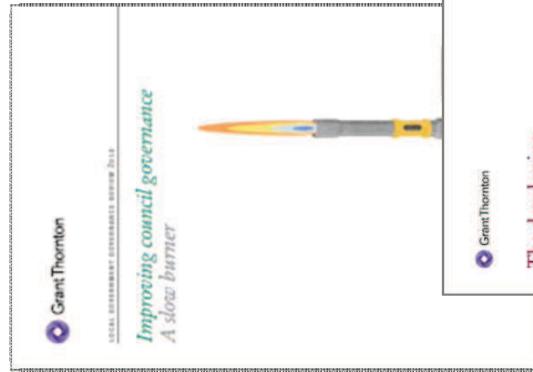
About Grant Thornton

Grant Thornton has a well-established market in the public sector, and has been **working with local authorities for over 30 years**. We are **the largest employer of CIPFA members and students** and our national team of experienced local government specialists, including those who have held senior positions within the sector, provide the growing range of assurance, tax and advisory services that our clients require.

We are the **leading firm in the local government audit market**, and are the largest supplier of audit and related services to the Audit Commission, and count **40% of local authorities in England as external audit clients**. We also audit local authorities in Wales and Scotland via framework contracts with Audit Scotland and the Wales Audit Office. We have over 180 local government and related body audit clients in the UK and over 75 local authority advisory clients. This includes London boroughs, county councils, district councils, city councils, unitary councils and metropolitan authorities, as well as fire and police authorities.

This depth of experience ensures that our solutions are grounded in reality and **draw on best practice**. Through proactive, client-focused relationships, our teams deliver solutions in a distinctive and personal way, not pre-packaged products and services.

Thought leadership reports for the sector





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Audit & Governance Committee
24 March 2014

Streamlining and Simplifying the Statement of Accounts

Purpose of the report:

To examine the opportunities to make the annual Statement of Accounts more streamlined and focused on the needs of the users.

Recommendations:

It is recommended that:

1. The suggested changes to disclosure notes, outlined in table 1, be adopted for the 2013/14 Statement of Accounts, which are due to be presented to the Committee on 31 July 2014.

Introduction:

2. Audited accounts are the principal means by which public bodies discharge their accountability for the stewardship of public money. The timely publication of audited accounts, with an unqualified audit opinion, can demonstrate sound financial management arrangements.
3. Since the introduction of International Financial Reporting Standards (IFRS) in 2010/11 the statement of accounts has become an increasingly lengthy document due, in the main, to the number of disclosure notes included.
4. The adoption of IFRS represented a fundamental change in financial reporting, the scale of which Local Authorities had not previously encountered. This resulted in some nervousness and resulted in authorities following every aspect of the guidance precisely rather than assessing only those areas relevant to their individual organisations.
5. The requirement to produce financial statements that comply with both accounting standards and a legislative framework which determines what can be charged to the general fund and therefore impact on the levels of taxation raised, leads to complexity.

6. CIPFA believes that as a consequence of this 'dual reporting' requirement 'decision makers struggle to understand the financial statements, and the valuable information they contain can be overlooked¹.'
7. Lengthy and complicated financial statements is not unique to the public sector and the end of 2012, the beginning of 2013 saw a number of institutions call for improvements to be made to simplify financial reporting. Many standards setting bodies, across the world, have embarked on projects to review the current levels of disclosure requirements and 'cut the clutter.'

Financial Statements: Good Practice

8. Surrey County Council are on track to deliver the finance service vision of becoming one of the fastest local authorities in relation to producing the Statement of Accounts. The closing programme for 2013/14 contains key tasks and deadlines which enable the authority to provide the auditors with a complete set of accounts and working papers by the end of May 2014.
9. Due to our excellent working relationship with our external auditors, Grant Thornton, we have also managed to agree to a condensed audit period and audited financial statements will be presented to this Committee on 31 July 2014, well in advance of the statutory deadline. As a direct consequence, the annual report for 2013/14 will for the first time contain audited summary financial information.
10. A more streamlined statement of accounts will aid this faster closure process in terms of both the production of the accounts and the audit of them.
11. In addition to demonstrating best practice in relation to the speed of our accounts closure, the finance service also aspires to develop a statement of accounts which is accessible to users. Local authorities are considered to produce high quality financial statements that are detailed and highly technical. The challenge is to make the key information more accessible and understandable by the majority of its users. If this is not achieved then the accounts are often not being used as a tool in inform decision making and demonstrate accountability.
12. It is such concerns that led the Financial Reporting Council to develop the following four principals for effective communication in reporting:
 - Focused – highlight important messages, transactions and policies and avoid distracting the readers with immaterial clutter
 - Open & Honest – provide a balanced explanation of the results – the good news and the bad

¹ Financial Statements: A Good Practice Guide for Local Authorities (CIPFA)
Page 2 of 7

- Clear & Understandable – use plain language, only well defined technical terms, consistent terminology and an easy-to-follow structure
 - Interesting & Engaging – get the point across with a report that holds the reader’s attention
13. While these principals were not designed specifically in relation to Statements of Accounts, they are transferable and were used as the basis for the recent internal review of the authority’s disclosure notes.

Internal Review

14. As mentioned above, standard setting organisations are reviewing the levels of disclosures required, but CIPFA are advocating each organisation reviewing their own arrangements to try to streamline their statements. What is considered vital information for one authority may be immaterial in another and so each individual organisation is being encouraged to take a view dependant on their own circumstances.
15. One of the recommendations of the external Auditors, Grant Thornton, in their Audit Findings Report for the 2012/13 Statement of Accounts was to review the disclosure notes with a view to removing immaterial balances.
16. An internal review of the statement of accounts has been done and recommended amendments to disclosure notes highlighted below in Table 1. This internal review has taken into account considerations around streamlining, materiality and focusing who the actual users of the accounts are.

Streamlining

17. The idea of streamlining the financial statements is supported by numerous professional organisational. Both CIPFA/LASAAC and HM Treasury have invited consultation responses on how to simplify the accounts in the public sector during late 2013.
18. The FRC identify two types of ‘clutter’:
- Immaterial disclosures that inhibit the ability to identify and understand relevant information; and
 - Explanatory information that remains unchanged from year to year
19. There is a need to balance views on what is clutter and what is essential information and in order to do this consideration need to be given to what is material to the users of their accounts.
20. It is also important to remember that there are other sources of financial information and other information request routes that interested parties can access in order to obtain specific information that may not be in a more streamlined Statement of Accounts.

Materiality

21. 'The key to achieving focus is to concentrate on the information that the user needs to get a proper picture of the organisation and its financial position whilst avoiding unnecessary clutter and superfluous information.'²
22. In order to produce focused accounts, it is essential to try to identify the user of the accounts. Information can then be targeted at these users and any information that is not vital to their understanding of the organisations financial position can be removed. Recent reports conclude that too much information can lead to users missing the key messages.
23. The main users of the authority's accounts are considered to be elected members, service users, taxpayers and the general public and so the proposals below attempt to remove disclosures and technical information which may hinder these stakeholders from focusing on the material items to gain an understanding of the financial position of the authority.
24. The overarching objective of this review is to make the accounts more "user friendly". This is achieved by producing shorter, more focused financial statements which should make them easier to use for the reader who should be able to identify the important messages and find them more quickly without the clutter of less important information obscuring those messages.
25. In addition to streamlining, this review has looked at the presentation of the accounts. Presentation of complex and often very technical financial information needs to be as accessible as possible and CIPFA is also encouraging the use of graphical and narrative approaches where appropriate and where the users understanding would be assisted.

Proposed Changes

26. The table below outlines the proposed changes to the current disclosures notes and the justifications why.
27. In addition to the specific areas listed below, as part of the process of compiling the 2013/14 Statement of Accounts, consideration will be given to the principals outlined in this report and any further opportunities to condense or re-phase information contained within the document will be assessed and discussed with external audit.

Table 1: Proposed Changes to Disclosure Notes:

Note	Action	Justification
Inventories	Remove	The council generally holds little stock, the total balance on this note has been just over £1m for the last two years. This not expected to change for 13/14 therefore the amounts involved are below materiality. The balance will still be disclosed on the face of the balance sheet.

² 'Principals of Effective Communication in Financial Performance Reporting', CIPFA (2012)

Landfill allowance trading scheme/carbon reduction commitment allowances	Remove	These environmental schemes involve low value transactions in the I&E statement and small balances on the balance sheet that are well below materiality. This note contains a lot of information but is not part of the council's core business so can distract the user from the key messages the accounts are trying to communicate.
Contingent assets	Remove	The Council has previously reported a nil return for contingent assets but there is no requirement to do so therefore can be removed.
Trust funds	Remove	The council acts as a trustee for numerous trust funds. A consolidated version of the Trusts' balances has previously been included in the accounts. The total balance of these funds is below materiality and do not form part of the council's core business so can distract the user from key messages. Larger trust funds produce their own set of accounts for interest parties.
Heritage assets	Remove	The heritage asset balance is about £600,000 and therefore below materiality. This note contains a lot of information but it is not part of the council's core business so can distract the user from key messages. The balance of heritage assets will still be disclosed on the face of the balance sheet.
Intangible assets	Remove	The intangible asset balance is reducing due to the amortisation of the main assets classified as intangible. The balance of intangible assets will still be disclosed on the face of the balance sheet.
Financial instruments	Reduce	The current note is over 6 pages long and the Council has a very straight forward list of investments and borrowing, so this note could be considerably reduced. Focus the written element of note on the key risks currently faced by the council and what is being done to mitigate them. Information on possible, but not current or necessarily likely risks could be removed. Generic statements on risk management could be condensed.
Cash flow notes: Operating activities, investing activities and financing activities	Move	Put this information on the face of the cash flow statement to assist users understanding.
Accounting Policies	Reduce	Summarising the key accounting policies and any changes in accounting policies since the previous year in the main body of the report is considered enough to give the users of the accounts the information they require. More comprehensive, technical accounting policies will be provided in an Annex to the main statements.

Audit Engagement

28. CIPFA are clear that streamlining, simplifying and focusing the accounts is not something that can be done in isolation there is a change in historic behaviour for all parties involved in the closing process. This includes the role of the external auditors not questioning the omission of disclosures that are immaterial.
29. Discussion have been had with Grant Thornton regarding the proposals outlined above and they support the benefits of simplification and are encouraging all the public sector organisations which they audit to carry out a similar review.

Conclusions:

30. A complex set of requirements continues to govern the production of local authority accounts, however by simplifying, streamlining and targeting our Statement of Accounts we can assist the users of our financial statements to gain a clearer understanding of the financial position of the organisation.
31. In some cases complex technical information may have to be included in an annex to the accounts, for example in relation to the accounting policies. The complete removal of this more detailed technical information in a separate document or making it available on the internet would not met regulatory requirements. As a direct result, this review will not streamline the accounts as much as desired, in some areas, but it will achieve the aim of reducing the number of pages to which most users need to refer and in making it Statement of Accounts more fit for purpose.

Financial and value for money implications

32. There are no direct financial implications of this report, all financial implications in the accounts will be made in line with the Code of Practice.

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

35. The new approach will be adopted for the preparation of the Statement of Accounts for the 2013/14 financial year which are due to be presented to this Committee on 31 July 2014.
36. A review of the Statement of Accounts and the disclosure note requirements will be carried out annually to ensure that only relevant notes are included and any that were not previously but need to be because circumstances have changed are reinstated. In addition, opportunities to avoid the use of technical jargon and use graphs or other techniques to assist the understanding of the users will be assessed.

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Sources/background papers:

- CIPFA: 'Financial Statements: A Good Practice Guide for Local Authorities' (2013)
- Report to the International Accounting Standards Board: 'Loosing the Excess Baggage –reducing Disclosures in Financial Statements to what's important' (2011)
- Financial Reporting Council: 'Louder than Words' (2009)

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AUDIT & GOVERNANCE COMMITTEE
24 March 2014

2013/14 Review of the Effectiveness of the System of Internal Audit

SUMMARY AND PURPOSE:

This report sets out the findings and recommendations from the 2013/14 review of the effectiveness of the system of internal audit in Surrey County Council. The agreed Terms of Reference for this review are attached at Annex A

RECOMMENDATIONS:

The Committee is asked to note the findings of this report and consider whether any further action is required.

BACKGROUND:

1. The Accounts and Audit Regulations require local authorities “*to conduct, at least once in each year, a review of the effectiveness of the system of internal audit.*” The Audit and Governance Committee, as the Committee charged with responsibility for Internal Audit, considers that it is best placed to sponsor such a review on behalf of Surrey County Council.
2. It was agreed by the Chairman of this Committee that the 2013/14 review should encompass the following activity:
 - Follow-up of action taken in response to the recommendations arising from the 2012/13 review
 - Completion of the Checklist for Assessing Conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note
 - Review of the level of Select Committee scrutiny of audits which have attracted an “Unsatisfactory” or “Major Improvement Needed” opinion and/or include high priority recommendations
 - Review of Management Action Plan (MAP) progress as reported to Audit and Governance Committee for evidence of appropriate senior officer/Cabinet member focus on red/amber rated actions

FOLLOW-UP OF 2012/13 REVIEW RECOMMENDATIONS:

3. The 2012/13 Effectiveness Review presented to this Committee in March 2013 was completed by consultants from CIPFA and included 22 recommendations. In June 2013, the Chief Internal Auditor provided an update to this Committee on progress in implementing those recommendations. This showed six recommendations still to be completed.
4. An updated assessment of implementation of the recommendations arising from the 2012/13 Effectiveness Review is attached at ANNEX B. This shows all recommendations as "Green".
5. Notably, since the June 2013 update on progress, the whole team have undertaken formal training on risk based internal auditing; and, options around Internal Audit Opinions definitions have been explored.
6. Although the 2012/13 Effectiveness Review sought to ensure compliance with the PSIAS, it should be noted that the PSIAS Local Government Application Note and associated checklist which was subsequently published, has introduced a number of more detailed requirements.

PSIAS LOCAL GOVERNMENT APPLICATION NOTE CHECKLIST:

7. The UK Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013, supplemented by a CIPFA Local Government Application Note which was published in April 2013. Compliance with the PSIAS is mandatory and the Chief Internal Auditor is expected to report on the level of conformance within her annual report. It should, however be noted that discussions with CIPFA suggest an acknowledgement that it may be a number of years before all Local Government Internal Audit services achieve full conformance with the PSIAS.
8. Instances of non-conformance with the PSIAS must be reported to the Audit and Governance Committee (the "Board" for PSIAS purposes) and any significant deviations must be considered for inclusion in the Annual Governance Statement.
9. Regardless of the outcome of any internal assessment of compliance with the PSIAS the Chief Internal Auditor is not permitted to state that the Council's Internal Audit service conforms to the PSIAS unless this view is supported by an External Assessment conducted by an "appropriately qualified" external assessor.
10. For the purposes of the 2013/14 Effectiveness Review an assessment against the Local Government Application Note checklist was completed by an officer from the Performance and Research team within the Policy and Performance Service. The completed checklist is 70 pages long and has been circulated to members of this Committee as background reading for this report.
11. The conclusions of this assessment are that the current Internal Audit operating arrangements substantially comply with the requirements and while there are a number of areas of non-compliance, the Chief Internal Auditor is of the opinion that none of these are significant enough to warrant inclusion in the Annual Governance Statement.
12. Given the explicit nature of some of the standards, the main issues that have come out of this review, are the need to:
 - amend where necessary, operational documentation (such as the Internal Audit Charter) to ensure it references to and reflects the terminology of the new standards
 - develop a formal Quality Assurance and Improvement Programme
 - ensure written understandings exist for all work undertaken for outside parties

- put in place arrangements to involve the Chief Executive and Chairman of the Audit and Governance Committee in the Chief Internal Auditor's annual appraisal
 - conduct an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance
13. The PSIAS also include some requirements that do not sit naturally within usual Local Authority operational practices, for example the requirement for the Audit and Governance Committee to approve:
- the Internal Audit budget; and,
 - decisions relating to the appointment and removal of the Chief Internal Auditor
14. As a result of this assessment a number of recommendations (set out in ANNEX C) have been made to address instances of non-compliance with the PSIAS and the Chief Internal Auditor will provide an update on progress in implementing these recommendations in her Annual report to this Committee in May 2014.

SELECT COMMITTEE REVIEW OF INTERNAL AUDIT REPORTS:

15. Following a recommendation of the Audit and Governance Committee in December 2012 the Chairman of this Committee wrote to all Select Committee Chairmen in March 2013 recommending that:
- (a) A summary of all audit reports is considered by Corporate Overview & Scrutiny Committee (the current practice).
 - (b) Reports for Directorates other than Business Services and the Chief Executive's Office are reviewed by the relevant Select Committee
 - if the audit opinion is 'unsatisfactory' or 'major improvement needed' or
 - if a report is rated as 'some improvement needed' and includes recommendations rated as high priority (H).
16. The Chairman of the Council Overview and Scrutiny Committee agreed that the Performance and Finance Sub-Group should receive reports from the Chief Internal Auditor in respect of (a) above. In addition, at its meeting of 4 November 2013, the Performance and Finance Sub-Group agreed that if the opinion in an internal audit report is 'Major Improvement Needed' or Unsatisfactory, or if the report includes any high priority recommendations, the full audit report and MAP would be forwarded to all Members of the relevant Select Committee and the Chairman would decide appropriate timing for the scrutiny of the report. The Chief Internal Auditor has agreed a process with Democratic Services to ensure this happens
17. A table showing all audit reports issued since 1 April 2013, where the audit opinion is 'Unsatisfactory' or 'Major Improvement Needed' and/or includes recommendations rated as high priority, together with an indication as to whether it has been reviewed by the relevant Select Committee is attached at ANNEX D.

18. This suggests the following audits have not yet been discussed by the relevant Select Committee:

Audit	Opinion	Number of High Priority Recs	Relevant Select Committee
Highways Contract - Lot3	Some Improvement Needed	1	E&TSC
ICS ContrOCC	Some Improvement Needed	3	C&ESC
Direct Payments - Follow-up audit	Some Improvement Needed	2	ASC
Streetworks Function	Some Improvement Needed	3	E&TSC
Customer Services	Some Improvement Needed	1	ASC

Although Customer Services sits within Customers and Communities Directorate the specific High Priority recommendation for this audit relates to Adult Social Care. The Chief Internal Auditor understands it proposed that the High Priority recommendations relating to both the Customer Services audit and the Direct Payments audit will be addressed as part of the Strategic Director's update to the ASC Select Committee on 1 May 2014.

SENIOR OFFICER/CABINET MEMBER AWARENESS OF AUDIT ACTIVITY:

19. On a bi-annual basis the Chief Internal Auditor reports progress in implementing audit recommendations to this Committee. While generally this highlights pleasing progress, with most agreed actions assessed as "Green", there is some evidence that appropriate action is not always taken in a timely manner and in these cases the status of the agreed management action may be assessed as "Amber" or "Red".
20. It is reasonable to expect that an appropriate level of senior management and Cabinet Member awareness of issues raised, should ensure corrective actions are implemented in a timely manner. Therefore as part of this review, the views of senior officers (Heads of Service and above) and Cabinet Members were sought as to their level of involvement with matters related to Internal Audit.
21. Senior Managers were asked the following:
- Are you kept informed of Internal Audits that are taking place in your area so you have an opportunity to feed in any particular issues/concerns?
 - How do you monitor progress of implementation of management action plans agreed in response to audit recommendations?
 - If you are the named owner of an agreed Management Action Plan, do you inform Internal Audit if it is apparent that timescales are likely to be missed and why?
 - Are you satisfied with the current service/audit liaison arrangements? Do you have any suggestions for improvement?
22. Responses were received from Senior Officers from all Directorates. The responses from Senior Officers gave positive assurance that there is good awareness of audit activity taking place and discussion, typically at Senior Management Team meetings, on implementation of Management Action Plans. Audit/Service Liaison arrangements were also viewed positively.

23. Specific suggestions from services on possible areas to improve included the following:

- more audits of new ways of working
- more time for Heads of Service to brief their Portfolio holder and Strategic Director before Internal Audit reports are distributed
- better briefing of officers at the start of each audit on the approach to the audit so those officers understand their role and influence.

The Internal Audit Management team will consider all the suggestions for improvements to see how these can be implemented/addressed

24. Cabinet Members were asked the following:

- a) Are you regularly briefed on what Internal Audits are being planned in your area so you have an opportunity to feed in any particular issues/concerns?
- b) Do senior officers discuss the outcomes of completed audits with you on a regular basis?
- c) How do you gain assurance that appropriate management action is being taken in response to audit recommendations within the agreed timescales?

25. Responses were received from two Cabinet Members. One reported positively that they were properly informed and that Internal Audit provide a “highly effective service”. The other Cabinet Member however reported that they were not advised as to what Internal Audit reports are planned within their area; nor were outcomes of audits discussed with them or assurance provided that appropriate action has been taken in response to audit recommendations.

CONCLUSIONS:

26. The 2012/13 Effectiveness Review concluded that Internal Audit in the Council was well led and given a high priority by those charged with good governance. During 2013/14 additional steps have been taken to further raise the profile of Internal Audit work – notably through the new process for ensuring Select Committee review of Internal Audit reports which include High Priority recommendations; and, the inclusion of the Chief Internal on the Strategic Risk Forum.

27. The PSIAS Local Government Checklist introduced a number of new requirements, many of which have already been addressed. There are no significant areas of non-compliance with the PSIAS that would merit inclusion in the Annual Governance Statement

28. Senior Officer feedback on the level of focus given to audit activity is encouraging although there would appear to be a need to improve briefing of Cabinet Members.

IMPLICATIONS:

Financial

There are no direct financial implications arising from this report

Equalities

There are no direct equalities implications arising from this report

Risk management

An effective system of internal audit complements good risk management across the Council

WHAT HAPPENS NEXT:

The findings from this review will help inform the Council's 2013/14 Annual Governance Statement.

REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor

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Sources/background papers: Public Sector Internal Audit Standards and completed checklist

TERMS OF REFERENCE**Effectiveness of the System of Internal Audit 2013/2014****BACKGROUND**

The Accounts and Audit (England) Regulations 2011 require that a review of the effectiveness of the Council's internal audit arrangements is conducted at least annually. In addition, the UK Public Sector Internal Audit Standards (PSIAS) which were introduced in April 2013 require the Chief Internal Auditor to maintain a quality assurance and improvement programme that includes periodic self assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

The Audit and Governance Committee, as the Committee charged with responsibility for Internal Audit, considers that it is best placed to sponsor such a review of the effectiveness of Internal Audit arrangements on behalf of Surrey County Council. The Chief Finance Officer has a responsibility to support the Internal Audit function as a key vehicle to ensure good stewardship and has endorsed the Terms of Reference for this review.

PURPOSE OF THE REVIEW

To review the effectiveness of the current system of Internal Audit in Surrey County Council and consider whether appropriate controls are in place to mitigate the following risks:

- Internal Audit is not viewed as sufficiently independent of undue influences
- Internal Audit resource may not be focussed on key areas of risk
- The Internal Audit team may not be sufficiently resourced/skilled
- Internal Audit work may not be to an acceptable level of quality
- Management action in response to audit recommendations may not be timely/effective
- Select Committee review of progress in implementing management action plans may be inconsistent
- Internal Audit may not have a sufficiently high profile within the organisation to be a force for change

WORK TO BE UNDERTAKEN

As a comprehensive external review was conducted by CIPFA last year, which included interviews with key stakeholders including the Leader and Chief Executive, this year's review will be more "light touch" and will include:

- Follow-up of action taken in response to the recommendations arising from the 2012/13 review
- Completion of the Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note*

- Review of the level of Select Committee scrutiny of audits which have been attracted an “Unsatisfactory” or “Major Improvement Needed” opinion and/or include high priority recommendations
- Review of Management Action Plan (MAP) progress as reported to Audit and Governance Committee for evidence of appropriate senior officer/Cabinet member focus on red/amber rated actions

* This will be conducted by an officer from the Performance and Research team

OUTCOMES

The findings of this review will inform the report of the Chairman of the Audit and Governance Committee on the Effectiveness of the System of Internal Audit 2013/2014 which will be presented at a meeting of the Committee in March 2014. Any significant areas of non conformance with the PSIAS must be referred for inclusion in the 2013/14 Annual Governance Statement.

REPORTING ARRANGEMENTS

Auditor:	Sue Lewry-Jones
Reporting to:	Audit and Governance Committee
Audit Ref:	CSA /4 – 2013/14

2012/13 Review of the Effectiveness of Internal Audit

ANNEX B

Schedule of recommendations -progress @ February 2014

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Status @ March 2014	RAG rating
Purpose, authority and responsibility			
Define the scope of internal audit more clearly, explicitly stating that it is able to cover all the operations of the Council.	The Internal Audit Charter will be amended to reflect this requirement.	Amended IA Charter approved by A&G Committee on 18 March 2013.	G
Refer to all the resources available to it (for example, hardware and software, access to information and training), rather than just to staff.	The Internal Audit Charter will be amended to reflect this requirement.	Amended IA Charter approved by A&G Committee on 18 March 2013.	G
Produce a one-page summary of the internal audit charter.	Once the internal audit charter has been approved by Audit and Governance Committee the Chief Internal Auditor will produce a one-page summary for sharing with auditees at Service Liaison meetings and audit planning meetings.	A one page summary charter has been produced and circulated to the IA team for use in meetings with auditees.	G
Independence and objectivity			
Include an explicit independence statement in the annual report and the audit plan report and the words “free and unfettered” or similar should be included in the charter.	Agreed.	The words “full, free and unrestricted” are included in the charter. The annual plan presented to A&G Committee in March made reference to the objectives underpinning the work of the IA team as set out in the Charter. The covering report specifically stated that Internal Audit is	G

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Status @ March 2014	RAG rating
		independent of the activity that it audits. The Annual Report presented to the A&G Committee in June 2013 includes an explicit independence statement.	
Ensure internal audit staff receive annual documented reminders of the ethical standards of behaviour expected of them, especially around impartiality and being unbiased.	There will be an annual reminder at an internal audit team meeting at the start of each year – with appropriate meeting minutes as evidence.	This was discussed at the March 2013 IA team meeting and a reminder was sent to all members of the team.	G
Proficiency and due professional care			
Require use of the training module in Galileo to record training and development.	The Chief Internal Auditor will remind the team to keep training records updated in Galileo.	This was discussed at the March 2013 IA team meeting and all members of the team were asked to update their records.	G
Formalise planning of individual audits.	Internal Audit Management will devise a standard approach to audit planning which clearly identifies risks. The approach for each audit will be formally documented and agreed between the auditor and the audit manager. Team briefing on this proposed approach will be provided at the April 2013 team meeting with the Audit manual updated to reflect this.	An initial discussion on this was had at the May 2013 team meeting and some improvements to audit assignment planning were agreed. Formal team training on risk based auditing took place in July. A team meeting to discuss practical implications of a risk based audit approach was held in August 2013 and a revised Internal Audit manual was issued in September 2013. The manual includes the requirement for an audit planning memorandum to be drawn up for each assignment and agreed with the Audit Performance Manager.	G
Consider ways to make the link to risk explicit by, at the very least, highlighting some of the key risks to be examined in the audit terms of	From April 2013 when the PSIAS come into effect the Internal Audit team will ensure the Terms of Reference for each audit identify the key risks.	An initial discussion on this was had at the May 2013 team meeting. As well as agreeing that agreed audit planning memos should be completed for all audits (and held	G

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Status @ March 2014	RAG rating
reference.		on the Galileo system) a new introduction to the audit report - which specifically mentions risks - was shared. It was agreed that the team would begin working the new wording/approach into their planned audits and some initial improvements to audit Terms of Reference were agreed. Formal team training on risk based auditing took place in July and the revised Internal Audit Manual issued in September 2013 requires audit terms of reference to detail potential risks.	
Quality assurance and improvement programme			
Summarise the outcome of the effectiveness reviews in the annual internal audit report.	Agreed- this will be actioned by the Chief Internal Auditor.	The outcome of the 2012/13 effectiveness review was reported in full in a separate report to the A&G Committee in March 2013. The 2012/13 Annual Internal audit Report includes an update on progress made in implementing the recommendations arising from that review.	G
Managing the internal audit			
Include a specific reference in the annual planning report to risk-based (as opposed to risk priority) planning.	Agreed- this will be actioned by the Chief Internal Auditor.	Specific reference to annual audit planning being risk-based was included in the report presented to A&G Committee in March 2013.	G
Include specific links to risk supporting the chief internal auditor's opinion in the annual planning report.	The Chief Internal Auditor will make it clear when presenting the proposed annual audit plan to the Audit and Governance Committee, that the plan is risk based and that as such, delivery of the audit plan of work will enable the	This was made clear by the Chief Internal Auditor at the meeting of A&G Committee in March 2013.	G

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Status @ March 2014	RAG rating
	Chief Internal Auditor to form an opinion on the Council's control environment.		
Consider ways to develop engagement with senior management and their staff.	A summary (1 page) charter will be used to assist this.	A summary (1 page) charter has been developed which auditors will use to help explain to auditees the role of the Internal Audit.	G
Nature of work			
Align risk wording in reports with the approach used in the risk register.	The Chief Internal Auditor will discuss this in more detail with the Risk and Governance Manager. One approach may be to amend the Internal Audit Manual to provide more information on drafting internal audit reports. This could include describing risks in terms of cause, risk and effect.	The Chief Internal Auditor met with the Risk and Governance Manager to discuss this in April 2013. Some minor changes to the audit manual were discussed and the whole team training on risk based auditing which took place in July 2013 will have reminded auditors to explain the impact of risks when drafting audit reports. The Chief Internal Auditor reviews all draft audit reports and will ensure that where risks are identified the impact of that risk is properly described.	G
Use risk as a thread throughout the audit, driving the audit work and acting as a focus for the results.	This will be actioned through formalising the audit planning process and including risks in each audit's terms of reference.	Completed as previously described	G
Engagement planning			
Be more explicit about the risks that are being tested for at the start of each audit, including them in the terms of reference.	Agreed. From April 2013 when the PSIAS come into effect the Internal Audit team will ensure the Terms of Reference for each audit identify the key risks.	This has been implemented but has not been universally popular with auditees some of whom feel that highlighting risks (rather than controls) presents a negative picture at the start of the audit process. The Chief Internal Auditor will keep this under review and does not rule out reverting to	G

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Status @ March 2014	RAG rating
		detailing control objectives to be tested rather than risks, in the Terms of Reference.	
Have a standardised approach to audit planning, including documenting discussions between the auditor and audit manager about the audit, related risks and controls and service objectives so that there is a clear link between expectations of the audit through the work carried out to the findings included in the report.	Internal Audit Management will devise a standard approach to audit planning which clearly identifies risks. The approach for each audit will be formally documented and agreed between the auditor and the audit manager. Team briefing on this proposed approach will be provided at the April 2013 team meeting with the Audit manual updated to reflect this.	At the May 2013 team meeting it was agreed that audit planning memos should be completed for all audits, reviewed by the relevant manager and held on the Galileo audit management system.	G
Include service business plans on the sources of information list.	Agreed – this will be included as part of a wider update of the Internal Audit Manual planned for Quarter 1 2013/14.	The Internal Audit manual has been updated to include service business plans on the sources of information list.	G
Performing the engagement			
Introduce standard review sheets for all audits, raising and clearing concerns or identifying where there are no review points.	The Galileo system already provides this facility although it is currently not consistently used. The team will be reminded at the April team meeting, of the need to mark working papers for review so audit management can raise review points at the earliest opportunity.	All auditors were reminded at the March 2013 team meeting of the need to mark working papers for review on the Galileo system so audit management can raise review points at the earliest opportunity. A further reminder on this was issued in January 2014.	G
Communicating the results			
Make the basis on which the report is written clearer, perhaps with an opening statement along the following lines: "We have examined such-and-such service, looking at the following areas [list]. All areas	Will consider this as part of a team meeting discussion on audit report writing with any agreed changes to guidance included in the Internal Audit Manual.	The findings of the effectiveness review were discussed at a team meeting held in March 2013 where it was noted that the review had included only a very limited review of audit reports (only 2 were looked at). It was not accepted that audit reports	G

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Status @ March 2014	RAG rating
other than those mentioned below were effective” or “This report is written on an exception basis and, as such, highlights only those areas where there are weaknesses. Any areas not mentioned below are deemed to be effective”.		are written on an exception basis. It was agreed that Internal Audit reports should continue to provide a balance picture – reporting on both strong and weak aspects of control.	
Consider ways to improve report writing further, perhaps through a team meeting, discussion and guidance note included in the audit manual.	Agreed –this will be actioned during Quarter 1 2013/14.	Initial discussions around this have not identified any specific changes to audit reports however the format and approach to audit reporting will be revisited following the whole team training on risk based auditing planned for July 2013.	G
Consider ways to bring management’s attention earlier to reports that are contentious so that they are not caught unawares.	Agreed. This will be considered at an Audit Management Team meeting.	This was discussed at a meeting of the Audit Management Team in March 2013. General consensus was that this was not typically a problem. It was agreed that the responsibility should rest with the auditee to bring “contentious” audit findings to the attention of their management. Notwithstanding this, Internal Audit may alert senior management to “contentious” reports before they are issued if there are concerns that they are not already aware of.	G
Consider sharpening the definitions for the two opinions to make the distinction between them clearer. Alternatively, consider if different opinion titles or a numerical system might assist.	The Chief Internal Auditor will discuss this with the S151 Officer.	The Chief Internal Auditor carried out some research of audit opinions used by other Internal Audit teams and discussed this matter with the S151 Officer. A paper prepared by the Chief Internal Auditor setting out options for audit opinions was discussed at an informal meeting of the Audit and Governance Committee (also attended by the Chief Internal Auditor and	G

Recommendation	Management Response as reported to Audit and Governance Committee in March 2103	Status @ March 2014	RAG rating
		S151 Officer) where it was agreed to keep the opinion definitions as they are but to change the "Major Improvement Needed" audit opinion to "Significant Improvement Needed" with effect from 1 April 2014.	

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2013/14 Review of the Effectiveness of Internal Audit

ANNEX C

PSIAS Checklist - Schedule of recommendations

	Recommendation	Action Proposed by the Chief Internal Auditor	Timescale
1	All Internal Auditors to use locked print functionality when printing confidential materials.	The Chief Internal Auditor will raise this at the April team meeting	9 April 2014
2	That all training (planned and completed) be logged on the Galileo Audit Management System.	A reminder of this requirement will be made at the April team meeting	9 April 2014
3	Amend the Charter to include a specific definition of 'senior management'	Amended Charter to be presented to Audit & Governance Committee in March 2014	24 March 2014
4	Amend the Charter to clearly state that the Internal Audit function is part of the Council's Policy and Performance Service.	Amended Charter to be presented to Audit & Governance Committee in March 2014	24 March 2014
5	That the Charter be amended to specify the role of the Monitoring Officer with regards to Internal Audit.	Amended Charter to be presented to Audit & Governance Committee in March 2014	24 March 2014
6	That all identity cards be updated to include the required right of access information.	The Chief Internal Auditor will raise this at the April team meeting	9 April 2014
7	Amend the Charter to reflect the arrangements set out in the Strategy Against Fraud and Corruption and the Financial Regulations to notify the Chief Internal Auditor of suspected or detected fraud, corruption or impropriety.	Amended Charter to be presented to Audit & Governance Committee in March 2014	24 March 2014
8	That the Charter be amended to specify the arrangements for how consulting services will be managed	Amended Charter to be presented to Audit & Governance Committee in March 2014	24 March 2014
9	That the Charter be amended to explicitly recognise the mandatory nature of the PSIAS.	Amended Charter to be presented to Audit & Governance Committee in March 2014	24 March 2014
10	That the Chief Executive provide feedback for the performance appraisal of the Chief Internal Auditor on an annual basis.	This will be sought for 2013/14 and all subsequent years	April 2014
11	That the Chairman of A&G Committee provide feedback for the performance appraisal of the Chief Internal Auditor on an annual basis	This will be sought for 2013/14 and all subsequent years	April 2014
12	That the Chief Internal Auditor develops a Quality Assurance and Improvement Programme (QAIP) that meets the	A formal QAIP addressing the requirements of the PSIAS will be presented to Audit & Governance	24 March 2014

	requirements of the PSIAS	Committee in March 2014	
13	That all formal review stages be completed and logged on the Galileo Audit Management System.	The Chief Internal Auditor will raise this at the April team meeting	9 April 2014
14	That arrangements for a periodic assessment for evaluating conformance with the PSIAS are included in the Quality Assurance and Improvement Programme.	A formal QAIP addressing the requirements of the PSIAS will be presented to Audit & Governance Committee in March 2014	24 March 2014
15	That the Chief Internal Auditor considers the potential for performance targets to assist in on-going performance monitoring.	The QAIP referred to above confirms performance reporting arrangements	24 March 2014
16	The new Quality Assurance and Improvement Process to stipulate the requirement for an external assessment to be carried out at least once every five years	AS ABOVE	24 March 2014
17	That the Internal Audit Charter be amended to explicitly state that an outcome of the delivery of the Internal Audit Plan is that the Chief Internal Auditor is able to make an evidence based Annual Audit Opinion of the Council's whole control environment.	Amended Charter to be presented to Audit & Governance Committee in March 2014	24 March 2014
18	That the Internal Audit Plan demonstrates a clear link to the Council's priorities/goals.	The 2014/15 Internal Audit Plan presented to Audit & Governance Committee in March 2014 will seek to demonstrate links to the Council's priorities/goals.	24 March 2014
19	That the Chief Internal Auditor carries out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance	This will be addressed during 2014/15	December 2014
20	That formal arrangements be made to report periodically to senior management (requiring definition in the Internal Audit Charter) on the Internal Audit activity's purpose, authority, responsibility and performance relative to its plan.	The Chief Internal Auditor will consider how to formalise the current arrangements.	May 2014
21	That the Internal Audit Manual be amended to add 'Previous Audit Reports' to the list of sources that Internal Audits may find helpful when planning an Audit.	Agreed and already actioned	February 2014
22	That consideration be given to adding a resource identification	This will be considered at the April meeting of the	April 2014

	section to the Audit Terms of Reference template.	Audit Management Team	
23	The Chief Internal Auditor to ensure suitable written understandings exist for all engagements completed for outside organisations	Agreed – as engagements are agreed	On-going
24	That Galileo be universally employed as the prime repository for all Internal Audit working files and related papers.	This will be reiterated at the April meeting of the Audit Management Team	April 2014
25	That Galileo be universally employed as the primary log for all approvals and evidence of supervision of audit engagements. Where review comments are made on hardcopy documents (eg draft reports) these should be retained as evidence. The audit manual should be updated to reflect this requirement	This will be reiterated at the April meeting of the Audit Management Team. However it should be noted that Internal Audit is considering moving away from Galileo to a new Audit Management System. If this occurs this offers an opportunity to reinforce consistent working practices.	April 2014
26	Consider including some wording on each audit report limiting use of report findings	This will be considered at the April meeting of the Audit Management Team	April 2014
27	That the QAIP be developed in such a way to support the statement that engagements are 'conducted in conformance with the PSIAS' (subject to an external review of conformance).	A formal QAIP addressing the requirements of the PSIAS will be presented to Audit & Governance Committee in March 2014	24 March 2014
28	That future Annual Audit Reports explicitly state that there are no qualifications whatsoever to the issued Audit Opinion (if applicable).	The Chief Internal Auditor will include such a statement (if appropriate) in the Annual Audit Report presented to A&G Committee in May 2014	29 May 2014

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	Audit	Opinion	Number of High Priority Recs	Relevant Select Committee	Discussed at Select Committee (Y/N)	Date	Comments
1	SAP Application Controls	Some Improvement Needed	5	COSC	Y	4/11/13	COSC Performance & Finance Sub-Group
2	Capital Monitoring	Some Improvement Needed	1	COSC	Y	4/11/13	COSC Performance & Finance Sub-Group
3	Highways Contract - Lot3	Some Improvement Needed	1	E&TSC	N		
4	Highways Contract – Lot 5	Some Improvement Needed	3	E&TSC	Y	23/10/13	
5	Risk Management Arrangements	n/a	4	COSC	Y	4/11/13	COSC Performance & Finance Sub-Group
6	ICS ContrOCC	Some Improvement Needed	3	C&ESC	N		
7	Energy Management	Some Improvement Needed	1	COSC	Y	4/11/13	COSC Performance & Finance Sub-Group
8	Direct Payments - Follow-up audit	Some Improvement Needed	2	ASC	N		It is proposed that that this will be included as part of the Strategic Director's update to ASC Select Committee on 1 May 2014

9	Streetworks Function	Some Improvement Needed	3	E&TSC	N		
10	Data Centre	Some Improvement Needed	1	COSC	Y	4/11/13	COSC Performance & Finance Sub-Group
11	ASC Safeguarding Assurance Process	Some Improvement Needed	2	ASC	Y	16/1/14	Although there was not a specific agenda item for the ASC Safeguarding Assurance Process audit report this was referenced in an item on Safeguarding Adults
12	Children in Care - Health and Dental Checks	Major Improvement Needed	2	C&ESC	Y	27/1/14	Corporate Parenting Board have also reviewed the findings of this audit report
13	Social Care Debt - Credit Balances	Major Improvement Needed	2	COSC/ASC	Y	3/3/13 6/3/13	COSC Performance & Finance Sub-Group ASC
14	Contract Management Framework	Some Improvement Needed	1	COSC	Y	3/3/13	COSC Performance & Finance Sub-Group

15	Customer Services	Some Improvement Needed	1	ASC	N		<p>Although Customer Services falls within the remit of Communities Select Committee, the action for High Priority recommendation within this audit report is owned by ASC.</p> <p>It is proposed that that this will be included as part of the Strategic Director's update to ASC Select Committee on 1 May 2014</p>
16	Adult Community Learning	Some Improvement Needed	3	CSC	Y	20/3/13	

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AUDIT & GOVERNANCE COMMITTEE
24 March 2014

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 since the last meeting of this Committee in December 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 and are available through the Members' on-line library.

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 have been 12 audit reports issued since the last report to this Committee in December 2013. The table below lists those audits and shows the audit opinion and number of high priority recommendations included in the Management Action Plan.

	Audit	Opinion	Number of recommendations rated as High Priority
1	Contract Management Framework	Some Improvement Needed	1
2	Health and Safety in Schools	Some Improvement Needed	N/A
3	Smallholdings (Rural Estate)	Some Improvement Needed	N/A
4	Trust Funds	Some Improvement Needed	N/A
5	Care Homes - Managing Residents' Monies -Follow up review	Effective	N/A

6	Surrey Local Assistance Scheme	Effective	N/A
7	Customer Services	Some Improvement Needed	1
8	Adult Community Learning	Some Improvement Needed	3
9	Imprest Accounts	Some Improvement Needed	N/A
10	Treasury Management	Effective	N/A
11	Corporate Governance Policies - CRSA	Some Improvement Needed	N/A
12	SIMS/FMS	Some Improvement Needed	N/A

- 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 The last Completed Audit Reports item was presented to the Council Overview and Scrutiny Committee Performance and Finance Sub-Group on 3 March 2014. All of the audits listed above were included in that report.
- 8 The Adult Community Learning Audit report will be considered at a meeting of the Communities Select Committee on 20 March

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

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Completed Audit Reports (November 2013 – March 2014)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>SCC's Contract Management Framework</p>	<p>The Procurement and Commissioning Public Value Review and the Councils' Procurement Strategy both highlighted the importance of developing the Council's contract management capacity, focusing on strategic and critical contracts and providing training and technology to help enable this.</p> <p>Procurement staff are currently conducting contract management capacity development work alongside specific Services and this audit included some preparatory support work by Internal Audit on behalf of Procurement</p>	<p>A Contract Management Framework has been developed by Procurement, including assessment tools, IT solutions (Software by In-tend) and training. This substantially enhances the previous arrangements in place.</p> <p>The new arrangements are being rolled-out service by Service across the authority. Some departments may need to be won to the new approach and invest resources in implementing it. A cautious approach by procurement means project management has initially needed to be more informal, but this may now be worth reviewing.</p>	<p>Some Improvement Needed</p>	<p>The Framework developed by SCC procurement should be described on SNET and referenced in an update to the SCC Procurement Team's 'Contract Management Manual 2012'. (M)</p> <p>The In-tend Implementation Project should be advertised on SNET with a statement of support for the Project Sponsor, explaining its benefits. (M)</p> <p>The Head of Procurement should seek clear CLT endorsement of the contract management framework roll-out project. Each Directorate should be asked to select timeframes for the roll-out of the project by 31 March 2015. A formal project plan for a properly resourced and prioritised roll-out of the framework should be agreed by 31 March 2014. (H)</p> <p>There are three additional medium priority recommendations in this review that relate to the specifics of three very different contracts, including the Manpower Agency Workers contract.</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>SCC's Contract Management Framework cont'd</p>	<p>An electronic system tendering and contract management system is also currently being rolled out by Procurement.</p>	<p>The take-on of data into the new Contract Management System (CMS) has mainly been implemented by Procurement staff, often from old system records. The quality of data take-on needs to be good to realise the benefits of the system.</p>	<p>Some Improvement Needed</p>	<p>The In-tend implementation project officer should give further consideration to the controls in place over data entry in the CMS system to ensure that data is more consistently recorded and can then be easily queried. (M)</p> <p>For the Mainstream School Coach contract, the Transport Co-ordination Centre Team Manager should consider the need for specific risk register entries regarding the risks to children re: collection after alighting from SCC-commissioned coach services, the lack of escorts on reception class coaches and the use of CCTV on school transport coaches. These risks will need discussing with the Schools & Learning Service client. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Health & Safety in Schools	<p>This audit looked at the support the authority provides schools in relation to Health & Safety. In respect of maintained schools the authority is considered the employer by the Health and Safety Executive with appropriate responsibility. However on a day to day operational basis responsibility lies with the school Head Teacher with the authority facilitating and supporting this in a number of ways.</p>	<p>The Strategic Risk Team in Children Schools and families provides schools with advice, guidance and training and carry out inspections at schools.</p> <p>Property Services inspect community and voluntary controlled schools and provide options to buy back services for statutory inspection and maintenance for all maintained schools.</p> <p>Environment and Infrastructure provide support to schools around road safety.</p> <p>The auditor concluded that the support provided by authority mitigates the risk of harm to individuals and breaches of legislation.</p>	Some Improvement Needed	<p>Management from Schools Health & Safety (Strategic Risk Management) to liaise with Property Services to formalise arrangements for information exchange (eg of health and safety risks recorded on PAMS) (M)</p> <p>Property Services to maintain a formal record of statutory inspections in schools and inform the Strategic Risk Team Manager in Children' Schools and Families when these have not taken place. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Smallholding (Rural Estate)	<p>The Council has a smallholding portfolio of approximately 1,223 hectares (3,022 acres) with around 100 tenants occupying a mixture of dairy farms, grassland farms (i.e. beef), smallholdings (including horticultural units) and grazing as well as cottages. In March 2012 an independent valuation by managing agents Chesterton Humberts valued the estate at £43.674m (2011 £36m) with rental income of £497,900 per annum (yield 1.29%).</p>	<p>The current management contract, due to expire on 31 March 2014, was found to be operating satisfactorily with a good flow of timely and detailed information between client and the contractor and open and regular communication.</p> <p>Whilst overall strategies for Property Services in general and the Rural Estate (RE) in particular have been developed these need to be supported by more detailed statements of how these will be 'translated' into actions. The details provided to Internal Audit during the course of the review showed that this process has begun, however, there is still some way to go and management will need to monitor progress towards their completion closely.</p> <p>Objectives and targets have been set within the various strategy documents though management must continue to recognise that achievement of these may depend upon factors not directly within their control.</p>	Some Improvement Needed	<p>Management should ensure that the management plan detailing preferred / intended options at the individual property level is completed as soon as possible and that the appropriate management and member approvals are received prior to its implementation. (M)</p> <p>In the production of the more detailed action plan to support achievement of the stated objectives for the RE, management should ensure that all relevant options are considered, consulted on and properly costed. In particular, options available around the methods that could legitimately be employed to facilitate amalgamation of tenancies should be explored. (M)</p> <p>Management should prepare a plan for addressing the current backlog in maintenance which should include details of funding sources to be employed and indicative target dates aligned with any planned development for individual properties. The plan should be subject to regular review an update to reflect the present status 'on the ground'. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Trust Funds	<p>During 2012/13 Surrey County Council (SCC) acted as a custodian trustee for a total of 42 funds and was also one of several trustees for a further four funds. As a custodian trustee SCC holds the property of the trust. Funds held in this way do not form part of the assets and liabilities of the council and are therefore not included in the balance sheet. Instead details of the holdings are reported as a note to the annual financial statements (Note 48 in 2012/13 accounts). The total value of funds held as at the end of the financial year 2012/13 was £5.013m represented by investments of £3.189m and cash holdings of £1.824m.</p>	<p>Governance / reporting arrangements for trust funds are fragmented with responsibility generally retained centrally at directorate level with no independent forum in place to monitor their use. In order to make their management more transparent to elected members and the public there may be scope to consider devolvement of control / decision making of selected funds to a nominated body. Where funds are geographically specific this could be the Local Committees if considered appropriate.</p> <p>A significant number of smaller funds are held for 'educational purposes' where the intended recipient (e.g. school) either no longer exists or has been amalgamated / renamed. The size of these funds precludes any meaningful investment being made. Management are now actively investigating possible avenues for the transfer of these funds to ensure that they may be used in line with the terms of any bequest.</p> <p>There are also a smaller number of funds with significant balances where income from investments far exceeds expenditure incurred. This has led to a growth in the value of the funds and there does not appear to be plans in place on how these are to be employed.</p>	Some Improvement Needed	<p>Management should review the arrangements surrounding the control and reporting of trust funds to aid transparency where the county council operates as the sole custodian. (M)</p> <p>Management should ensure that funding recipients provide the required evidence of expenditure and that this is subject to scrutiny as appropriate. In cases where funds remain unexpended then these should be recovered as soon as practicable. (M)</p> <p>Management should continue to ensure that the required information is received in a timely manner from Community Foundation for Surrey along with adequate and independent assurance as to its accuracy and completeness. (M)</p> <p>Management should review the options for the future use of the Henrietta Parker Trust in order to ensure that the maximum benefit may be obtained for its intended recipients within any attached legal constraints. The review should actively seek the views of both current and potential users, local members and any other interested parties. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Residential Care Homes – Managing Residents’ Monies – Follow-up Audit</p>	<p>SCC supports more than 260 permanent residents across its in-house residential care homes. Officers at residential homes provide varying levels of support to residents in managing their monies depending on their ability to manage their own finances.</p> <p>An audit of Managing Residents’ monies completed in September 2012 attracted a Major Improvement Needed audit opinion.</p> <p>This follow-up audit looked to form an opinion on progress made in implementing the recommendations arising from the earlier audit.</p>	<p>The audit report issued in September 2012 made 23 recommendations of which seven were high priority. By June 2013 the service had made substantial progress to address these and an update to Audit and Governance Committee showed all high priority recommendations as implemented.</p> <p>New guidance and a training programme have facilitated a consistent approach to managing residents’ monies. Further, the guidance defines roles enabling requests for support to be directed appropriately.</p> <p>The auditor’s visits to four homes indicated that officers were both aware of the updated procedures and also compliant with them.</p> <p>The auditor concluded that the service is adequately managing the risks associated with residents’ personal monies</p>	<p>Effective</p>	<p>N/A no recommendations made</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Surrey Local Assistance Scheme	<p>The Surrey Local Assistance Scheme (LAS) was launched on 1 April 2013 following the cessation of two components of the Department for Work and Pensions' (DWP) Social Fund: Community Care Grants; and Crisis Loans.</p> <p>Surrey County Council received £1.16million from central government to administer the scheme in 2013/14, including administration costs. At the end of November 2013 a total of 1,496 awards had been made with a sum value of £183,000</p>	<p>A clear policy is in place that defines the principles of the scheme and guidance documentation is underpinned by comprehensive research. Consequently the LAS Team are well-equipped to carry out their roles and a documented information resource is available for reference.</p> <p>Fraud risks have been assessed and appropriate mitigating action taken.</p>	Effective	N/A no recommendations made

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Customer Services	<p>The focus of this review was to review the role played by the Customer Relations Teams (CRT) in handling complaints received by the Council.</p>	<p>The policies and procedures in place for handling complaints were generally effective.</p> <p>Within Adult Social Care (ASC) each operational team records their complaints on a control sheet which is then added to an ASC master complaints spreadsheet. This information is then uploaded to the Performance Plus system and reported quarterly to the Council Leadership Team (CLT). The auditor found some discrepancies between complaints recorded on the ASC spreadsheet and reported through Performance Plus. In addition, CLT only receive information on complaints responded to, not complaints received in a period which is also likely to be of interest.</p> <p>Training courses offered via the S:net Portal are recorded on the Corporate Training Admin system. Training is also offered at numerous team meetings by all 3 CRTs but not formally recorded.</p> <p>The new training strategy to address the above and improve the quality of Stage 1 responses to reduce further escalation is in draft form.</p>	Some Improvement Needed	<p>The recording of performance information on the ASC master spreadsheet should be consistent, timely and complete and used as the single source to enable the performance reporting information for the Council Leadership Team (CLT) via the Performance Plus system and Quarterly Accountability Meeting (QAM) presentations to be generated. This should provide up to date and accurate information to senior management in ASC and SCC for decision making while removing discrepancies and enabling this process to be transparent and administratively efficient (H)</p> <p>Details of all training provided across the Council by the Corporate Training Team (CTT), the 3 CRTs and e-learning should be formally recorded to produce accurate training attendance statistics (M)</p> <p>The draft training strategy should be finalised to capture all training given by the CRTs and improve the quality of responses at Stage 1 to reduce complex complaints escalating to Stage 2 and the Local Government Ombudsman (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Adults and Community Learning (now known as Community Learning and Skills)	The Adult Skills Budget is one of the ways to increase learning opportunities for those with limited knowledge skills and experience. Community Learning and Skills provides learning, funded through the Skills Funding Agency (SFA). This review looked at the compliance with the SFA Funding Rules	<p>There were opportunities to strengthen compliance with the funding rules. This was the first full provision of the courses under the new rules. Management had recognised that there was a need for improvements and had recruited a support team that were about to start at the completion of the audit. There is a need for a consistent approach for the completion and monitoring of records.</p> <p>Only one officer within the service knew how to access the system for uploading information to the SFA and this officer was absent on leave at the time of the audit so the system could not be demonstrated.</p> <p>There was also a need to review information governance arrangements.</p> <p>Actions have already started on the recommendations and the new administration team will be an asset in enabling compliance.</p>	Some Improvement Needed	<p>Ensure there is a robust process, including monitoring of records to ensure the Council is compliant with the SFA funding rules. (H)</p> <p>Improve resource resilience for the data submission process to SFA so that any unplanned absences can be managed. (H)</p> <p>Ensure compliance with the Data Protection Act particularly with regard to tutors holding information regarding learners. In particular, data retention schedules should be updated. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Imprest Accounts	<p>Imprest Accounts provide cash advances to enable emergency or irregular payments to be made by cash or cheque, where this is appropriate to meet specific service needs. At the planning stage of the audit the council operated 120 separate bank accounts with imprests ranging from £50 to £25,000. Total value of funds held in these accounts totalled £218,825.</p>	<p>Whilst there is a view held in some quarters that the availability of purchasing cards negates the need for these imprest accounts in the majority of instances this is not the case. Access to cash remains important in a number of cases.</p> <p>Although Internal Audit's work did not reveal any serious weaknesses there were a number of recurring themes at some establishments-</p> <ul style="list-style-type: none"> • failure to clearly evidence that documentation had been reviewed by management as part of the control process; and, • no formal handover record where responsibility for cash transferred from one officer to another (e.g. to cover periods of annual leave). 	Some Improvement Needed	Management should consider issuing a general reminder, perhaps in the form of a 'Best Practice' note, to reaffirm the duties and responsibilities of account holders (M)

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Treasury Management	<p>Treasury Management (TM) within Surrey County Council (SCC) is concerned with:</p> <ul style="list-style-type: none"> • cash flows, banking, money market and capital market transactions; • the effective control of the risks associated with those activities; and • the pursuit of optimum performance consistent with those risks. 	<p>The Treasury Management function implemented a recommendation made at the previous audit regarding the production of a specific Treasury Management risk register. The first draft of the register was presented to the June 2013 Audit and Governance Committee but had not been updated since then.</p>	Effective	<p>The Strategic Manager for Pensions and Treasury should ensure that the Treasury Management risk register is reviewed quarterly and that such reviews are clearly evidenced. Where possible risks should include metrics, to help further highlight where actual performance is starting to become a concern (M)</p>
Corporate Policies - Control Risk Self Assessment	<p>SCC's Code of Corporate Governance describes the methodology for the annual review of governance. The Code refers to a list of 31 policies that are of key importance to ensuring good governance</p>	<p>Information on the number of Data Protection Act breaches is not widely available during the year, which may mean that sufficient attention may not be given to managing any trends in the numbers.</p> <p>Specific areas of SCC's IS Security Policy are aspirational and not yet in place.</p>	Some Improvement Needed	<p>Data on the number and nature of data protection breaches should be more regularly collated and reported to appropriate forums. (M)</p> <p>The Head of IMT should ensure that the processes referred to in SCC IT Security Policy which are not yet in place are addressed within the next six months, or marked as aspirational standards in the policy (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Corporate Policies - Control Risk Self Assessment Cont'd</p>	<p>Using a cyclical programme of Control Risk Self Assessment Questionnaires (CRSA), the extent to which staff in middle and senior management grades are aware of the contents of specific policies and comply with them is assessed each year</p>	<p>The Data Protection policy may not contain sufficient guidance and direction to staff, who may not all have access to SNET and may not see some of the supplementary guidance and relevant material in other policies</p> <p>There is too much repetition of other HR policies in the Staff Code of Conduct and it does not provide a sufficient set of links to other relevant policies. The Staff Code of Conduct may not be providing sufficient guidance on expected staff behaviour. The Code is a key document in relation to other codes and potential employment law cases and therefore needs to elaborate on behaviour.</p>	<p>Some Improvement Needed</p>	<p>Corporate Information Governance Manager should consider alternative approaches to presenting the Data Protection Policy, perhaps by merging Data Governance and Data Protection policies and some other material on SNET and more specific links to appropriate guidance in the IT Security policy. (M)</p> <p>Review the overall structure of the Staff Code of Conduct to ensure it is concise but that it contains all the appropriate links to more detailed guidance that sits outside the policy. (M)</p> <p>Consider adding more detail to the Staff Code of Conduct to help clarify the corporate standards of behavioral that are required from staff. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Corporate Policies - Control Risk Self Assessment Cont'd	Using a cyclical programme of Control Risk Self Assessment Questionnaires (CRSA), the extent to which staff in middle and senior management grades are aware of the contents of specific policies and comply with them is assessed each year	<p>Most managers stated that there were risk assessments for their staff, that they were reasonably current; and that staff would know where to access them. However, around one third of managers could not provide such assurances. Relatively few staff have benefited from Team or Service Wellbeing Assessments, which may impact upon the resilience of staff to deliver services under increasingly demanding and difficult circumstances.</p> <p>A number of staff related policies were due to be revised in 2013/14 but this has yet to taken place.</p>	Some Improvement Needed	<p>Directorate H&S leads should be asked to undertake periodic test checking in their respective areas to confirm that there are current risk assessments for all staff which can be readily accessed by those staff. (M)</p> <p>Consider a further communication campaign on the benefits of Service and Team Wellbeing Plans and Individual Wellbeing Assessments outside the appraisal process. (M)</p> <p>Ensure that all policy updates envisaged following the 2012/13 CRSA audit are promptly completed and reported back to the Governance Panel. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
SIMS/FMS	<p>The Schools Information System (SIMS) is a data management system used by schools to record data on operational and financial aspects of school activity.</p> <p>The focus of this audit review was on the financial module within SIMS, known as the Financial Management System (FMS)</p>	<p>The FMS system includes a number of controls which should help identify incorrect financial entries. In particular, the process of monthly submissions to SCC for accounting purposes allows a reconciliation of a number of key figures within SCC databases, and in some cases BACS information, back to schools' local reports.</p>	<p>Some Improvement Needed</p>	<p>Although there were no recommendations aimed at schools, Internal Audit have agreed to carry out some additional work including encouraging best practice for IT security in schools via the Schools' Bulletin and other forums.</p>

¹ Audit Opinions

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

² Audit Recommendations

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

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

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

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AUDIT & GOVERNANCE COMMITTEE
24 March 2014

Internal Audit Plan 2014/15

SUMMARY AND PURPOSE:

1. The purpose of this report is to present the Annual Internal Audit Plan for 2014/15 to the Committee.
2. Under-pinning the work of the Internal Audit team in delivering the Annual Internal Audit Plan are the key principles and objectives as set out in the Internal Audit Charter and Strategy. These are presented alongside the Annual Internal Audit Plan for 2014/15 as good practice dictates that these should be updated and reviewed on an annual basis.
3. Also included in this report is the updated Internal Audit Reporting and Escalation Policy and a Quality Assurance and Improvement Programme as required by the Public sector Internal Audit Standards (PSIAS).

RECOMMENDATIONS:

4. Members are asked to consider the contents of this report and annexes, and to approve the following:
 - (i) Internal Audit Charter (Annex A)
 - (ii) The Internal Audit Strategy (Annex B)
 - (iii) The Internal Audit Reporting and Escalation Policy (Annex C)
 - (iv) The Internal Audit Quality Assurance and Improvement Programme (Annex D)
 - (v) 2014/15 Internal Audit Plan (Annex E)

BACKGROUND:

5. The statutory basis for Internal Audit in local government is provided in the Accounts and Audit Regulations 2011 - which require a local authority to "*undertake an adequate and effective internal audit of its accounting records and of its system of internal control*".
6. The Accounts and Audit Regulations contain the expectation that Internal Audit will operate within acknowledged professional standards. The Audit and Governance Committee has adopted the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013, as the basis for Internal Audit in Surrey County Council.
7. **Internal Audit Charter (Annex A)**
The PSIAS require Internal Audit to have a Charter that has been formally approved and is regularly reviewed. The Charter attached at Annex A has been revised in the light of the PSIAS Local Government Application note which was published in April 2013, as follows:

- (i) To clarify the definition of 'Senior Management' and 'the Board';
- (ii) To more closely align the Charter with the Strategy against Fraud and Corruption;
- (iii) To define more fully the assurance services offered by Internal Audit;
- (iv) To define more fully what consultancy services might be offered by Internal Audit; and,
- (v) To clarify the reporting arrangements between Senior Management and the Chief Internal Auditor.

8. **Internal Audit Strategy (Annex B)**

Under the PSIAS there is no longer a requirement to produce an Internal Audit Strategy. However the Chief Internal Auditor is of the opinion that this is a useful document that links the work of Internal Audit to the council's vision for 2019 to be delivering great value for Surrey's residents. Through approving the Internal Audit Strategy for 2014-2019 alongside the Internal Audit Plan for 2014/15, the link between the work of Internal Audit and the high level strategic vision of the council is apparent.

There have been no substantial changes to the Strategy previously approved by this Committee in March 2013.

9. **Internal Audit Reporting and Escalation Policy (Annex C)**

The Internal Audit Reporting and Escalation Policy has been updated to reflect the need to include officers from Democratic Services in Internal Audit report circulation to facilitate inclusion, where appropriate, of Internal Audit reports in Select Committee forward plans.

10. **The Internal Audit Quality Assurance and Improvement Programme (Annex D)**

The PSIAS require the Chief Internal Auditor to develop a Quality Assurance and Improvement Plan (QAIP) which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides

A copy of this QAIP is attached at Annex D for Audit and Governance members to consider.

11. **2014/15 Internal Audit Plan and resources (Annex E)**

Development of the Internal Audit Plan

The Internal Audit Plan for 2014/15, which is a risk based programme of work, is set out at Annex E. There are a number of core elements to the Internal Audit Plan which are likely to feature each year. Certain audit activities are mandatory eg

- (i) Reviewing corporate governance arrangements to inform the Annual Governance Statement
- (ii) Grant Certification
- (iii) Irregularity contingency
- (iv) Participation in the National Fraud Initiative (NFI) as coordinated by the Audit Commission

In addition to these mandatory elements, Internal Audit also carries out testing on an annual basis, of all the Council's key financial systems.

Once these core elements of the Plan and follow up reviews are accounted for, the remaining audits shown in the proposed Plan have been included based on a risk priority which has been assessed following:

- (i) Consultation with:
 - a. Heads of Service and other senior management
 - b. Members of the Cabinet including the Leader of the Council
 - c. Members of the Audit and Governance Committee
 - d. Head of Policy and Performance
 - e. S151 Officer
 - f. The Risk and Governance Manager
 - g. External Auditor
- (ii) Consideration of risk registers
- (iii) Areas of concern emerging from liaison with other Local Authority Internal Audit Sections

The draft Plan, which attempts to demonstrate a link to the Council's priorities/goals was also presented at a meeting of the Corporate Leadership Team on 3 March.

The Chief Internal Auditor is confident that the draft Internal Audit Plan at Annex E provides comprehensive coverage across the Council's activities and addresses key areas of risk.

Resources

The Internal Audit budget allocation included in the Council's Medium Term Financial Plan is as follows:

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£000s	£000s	£000s	£000s	£000s	£000s
Audit	677	663	673	683	693	703

The Internal Audit team consists of 12 members of staff and is sufficiently resourced to deliver the programme of work (as shown at Annex E) which will enable the Chief Internal Auditor to provide an opinion on the adequacy of the Council's system of internal control for 2014/15.

WHAT HAPPENS NEXT:

- 12. The Internal Audit team will deliver the 2014/15 Internal Audit Plan and Internal Audit reports will be produced and distributed in line with the Reporting and Escalation Policy.
- 13. Completed audit reports will continue to be presented to the Committee throughout the year and an update on performance against the 2014/15 Plan will be reported to the Committee in December 2014.

REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor

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SURREY COUNTY COUNCIL INTERNAL AUDIT CHARTER

1. Purpose

The Internal Audit Charter describes the purpose, authority and responsibilities of Surrey County Council's Internal Audit service. The Charter shall be reviewed annually and approved by the Audit and Governance Committee. The Chief Internal Auditor is responsible for applying this Charter and keeping it up to date.

2. Statutory Requirement

Within local government the requirement for an Internal Audit function is statutory. The Accounts and Audit Regulations (2011) requires every local authority to maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

In addition, the Council's Chief Financial Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

3. Standards and best practice

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2011) and with any other relevant statutory obligations and regulations.

4. Key definitions

Within this Charter the following definitions are used:

Definition of Senior Management

The PSIAS anticipates the role of senior management not to be linked to a specific job title or pay grade, but to include the following key duties:

- input to the risk based internal audit plan (Standard 2010);
- receive periodic reports from the Chief Auditor on internal audit activity (Standard 2060); that includes follow-up reports (Standard 2500); and
- receive the results of the quality assurance and improvement programme from the Chief Auditor (Standard 1320).

Within Surrey County Council an officer on Surrey Pay grade 13 or higher is deemed to be a 'senior manager'.

Definition of the Board

The PSIAS lays out the role of a board in relation to specific standards. In a local authority the role of the board may be satisfied by an audit committee. In Surrey County Council the Audit and Governance Committee fulfils the role of an audit committee and for the purposes of the key duties laid out in the PSIAS is the board.

The key duties of the board are as follows:

- approve the internal audit charter (Standard 1000);
- approve the risk based internal audit plan including the approval of the internal audit budget and resource plan (Standard 1110);
- receiving communications from the Chief Auditor on internal audit performance relative to its plan and other matters (Standard 2020);
- receive an annual confirmation from the Chief Auditor with regard to the organisational independence of the internal audit activity (Standard 1110)
- receive the results of the quality assurance and improvement programme from the Chief Auditor (Standard 1320)
- make appropriate enquiries of the management and the Chief Auditor to determine whether there are inappropriate scope or resource limitations.

5. Responsibilities and Objectives

The PSIAS define internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Internal Audit is not responsible for control systems. Responsibility for effective internal control rests with the management of the council.

The nature of assurance services provided to the organisation includes:

- review of controls within existing systems and systems under development;
- compliance with Council policy and procedures including Financial Regulations and Procurement Standing Orders;
- transactions testing to ensure accuracy of processing;
- contract audit;
- computer audit;
- pro-active anti-fraud work;
- investigation of suspected fraud and irregularities;
- value for money reviews;
- performance indicators;
- control risk self-evaluation; and
- provision of advice to departments and establishments

6. Independence

Internal Audit is independent of all activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations without giving rise to conflicts of interest. Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop or install systems or procedures, prepare records, or engage in any other activity which would normally be audited.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

7. Reporting Lines

Internal Audit is part of the Policy and Performance Service within the Chief Executive's Office Directorate.

There are a number of reporting lines in place to enable Internal Audit to be independent of the management of the organisation. There are seven specific lines of accountability for the Chief Internal Auditor:

- (i) To the Head of Policy and Performance – who reports to the Assistant Chief Executive – for line management purposes and specifically in respect of achievement of the priorities as set out in the Policy and Performance Service Plan; and, the inter-relationship with the wider performance improvement agenda;
- (ii) To the Head of Finance in respect of her statutory Section 151 responsibilities, including the investigation of irregularities;
- (iii) To the Head of Legal in respect of her statutory responsibilities as the Council's Monitoring Officer.
- (iv) To the Chief Executive as required in respect of investigation of matters requiring referral to them;
- (v) To the Cabinet Portfolio Holder as required in respect of matters falling within their remit;
- (vi) To the Audit and Governance Committee ('the Board' as defined in PSIAS) in discharging the corporate responsibility for Internal Audit under the Accounts and Audit Regulations (2011);
- (vii) To the Chairmen of Overview and Scrutiny Committees in conjunction with the Audit and Governance Committee on matters relating to their specific service areas; and/or
- (viii) To the Leader of the Council, as appropriate.

Specifically, the Chief Internal Auditor must have free and unfettered access to the Chief Executive and Chairman of the Audit and Governance Committee.

8. Scope

Internal Audit may review any aspect of the council's activities and the Chief Internal Auditor is required to give an annual opinion on the effectiveness of the whole of its internal control system, and the extent to which the council can rely on it.

In support of this, Internal Audit undertake risk-based reviews and evaluations of the control environment (including, where appropriate, those of external bodies and partnerships). The work of Internal Audit is set out in the Annual Internal Audit Plan. This Plan is designed to support the Annual Internal Audit Opinion and the council's Annual Governance Statement.

Internal Audit may undertake work for new clients by extending its work to third parties including schools and Parish councils. All engagements will be performed in accordance with this Charter to an agreed schedule of audit days.

9. Reporting

The responsibility for how audits will be reported rests with the Chief Internal Auditor. On the completion of each audit the findings and draft recommendations will be

discussed with the responsible officer(s). In accordance with the Internal Audit Reporting and Escalation Policy a draft report summarising the work done, conclusions and recommendations will be issued to the responsible officer(s) for them to confirm its factual accuracy. A final report is circulated along with an agreed management action plan.

There are normally standard timeframes for the individual stages above to occur and these are agreed with services as a part of liaison arrangements.

All final audit reports – with the exception of irregularity reports – and their completed management action plans are made available to the appropriate Cabinet Portfolio Holder and all members of the Audit and Governance Committee. In addition, after each meeting of the Audit and Governance Committee, a list of completed audits is compiled for distribution to all elected Members of the Council informing them of audit work completed.

The Chief Internal Auditor periodically attends other meetings of the council through which senior management are updated with matters pertaining to the delivery of the Internal Audit plan. Such meetings include:

- Statutory Officer meetings with the Chief Executive Officer, the Monitoring Officer, and the Chief Financial Officer;
- Governance Panel;
- Continuous Improvement Board; and
- Corporate Leadership Team

The Chief Internal Auditor will seek to co-ordinate Internal Audit plans and activities with managers, external audit, inspection bodies and other review agencies to ensure the most effective audit coverage is achieved and duplication of effort is minimised.

Based upon the delivery of the Internal Audit plan, the Chief Internal Auditor is able to make an evidence-based annual opinion relating to the council's entire control environment.

The Chief Internal Auditor will bring to the attention of the Audit and Governance Committee all issues relating to the control environment of the authority and the mechanisms by which Internal Audit provides assurance.

10. Right of Access and Authority to Obtain Information

In order for Internal Audit to discharge its responsibilities, it is granted full, free and unrestricted access to all council records, assets, personnel and premises as considered necessary for the purposes of the audit from any Member, officer, agent or contractor of the County Council. This is set down in the Council's Financial Regulations and is outlined on individual identity cards held by every auditor.

This access should be granted on demand and is not subject to prior notice, and extends to partner bodies and external contractors working on behalf of the council. Council staff are expected to provide every possible assistance to facilitate the progress of Internal Audit reviews. Documents and information given to Internal Audit during a review will be handled in the same prudent and/or confidential manner as by those employees normally accountable for them.

11. Annual Governance Statement

Annually the Chief Internal Auditor provides to the Audit and Governance Committee an overall opinion on the County Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

12. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the detection or prevention of fraud and corruption but does undertake periodic activities to promote an anti-fraud and anti-corruption culture.

The council maintains a Strategy Against Fraud and Corruption, which repeats at paragraph 5.2 the requirement established in Financial Regulations that all suspected financial irregularities should be reported (verbally or in writing) to the Chief Internal Auditor so that an internal audit investigation of the allegations can be undertaken in line with the Fraud Response Plan.

Investigations into potential financial irregularities are undertaken by Internal Audit whether reported directly to Internal Audit, through the Council's whistle blowing policy, or through Expolink, the Council's external whistle-blowing hotline. Such investigations are as far as possible conducted sensitively and confidentially, but the scope and manner of the investigation is dependent on the nature of the allegations. Irregularity investigations often require the work to be undertaken without prior notice being given to local management and may also require referral to the police or other enforcement agencies.

In certain cases Internal Audit may delegate the investigation of specific allegations to the service itself following an assessment of risk and financial impact.

On completion, findings are reported to an appropriate level of management, who will then be responsible for determining the action to be taken.

13. Consultancy Work

Due to its detailed knowledge of County systems and processes Internal Audit is well placed to provide advice and support to services on issues of value for money and process re-engineering.

The PSIAS defines consulting services as follows:

“Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”

The Chief Internal Auditor shall seek the approval of the Audit and Governance Committee for any significant additional consultancy services not already included in the Annual Audit Plan prior to accepting the engagement. Significant is defined as any single assignment equivalent to 5% of annual planned days.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provides a specific named contact for each service and regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

14. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit and Governance Committee.

The Annual Plan is derived from a risk-weighting of the known 'audit universe', prioritising potential audits in terms of their significance in risk terms. The methodology for determining risk takes account of both financial and non-financial factors, and is in line with good practice.

Activities identified within a given year in the annual Internal Audit Plan are audited using a variety of standard methodologies and the key financial systems are audited using a systems-based approach. Separate contingency time is allowed in the Annual Plan for irregularity-related activities, grant claim audit, audit management time, consultancy work, follow-up audits and other duties.

Against this list of audits is matched a determination of the available resource (in terms of productive days available across the team) and a 'cut-off' point is reached where the risk-ranked list of audits can be resourced by the available days.

In addition to appropriate staffing, Internal Audit must have access to appropriate IT hardware and software (including audit management software and data interrogation tools) to enable delivery of the audit plan.

If the Chief Internal Auditor has concerns regarding the level of resources, these will be raised with the Section 151 Officer at the earliest opportunity. Inadequate resourcing of the Internal Audit activity may result in the Chief Internal Auditor being unable to provide an annual opinion on the council's internal control environment.

15. Training

Internal Audit will be appropriately staffed in terms of numbers, professional qualifications and experience, having regard to its objective and standards. The staffing of Internal Audit will be kept under review by the Chief Internal Auditor and the Audit and Governance Committee. Internal Audit staff will be properly trained to fulfil their responsibilities and will maintain their professional competence through an appropriate ongoing development programme.

16. Due Professional Care

Internal Audit will conform to the PSIAS Code of Ethics: (i) Integrity; (ii) Objectivity; (iii) Confidentiality; and, (iv) Competency.

If individual auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- (i) The extent of work needed to achieve the required objectives;
- (ii) The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- (iii) The adequacy and effectiveness of governance, risk management and control processes;
- (iv) The probability of significant errors, fraud or non-compliance; and
- (v) The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

17. Quality Assurance

The Chief Internal Auditor will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

Annually, an independent assessor will review the effectiveness of Internal Audit against the prescribed standards. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit and Governance Committee. Any significant deviations must be considered for inclusion in the council's Annual Governance Statement.

18. Internal Audit Strategy

The Chief Internal Auditor will develop and maintain a Strategy for delivering the Internal Audit service, including how the service will be provided. The Strategy will state how the assurance for the Annual Internal Audit Opinion will be demonstrated. This will include how the Chief Internal Auditor will review the Council's corporate governance arrangements, risk management processes and key internal control systems.

The annual Internal Audit Plan is designed to implement the Strategy, and both are approved by the Audit and Governance Committee on behalf of the council. Any difference between the Plan and the resources available will be identified and reported separately.

March 2014

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Internal Audit Strategy 2014-2019

1. Mission Statement:

“Internal Audit exists to support Surrey County Council’s vision for 2019 to be delivering great value for Surrey’s residents. Specifically it will promote and champion sound governance and help drive improvement through the provision of an effective and timely assurance function which ensures that key business controls and risks are addressed, stakeholder needs are met, and value for money is achieved.”

2. Purpose of the Strategy:

The purpose of this Strategy is to put in place a framework that will enable Internal Audit to be managed in such a way that will facilitate:

- ◆ The provision to the Audit and Governance Committee of an **overall opinion each year** on the County Council’s internal control environment, risk management arrangements and governance framework to support the Council’s Annual Governance Statement, in line with the Committee’s Terms of Reference.
- ◆ **Risk-based audits** of the control, risk management, and governance systems through the annual Audit Plan in a way that affords priority of coverage with regard to the County Council’s strategic and business objectives and provides evidence to inform the opinion on the control environment.
- ◆ The **identification of resources** required to deliver an Internal Audit service that meets the required professional and ethical standards.
- ◆ Provision to the Council’s management of **recommendations and advice** arising from Internal Audit work.
- ◆ Provision of **assurance and advice** by Internal Audit, addressing significant local and national issues as they arise through appropriate allocation of resources in the annual Audit Plan.
- ◆ **Effective co-operation** with both the **External Auditor** and, through the Head of Policy and Performance, **other regulators**.

For every audit undertaken, Internal Audit will strive to provide assurance on the governance arrangements in place, identify areas of weakness where these exist and recommend improvements that will lead to better outcomes for residents and better value for money.

3. Features of the strategic approach:

The Strategy has the following features:

- ◆ It is **functionally driven** – the audit ‘universe’ consists of all areas of operational activity (or, where appropriate, sub-areas of activity).

- ◆ **Operational activities are audited on a periodic basis** determined by a risk assessment undertaken within Internal Audit in accordance with best practice. The annual Audit Plan is prepared on the basis of risk-assessed audit need, and is then matched to the available resources.
- ◆ Internal Audit will take a **risk-based approach** to service reviews where this is appropriate but may also use a **systems-based audit approach** if risk management arrangements do not appear sufficiently comprehensive and embedded. More **in-depth checking of compliance** with statutory requirements and internal procedures and policies may also be undertaken where appropriate. This combination of risk-based, systems-based and compliance auditing is aimed at providing an overall assurance to the Council on the adequacy of its control environment. Should the status of the Council's functions and/or control environment change so that in the Chief Internal Auditor's opinion it is no longer possible to maintain such a service within the resources available then she reserves the right to report that fact to the Chief Executive and the Audit and Governance Committee.
- ◆ Separate contingency time is allowed in the Annual Plan for fraud-related activities, audit management time, consultancy work, follow-up audits and other duties.
- ◆ **Work is not outsourced to third party audit suppliers:** the strategy determines an in-house service provision to be the most effective way to provide the required assurances. Where Internal Audit have particular expertise precedent exists for selling limited services to neighbouring local authorities to supplement their audit resource, providing there is no detrimental effect on the Council's own audit coverage.

**Internal Audit
Policy and Performance
March 2014**

Internal Audit Reporting and Escalation Policy

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INTRODUCTION:

1. The Public Sector Internal Audits Standards require that internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. Timely and appropriate management responses to Internal Audit reports enable the Council to demonstrate that it maintains high standards of internal control and governance in line with corporate objectives.
2. The Audit and Governance Committee have approved this policy in order to ensure that issues are remedied in an appropriate and timely manner.

REPORTING:

3. With the exception of investigations into alleged irregularities (which are subject to separate arrangements not covered in this policy), the following reporting and escalation arrangements apply to all audit reviews undertaken by Internal Audit.

Draft Report

4. Following completion of an audit review the auditor will produce a draft report, which is issued to the responsible manager, (the auditee). The auditee will be asked to comment on the factual accuracy of the report and attend an exit meeting with the auditor within 5 working days. In this context 'factually accurate' means that the auditor's report and recommendations are based on a correct interpretation of the systems or circumstances pertaining to the review.

Exit meeting

5. The exit meeting is held with the auditee and other officers as appropriate. It is during this meeting that key points arising from the audit, factual amendments and recommendations for improvement are discussed. Where possible service actions addressing audit recommendations should be captured for inclusion in a draft management action plan (MAP).

Management Action Plan production

6. Following the exit meeting a draft MAP and revised draft report will be produced for distribution to the auditee, Head of Service and other key officers involved in the audit. Auditees must obtain agreement from their Head of Service as to the proposed actions to be included in the MAP. The relevant Head of Service will be recorded in the MAP as the Responsible Officer and there is an expectation that the Head of Service will have briefed their Director on the findings/recommendations arising from any Internal Audit review in advance of agreeing the MAP. Where actions rest with one or more service, the Head of Service responsible for the business activity reviewed will be deemed the Responsible Officer.
7. The service then has 10 working days to return a completed MAP and any further comments on factual accuracy to the auditor. As part of this process the service is responsible for ensuring that named officers with responsibility for individual actions within the MAP are sufficiently briefed and accepting of such responsibility before the MAP is returned to Internal Audit.

Ownership of the Management Action Plan

8. Whilst individual actions within the MAP may rest with one or more officers, the Head of Service has overall accountability for timely completion of the actions in the MAP, and is

required to inform Internal Audit if timescales are likely to be missed. In assigning their name to the MAP, Heads of Service are confirming that they accept responsibility for completion of the actions therein.

9. Where MAPs involve recommendations for more than one service, each relevant Head of Service must provide confirmation that they accept responsibility for those actions related to their service area.
10. In either case, the auditor will assume that the auditee has consulted with those officers listed as responsible for individual actions in the MAP, prior to said officers being assigned responsibility for those actions.

Final Report and agreed MAP

12. Upon receipt of the completed MAP the auditor will consider if the actions therein are appropriate. If the auditor is satisfied that all factual points have been addressed; that the service has no outstanding concerns with the report, and that the MAP sufficiently addresses all the findings raised in the audit report, then the final report and MAP can be issued.
13. **Final reports should be issued together with the completed MAP, both of which must be in PDF format. See paragraph 25 below.**

MAP Escalation Procedure

14. If the MAP is not returned to deadline, or in the auditor's opinion does not adequately address the issues raised, the Chief Internal Auditor or Audit Performance Managers will discuss their concerns with the Head of Service. If that discussion does not result in a MAP acceptable to Internal Audit the issue will be referred to the relevant Strategic Director for a decision.
15. The Strategic Director's decision will be either to agree an acceptable MAP on behalf of the Head of Service, which must then be implemented within the agreed timescale, or to accept the position and acknowledge that the Strategic Director accepts the risk. Risks tolerated in this manner should be entered into the service risk register.
16. If in the opinion of the Chief Internal Auditor the Strategic Director's decision exposes the Council to an unacceptable level of risk, the matter will be referred first to the Chief Executive and then to the Audit and Governance Committee.
17. Depending upon the time taken in escalating MAP completion, the Chief Internal Auditor reserves the right to issue the final report without the agreed MAP.

Distribution list

18. The front cover of the agreed final audit report should list the officers for whom the report has been prepared. This includes the auditee, the Head of Service and other key officers as set out in the agreed Terms of Reference.
19. The inside cover to the report should include a table showing who else the report has been circulated to. If any people in this list are included on the front cover of the report it will not be necessary to include them in the circulation list. **The following distribution list may not apply should the Chief Internal Auditor deem the report to be of a particularly sensitive nature.**
 - The External Auditor (through the Lotus Notes group email address)

- Responsible manager's level 4 report;
 - Relevant Head of Service;
 - Service Finance Manager;
 - Risk and Governance Manager;
 - Section 151 Officer;
 - Relevant Strategic Director(s);
 - All members of the Audit and Governance Committee;
 - Relevant Cabinet Portfolio Holder;
 - Chairman of the relevant select committee; and
 - Procurement (if applicable - see 23)
20. There may also be a requirement to circulate the final report to other officers not included in the above list e.g. where that officer is required to action one of the audit recommendations. Where this individual is known at the time of issuing the final report their details should be included in the circulation table.
21. In all cases the Head of Policy and Performance and the Chief Internal Auditor should be included in the email circulation of the final audit report - this is for information purposes only, so they do not need to be included in the report distribution table referred to above. The Head of Policy and Performance will also ensure that where appropriate to do so final audit reports will be forwarded onto the relevant Performance Lead managers.
22. The relevant Select Committee Scrutiny Officer and Committee Assistant should be cc'd in the email circulation of the final audit report.
23. All audit reports for **Procurement**, or reports that have recommendations for Procurement, should be copied to the Procurement and Commissioning Performance and Development Manager.
24. If an audit report has an audit opinion of "Unsatisfactory" or "Major Improvement Needed" the Chief Internal Auditor will draw this to the attention of the Head of Communications.

Structure and contents

25. The standard reporting template is found on the Internal Audit shared drive, under: G:\CS Audit Team\Documentation\Galileo Templates.
26. In order to aid the reader's understanding of the report, a glossary of acronyms should be included as a table on the inside of the front cover under the distribution list.
27. Final audit reports and MAPs should be saved as a PDF document using the format below. Where practical the two documents should be joined as one PDF document.

Audit name-year-Final Report

For example: IFRS-09-10-Fin Rep

Protective marking

28. Both draft and final reports should be marked in accordance with the County Council's Protective Marking Policy, a copy of which is on the 'News' section of Galileo.
29. The Chief Internal Auditor has determined that of the three levels of marking applicable to local government the third category – Restricted – is likely not to be relevant to audit reports. Consequently reports will generally either be marked as 'Protect' or not marked at all, in accordance with the extract from the Policy below:

“Information created or held by the council must be classified as either:

- **NOT PROTECTIVELY MARKED or UNMARKED:** The document may have no markings on it or may be positively marked as NOT PROTECTIVELY MARKED. Anyone is permitted to see the documents internally or externally; the documents may be published on the web or in paper form.
- **PROTECT:** Only available to a limited number of staff. Documents should be clearly marked as PROTECT. The information should be handled with care following the guidance laid out in Appendix B of the Policy.

30. If an auditor is in doubt whether a report should be marked "Protect" or otherwise they should seek guidance from the Chief Internal Auditor or an Audit Performance Managers.

31. Where the Protect marking is used, the following paragraph must be added to the front cover of the draft and final report above the date of issue, and should also be included in the email containing the report:

Please note that this report has been prepared by the County Council's Internal Audit team for the use of management in connection with the discharge of the Council's business and has been marked as PROTECT due to the sensitive nature of its content. A copy is being provided to you on the express understanding that it enables you to carry out your role as an officer or Member of the Council. It is not to be copied or in any way shared with any other person outside the Council.

Summary of completed audits for Members

32. The Chief Internal Auditor will report on all audits completed since the previous meeting to the Audit and Governance Committee, summarising the reason for the audit, the key findings, the risks resulting from those findings and the recommendations for improvement. The Audit and Governance Committee then considers whether there are any reports that it would like to review in more detail at a future meeting. A list of completed audit reports for the period (together with a link to full copies of those reports) is circulated to all members following the meeting of Audit and Governance Committee.

33. Should the Audit and Governance Committee require an update on completion of actions for a particular audit, the relevant Head of Service is responsible for informing the Chief Internal Auditor of what actions have been completed or providing an explanation for any delay in, or change to, the action being taken.

ESCALATION:

Follow up reviews

34. A formal follow-up review of the progress made in implementing recommendations agreed within the MAP may be programmed into the annual Internal Audit Plan at a time the Chief Internal Auditor considers appropriate.

35. Upon completion of the follow-up review the auditor will report to the Responsible Officer drawing attention to any actions that have not been completed by the agreed date. A copy of the follow-up report will be sent to the full distribution list set out above.

34. In addition, the Chief Internal Auditor will provide a report, at least bi-annually, to the Audit and Governance Committee on progress in implementing MAPs agreed for audits completed.

Audit and Governance Committee

- 36. The Head of Service may be required to attend the Audit and Governance Committee to answer questions on the reasons for the non-completion of agreed action or delay in implementation, and the remedial action to be taken.
- 37. The Audit and Governance Committee having considered the report and the evidence provided by the Head of Service will either agree the remedial actions proposed or, if they consider the position unsatisfactory, will refer the matter to the relevant select committee or to the Cabinet as necessary.

Council Overview and Scrutiny Committee

- 37. The Chief Internal Auditor provides a report for each meeting of the Council Overview and Scrutiny Committee (may be Performance and Finance Sub-group) listing all audits completed in the period. For those audits attracting an audit opinion of “Major Improvement Needed” or “Unsatisfactory” a summary of the key findings and recommendations for these audits is also provided. The Council Overview and Scrutiny Committee may require officers to attend to provide updates on progress on implementing audit recommendations and/or may refer the matter to the relevant Select Committee or Cabinet member.

VERSION CONTROL:

1.0	Approved by Audit and Governance Committee 19/11/08	Effective from 01/12/2008
1.1	Amended to include Strategic Director in circulation	Effective from 24/02/2009
1.2	Amended to reflect comments made at Audit and Governance Committee 19/03/09	Effective from 01/04/2009
1.3	Amended to reflect Directorate/ Service Restructure	Effective from 11/01/2010
1.4	Amended to reflect Protect designation, revised timescales for draft and final reporting times, additional distribution requirements, and incorporation of additional guidance on Galileo in this one document	Draft 01/03/10
1.5	As agreed at Audit and Governance Committee 29/03/2010	Effective from 01/04/2010
1.6	Updated following CLT request for MAP ownership to be at Head of Service (or above) level.	Effective from 04/05/2010
1.7	Updated to highlight the requirement to issue the Final Report and MAP together, plus reflect changes to the audit manual.	Effective from 09/07/2010
1.8	Updated to reflect the responsibility of the Head of Service to inform Internal Audit if timescales in the MAP are likely to be missed.	Effective from 20/08/2010
1.9	Revised following Internal Audit team comments.	Effective from 23/09/2010
1.10	Amended to reflect new Service Name	Effective from 01/04/2011
1.11	Amendments as reported to A&G committee on 05/04/2012	Effective from 05/04/2012
1.12	Amendments as reported to and agreed with A&G committee on 18/03/2013	Effective from 18/03/2013
1.13	Amended to reflect the need to include officers from Democratic Services in report circulation	Effective from 11/12/2013

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Internal Audit Quality Assurance and Improvement Programme

PURPOSE:

1. Internal Audit's Quality Assurance Improvement Programme (QAIP) is designed to provide reasonable assurance to its key stakeholders that Internal Audit:
 - Performs its work in accordance with its charter
 - Operates in an effective and efficient manner; and,
 - Is adding value and continually improving the service that it provides
2. The Chief Internal Auditor is responsible maintaining this QAIP which covers all aspects of Internal Audit activity. This QAIP seeks to conform with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as such includes both internal and external assessments.

INTERNAL ASSESSMENTS

3. Internal Assessment includes both ongoing and periodic reviews

Ongoing Reviews

4. Ongoing assessments are conducted through:
 - Supervision of individual audit assignments
 - Regular, documented review of working papers by appropriate Internal Audit Staff during audit assignments
 - Applying relevant audit policies and procedures, including those set out in the Surrey County Council Internal Audit Manual, to ensure applicable audit planning, fieldwork and reporting quality standards are met.
 - Review of all audit reports by the Chief Internal Auditor prior to formal circulation.
 - Feedback from Customer Satisfaction Questionnaires (CSQs) on individual audit assignments
 - Corporate performance monitoring
5. In assigning audit work to an individual auditor consideration is given to their level of skills, experience and competence and an appropriate level of supervision exercised.
6. Feedback from CSQs and reviews of working papers and audit reports will form part of the discussion during regular 1-2-1 meetings and will help inform formal appraisal discussions.
7. Performance measure/targets for Internal Audit are agreed in line with the agreed Chief Executive Directorate process for performance management. The priorities for the Internal Audit team are reviewed and refreshed each year as part of the Council's annual business planning cycle. The Chief Executive's Office Senior Management Team agrees the Internal Audit priorities to be reported at Directorate level in advance of the new financial year and these are published as part of the Chief Executive's Office Directorate Strategy.
8. Measures against these priorities are a mixture of a narrative report and locally devised indicators submitted by the Chief Internal Auditor each quarter. The report is reviewed each quarter by the Chief Executive's Office management team, which is chaired by the Assistant Chief Executive. Once agreed, the report is sent for sign-off by the lead Cabinet Member for Internal Audit before it is reviewed at an informal joint meeting of the Corporate Leadership Team and Cabinet as part of a wider 'Directorate Progress Report'.

Once the report has been approved at this meeting, it is published on the Council's website.

Periodic Reviews

9. Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing; the Code of Ethics; and, Standards as set out in the PSIAS. These may be conducted through self assessment or by other persons within the Council with sufficient knowledge of Internal Audit practices. The PSIAS Local Government Application Note and Checklist will be used as part of this evaluation.
10. An annual review of the effectiveness of the system of Internal Audit in line with the Accounts and Audit Regulations 2011 will also be conducted. This review is sponsored by the Audit and Governance Committee Chairman who will also agree the specific terms of reference for that review. In drafting the Terms of reference for this annual review the Chief Internal Auditor will seek the views of the Section 151 Officer.
11. In addition the Chief Internal Auditor will include certain key performance information in both the half and full year reports to Audit and Governance Committee. This will typically include:
 - Number of actual/planned days by audit activity type
 - Details of completed/cancelled/deferred audits
 - RAG assessment of progress in implementing audit recommendations
 - Customer Satisfaction Questionnaire scores

EXTERNAL ASSESSMENTS

12. An external assessment will be conducted at least once every five years as required by the PSIAS which came into effect on 1 April 2013.
13. The Chief Internal Auditor will consider what form of external assessment is most appropriate eg a "full" external assessment or a self-assessment with independent validation. The scope of any external assessment will be discussed with the Section 151 Officer and agreed with the Chairman of the Audit and Governance Committee and with the appointed external assessor.
14. Before appointing an external assessor, the Chief Internal Auditor will have confirmed with the Chairman of the Audit and Governance Committee that the assessor is competent in the area of professional internal auditing practices and the external assessment process. In determining competence the Chief internal Auditor will consider the level of experience gained in organisations of similar size and if in doubt will seek advice from CIPFA.
15. For an external assessment to provide a truly independent view, it is important that the appointed assessor has no real or apparent conflict of interest with the Council in general or the Internal Audit team in particular. The Chief Internal Auditor will be alert to this risk when appointing the external assessor.

REPORTING

16. The outcome of any external assessment or periodic internal assessment (notably the annual review of the effectiveness of the system of Internal Auditor) will be reported to the Section 151 Officer and the Chief Executive and to the Audit and Governance Committee on completion. The Chief Internal Auditor will not state that the Internal Audit service conforms with the Internal Standards for the Professional Practice of Internal

Auditing (ie the PSIAS in the UK Public sector) unless the results of the QAIP (including a completed external assessment) confirm this

17. The Chief Internal Auditor will take appropriate action to ensure that recommendations for improvement identified as a result of periodic internal or external assessments exercises are implemented as appropriate.
18. Progress in implementing agreed improvement plans will be included as part of the Chief Internal Auditor's annual report to the Audit and Governance Committee
19. Any significant deviations from the PSIAS will be brought to the attention of the Governance Panel and considered for inclusion in the Annual Governance Statement

VERSION CONTROL:

1.0	As presented to the Audit and Governance Committee	24/03/14

Internal Audit

Surrey County Council

DRAFT Internal Audit Plan 2014/15

	Risk Score*	Audit Days 2014/15	(2013/14 Audit Days)
Corporate Governance Arrangements		75	(40)
CRSA and S151 responsibilities	MAN		
Risk Management	MAN		
AGS - Internal Audit Opinion	MAN		
Information Governance	MAN		
Organisational Ethics	MAN		
Key Financial and Non Financial Systems		200	(200)
SAP Application controls - policy, roles and access	99		
Accounts Payable	99		
Capital Expenditure Monitoring	97		
Payroll	97		
Accounts Receivable	96		
Revenue Budget Control	94		
Treasury Management	94		
General Ledger	93		
Financial Assessments and Benefits	90		
Pension Administration	85		
Pension Fund Investments	77		
		30	(20)
Grants			
Government Grants	MAN		
EU Grants	MAN		

*MAN = Mandatory

Internal Audit

Surrey County Council

DRAFT Internal Audit Plan 2014/15



Contract Reviews

	Risk Score*
Agency Staff Contract	82
Contract Management Framework - Procurement Savings	79
Highway Contract – Safety Defects and Inspections	79
Superfast Broadband	77
Bus Operating Contracts	75
Walton Bridge Final Account	74

Audit Days 2014/15	(2013/14 Audit Days)
145	(120)



Adult Social Care

	Risk Score*
LA Trading Company - ASC	89
Deputyship	86
Better Care Fund	85
AIS Care assessment process	82
Telecare	79
ASC Commissioning Procurement Portal	77
Care Bill Preparedness	74

Audit Days 2014/15	(2013/14 Audit Days)
135	(135)

*MAN = Mandatory

Internal Audit

Surrey County Council

DRAFT Internal Audit Plan 2014/15

	Risk Score*	Audit Days 2014/15	(2013/14 Audit Days)
Business Services		210	(298)
Carbon Reduction Scheme & GHG	MAN		
Public Service Network	80		
Management of CITRIX systems	79		
UNICORN	79		
Apprenticeship Scheme	79		
Absence Management	77		
Property Asset Management (PAMS)	76		
Managed Print Service	76		
LA Trading Company - Governance arrangements	76		
Grants to Voluntary Bodies	74		
Customers and Communities		55	(75)
SFRS Operational Assurance Process	78		
Community Learning	76		
Domestic Abuse	75		



*MAN = Mandatory

Internal Audit

Surrey County Council

DRAFT Internal Audit Plan 2014/15



Chief Executive's Office

Health and Wellbeing Board	80
Business Continuity Planning	78
VCFS Framework	78
Public Health	77
Emergency Management	76
Member Interests	75

115 (75)



Children's Schools and Families

Schools compliance	88
School Planning/Admissions	82
Children's Safeguarding QA process	78
Corporate Parenting Board	78
Foster Care	78
Local Safeguarding Boards	75
Looked After Children - Personal Monies	75
Direct Payments (Children's)	75

230 (230)

Risk Score* Audit Days 2014/15 (2013/14 Audit Days)

*MAN = Mandatory

Internal Audit

Surrey County Council

DRAFT Internal Audit Plan 2014/15

**Environment and Infrastructure**

	Risk Score*	Audit Days 2014/15	(2013/14 Audit Days)
Operation Horizon	80		
Transportation Co-ordination Centre - new system	79		
Streetworks Permit Scheme	79		
Waste Management and Minimisation	79		
Local Sustainable Transport Fund	77		

100 (130)

**Follow-up Audits including:**

Social Care Debt			
Looked After Children – Health & Dental Checks			
Special Schools – In-house Residential			
Transport for Education			

60 (50)

*MAN = Mandatory

Internal Audit

Surrey County Council

DRAFT Internal Audit Plan 2014/15

	Risk Score*	Audit Days 2014/15	(2013/14 Audit Days)
Client Support and Service Liaison		156	(136)
Innovation Support/Follow-up		30	(50)
Irregularity and Special Investigations including Fraud Prevention		345	(345)
NFI - Support to Other LAs			
Irregularity Contingency			
Anti Fraud and Data Interrogation			
NFI Data Matching Exercise			
Internal Management, Corporate Support and Organisational Learning		294	(294)
Audit & Governance Support			
Member support			
Audit Planning			
Audit Management			
Corporate Support Activities			
Total Audit Days		<u>2180</u>	(2228)

*MAN = Mandatory

AUDIT & GOVERNANCE COMMITTEE
24 March 2014

Transport for Education – Management Action Plan Progress

SUMMARY AND PURPOSE:

1. The purpose of this report is to update the Audit and Governance on progress in implementing actions agreed following the audit of Transport for Education completed in March 2013.

RECOMMENDATIONS:

2. Members are asked to consider:
 - (i) whether the actions taken/planned by officers satisfactorily address the concerns raised in the audit review completed in March 2013; and
 - (ii) whether a formal follow-up audit of this area should be conducted during 2014/15

BACKGROUND:

3. Internal Audit undertook a review of Transport for Education in March 2013. The report produced as a result of this review attracted an audit opinion of **Major Improvement Needed** and included six High Priority recommendations. A summary of the audit findings and recommendations arising from the audit is attached as **Annex A**. The original agreed Management Action Plan (MAP) is attached as **Annex B**. The supporting full Internal Audit report has been previously circulated to committee members.
4. Included within the Internal Audit Half Year report to this Committee in December was a MAP progress update which assessed progress in implementing a number of high priority recommendations as Red and Amber. The actual MAP progress as reported to this Committee in December is attached at **Annex C**.
5. In the light of this update, Audit & Governance Committee agreed to receive a further report on the Transport for Education MAP in March 2014, inviting officers from the service to attend the meeting. In addition the Chairman agreed to write about his concerns with regard to the Transport for Education MAP to the Chairman and Vice-Chairman of the Children and Education Select Committee, asking them to monitor the situation.

- 13
6. This report provides an update on progress in implementing the management actions in response to the audit recommendations and an updated Management Action Plan is attached at **Annex D**. The Chairman of the Children and Education Select Committee has requested a briefing providing context to be submitted to Audit & Governance Committee to enable informed consideration of the Transport for Education MAP progress. This is attached as **Annex E**. The Chairman of the Children and Education Select Committee and officers from the relevant service areas will attend the meeting to answer any questions Audit and Governance Committee Members may have.

WHAT HAPPENS NEXT:

7. Management Action Plan progress will continue to be reported to this Committee on a bi-annual basis.

REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor

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

Audit of Transport for Education (March 2013)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Transport for Education	<p>This audit was undertaken to determine the home to school transport arrangements in place in 2 services - Schools and Learning (S&L) and Economy, Travel and Planning (ETP).</p>	<p>Staff are unable to request transport in a consistent manner due to absence of written procedures for children with Special Educational Needs (SEN).</p> <p>Requests are made on e-suite forms are not completed in full.</p> <p>Difficulties in obtaining management information from Trapeze PASS System have strained relationships. A new system is currently being procured. There is no service level agreement in place between S&L and ETP.</p> <p>There are no SEN officers present at the annual review by the schools of the SEN children which covers their transport. The schools are reluctant to change current transport arrangements as they do not pay for them.</p> <p>The current budgets for mainstream and SEN transport do not reflect the requirement and have not been reviewed in recent years.</p> <p>The risk registers are not reviewed regularly and the relevant risks are not included in the risk register.</p>	Major Improvement Needed	<p>SEN staff should have clear written procedures to allow consistency (H)</p> <p>Requests should be completed in full on forms with mandatory fields and the facility to upload them to the Transport system (H)</p> <p>Senior Management should ensure that management information from the new system is fit for purpose (H)</p> <p>A service level agreement to reflect the required arrangements should be in place (M)</p> <p>The SEN officers should be present at the reviews. The written reviews from schools should be reviewed by SEN Officers to indicate approval of the reviews and the costs (H)</p> <p>The budgets need to be set from a zero base and managers should have the necessary information to monitor the budgets effectively (H)</p> <p>Up to date risk registers should acknowledge all of the risks and senior management should review them regularly to take mitigating actions. (M)</p>

¹ Audit Opinions

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

² Audit Recommendations

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

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

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

MANAGEMENT ACTION PLAN

Directorate:	Children, Schools and Families (CSF) and Environment and Infrastructure (E&I)
Audit report:	A04050/2012/13 – Review of Transport for Education
Dated:	25 February 2013

PRIORITY RATINGS

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

I agree to the actions below and accept overall accountability for their timely completion. I will inform Internal Audit if timescales are likely to be missed.

The auditor agrees that the actions set out below are satisfactory.

Lead Responsible Officer (HOS): Peter J Wilkinson (5 March 2013) and
Iain Reeve (25 February 2013)

Auditor: Siva Sanmugarajah

Date: As above

Date: 5 March 2013

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.11	SEN staff should be given clear written procedure notes to allow consistency.	High	Agreed. Current written procedures to be reviewed and updated to ensure they facilitate consistency.	September 2013	AEOs	√
5.12	Each request should be completed in full on an e-suite form or other forms with mandatory fields to complete and the facility to upload the information to the Transport system. This should remove the need to use requests via e mail and	High	<ul style="list-style-type: none"> • SEN and A&T teams to consider how they record transport entitlement in their local systems and review the data that TCC need in order to provide transport. • Liaise with TCC after implementation of new 	<ul style="list-style-type: none"> • December 2013 • December 2013 	SEN – AEOs: Paula Evans – SW Kerry Randle - NE Sue Roch – SE Mark Scarborough - NE A&T – Claire Potier TCC – Tracey Coventry	√

MANAGEMENT ACTION PLAN						
Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
	telephone.		software to consider how data might be exchanged more effectively and to explore data compatibility issues for automatic file transfers.			
5.13	Senior Management in S&L and ETP services should ensure that accurate management information including costs per child is produced and reviewed when the new system is implemented to manage the service effectively.	High	<ul style="list-style-type: none"> • Tendering process to include the cost per child. • Finance and TCC to review data that is required by service managers. • TCC with Finance to ensure that accurate management information is produced on a regular basis after the implementation of the new software. • Managers in SEN and A&T to ensure that management information is reviewed regularly. 	<ul style="list-style-type: none"> • March 2013 • July 2013 • December 2013 • December 2013 	Finance – Catherine Allen TCC – Tracey Coventry SEN – AEOs: Paula Evans – SW Kerry Randle - NE Sue Roch – SE Mark Scarborough - NE A&T – Claire Potier	√
5.19	A service level agreement should be drawn up to reflect the required arrangements that should be in place so that the roles and responsibilities of staff	Medium	Work on the production of a SLA started in 2012, led by the TCC and involving consultation with relevant officers in CSF. A final draft is due to go to Directors for	Directors' sign-off in February 2013	Tracey Coventry, TCC Manager	√








MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
	are clear to everyone.		signing imminently.			
5.20	Management in both services should incorporate the duties in the proposed new system to enable the production of necessary management information. Regular communication is essential to ensure that the service user is in receipt of the correct service with transparency of costs to enable them to manage expenditure against their budgets.	High	<ul style="list-style-type: none"> Management information provided to teams on a regular basis. Finance to improve links between Trapeze and SAP in terms of forecasting costs. A&T and SEN Managers to ensure that there is a monthly review of management information. Ongoing need for budget and operational meetings between TCC, A&T, SEN and Finance on a half-termly basis. 	<ul style="list-style-type: none"> December 2013 December 2013 December 2013 December 2013 	Finance – Catherine Allen TCC – Tracey Coventry SEN – AEOs: Paula Evans – SW Kerry Randle - NE Sue Roch – SE Mark Scarborough - NE A&T – Claire Potier	√
5.26	The SEN Team Managers or the officers delegated by them should be present at the reviews and the written reviews sent by schools should be reviewed by Case Officers or their managers to indicate their satisfaction with the reviews and with the cost implications clearly understood.	High	Not agreed - there is not the staff capacity currently within the SEN Service to allow individual Case Officers to attend reviews for this purpose. However, the service will explore alternative ways to ensure that the issue of transport is properly considered at reviews and the need for any ongoing	September 2013	AEOs	√

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.35	The budgets need to be reviewed and set from a zero base which takes account of planned pupil numbers/requirements. In addition, managers should be provided with the information necessary for them to monitor these budgets effectively.	High	<p>provision fully evidenced.</p> <p>Budgets will be set in accordance with corporate finance directives and forecast planned activity levels. Work is continuing to collect activity data and to present this with budget monitoring data by budget holder.</p>	<ul style="list-style-type: none"> December 2013 	<p>Finance – Catherine Allen</p> <p>TCC – Tania Rocks</p>	√
5.41	Up to date risk registers should acknowledge all of the risks and senior management should review them regularly to take mitigating actions.	Medium	<ul style="list-style-type: none"> Managers in A&T, SEN and TCC ensure transport costs are acknowledged as a risk in risk registers Risk management should be discussed at operational and budget meetings. 	<ul style="list-style-type: none"> December 2013 December 2013 	<p>Finance – Catherine Allen</p> <p>TCC – Tracey Coventry</p> <p>SEN – AEOs: Paula Evans – SW Kerry Randle - NE Sue Roch – SE Mark Scarborough - NE</p> <p>A&T – Claire Potier</p>	√








Management Action Plan – Progress update as presented to Audit and Governance Committee in December 2013

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Transport for Education (Feb 2013)	Major Improvement Needed	<p>SEN staff should have clear written procedures to allow consistency (H)</p> <p>Requests should be completed in full on forms with mandatory fields and the facility to upload them to the Transport system (H)</p> <p>Senior Management should ensure that management information from the new system is fit for purpose (H)</p> <p>A service level agreement to reflect the required arrangements should be in place (M)</p> <p>The SEN officers should be present at the reviews. The written reviews from schools should be reviewed by SEN Officers to indicate approval of the reviews and the costs (H)</p> <p>The budgets need to be set from a zero base and managers should have the necessary information to monitor the budgets effectively (H)</p> <p>Up to date risk registers should acknowledge all of the risks and senior management should review them regularly to take mitigating actions. (M)</p>	<p>This has been delayed until February 2014 due to data cleansing which needs to be completed and is currently in progress.</p> <p>The original go-live date for the new system of Nov. 2013 has slipped to April 2014 due to delays in agreeing the Terms & Conditions of the contract.</p> <p>The above has delayed the production of request forms and management information to be used as part of the new system.</p> <p>The service level agreement signed (April 2013) by the Strategic Directors for CSF and E&I is in place.</p> <p>This is unlikely to happen due to resource constraints. Auditor to attend the December 2013 Area Education Officer meeting to agree an alternative arrangement.</p> <p>To be completed in line with the implementation of the new system.</p> <p>The risks associated with transport costs have been recognised in the risk registers and reviewed.</p>	      

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
(2) Recommendation priority may be High (H), Medium (M) or Low (L)
(3) Red/Amber/Green (RAG) status is a high level assessment of progress

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Management Action Plan – Progress update as presented to Audit and Governance Committee in March 2014

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Transport for Education (Feb 2013)	Major Improvement Needed	<p>SEN staff should have clear written procedures to allow consistency (H)</p> <p>Requests should be completed in full on forms with mandatory fields and the facility to upload them to the Transport system (H)</p> <p>Senior Management should ensure that management information from the new system is fit for purpose (H)</p> <p>A service level agreement to reflect the required arrangements should be in place (M)</p> <p>The SEN officers should be present at the reviews. The written reviews from schools should be reviewed by SEN Officers to indicate approval of the reviews and the costs (H)</p> <p>The budgets need to be set from a zero base and managers should have the necessary information to monitor the budgets effectively (H)</p>	<p>This has been delayed until February 2014 due to data cleansing which needs to be completed and is currently in progress.</p> <p>Electronic transport request forms are now used by SEN teams and Admissions & Transport</p> <p>The revised go-live date for the new system of April 2014 is on track. A comprehensive specification for reporting is included.</p> <p>The service level agreement signed (April 2013) by the Strategic Directors for CSF and E&I is in place.</p> <p>This is unlikely to happen due to resource constraints. Auditor to attend the December 2013 Area Education Officer meeting to agree an alternative arrangement.</p> <p>The use of an end date in the system for SEN pupils will be used to trigger a transport review.</p> <p>To be completed in line with the implementation of the new system.</p>	<p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p>

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
 (2) Recommendation priority may be High (H), Medium (M) or Low (L)
 (3) Red/Amber/Green (RAG) status is a high level assessment of progress

Annex D

Management Action Plan – Progress update as presented to Audit and Governance Committee in March 2014

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
		Up to date risk registers should acknowledge all of the risks and senior management should review them regularly to take mitigating actions. (M)	The risks associated with transport costs have been recognised in the risk registers and reviewed.	

AUDIT & GOVERNANCE COMMITTEE 24 March 2014

Transport for Education

Briefing Note for Members

Purpose of the report: Scrutiny of Services and Budgets

The Chair of Children and Education Select Committee has asked for a briefing for Audit and Governance Committee to provide some background information and context to the Transport for Education – Management Action Plan progress report, included on the agenda.

Introduction:

1. The Schools and Learning Service is responsible for determining and applying the Home to School Transport Policies, including determining whether a child is entitled to free home to school transport. Once determined, the responsibility for providing transport rests with the Transport Co-ordination Centre (TCC), which is part of the Travel and Transport Group within Environment and Infrastructure department.

Key TCC/service relationships:

2. The TCC provides a 'one stop shop' co-ordination service for the majority of SCC transport bookings, including
 - Home to school transport for entitled mainstream children – requested by the Admissions & Transport team in Schools & Learning
 - Home to school transport for entitled children with Special Educational Needs (SEN) – requested by the area SEN teams in Schools & Learning
 - Non-routine journeys for vulnerable children and adults – largely requested by children's and adult social care (ASC)
 - Home to day centre transport for adults – requested by ASC
 - Transport to and from respite care – requested by parents based on the pre-agreed level of support approved by SEN teams
 - Ad hoc bookings for emergency transport, officer travel etc.

Service volumes and overall costs:

3. The expenditure that goes through the TCC for transport provision is set out below split by service area:

Travel & Transport - Cost Breakdown and Projection

where costs managed via TCC

		year end	year end	oct proj
		2011/12	2012/13	2013/14
		£	£	£
Mainstream	Coaches	4,698,500	4,797,000	4,807,400
	Taxi/Minibus	3,302,500	3,403,000	3,658,400
	Petrol reclaim	78,700	91,800	103,300
	Bus/rail passes	1,711,600	1,408,300	1,776,600
		9,791,300	9,700,100	10,345,700
SEN	Taxi/Minibus	19,392,100	20,291,800	21,378,900
	Petrol reclaim	321,600	298,700	360,000
		19,713,700	20,590,500	21,738,900
Short Stay Schools	Taxi/Minibus	278,700	305,500	353,800
Adults	Taxi/Minibus	1,427,900	1,782,400	2,091,400
Children SC	Taxi/Minibus	459,500	926,300	921,339

4. There are approximately 1200 minibus and taxi routes (largely SEN) and 109 mainstream coach routes currently, transporting around 2500 SEN pupils and 6800 entitled mainstream pupils.

How the data flow between Schools and Learning and the TCC is managed:

5. Eligibility for free home to school transport for mainstream pupils is assessed within Schools & Learning by the Admissions & Transport team, managed by the Principal Manager Admissions and Transport (Strategy). For SEN pupils, eligibility is assessed by the relevant area SEN team, each team managed by an Area Special Needs Manager.

6. There are two teams within the TCC responsible for commissioning home to school transport – (i) the mainstream team, managed by the Mainstream Team Leader and (ii) the SEN Delivery Team, managed by the Delivery Team Leader.
7. Once eligibility is agreed, the relevant Schools & Learning officer completes an ESuite Transport Request Form, which is then delivered straight to either the TCC Mainstream Inbox or SEN Delivery Team Inbox.
8. Requests for transport are then commissioned as appropriate, utilising the most cost effective means of transport that meets the children's needs. Requests are turned round within 10 working days from receipt, as per the Service Level Agreement between E&I and CSF.

<p>Key SEN transport representative and various improvements being proposed:</p>

9. The Area Education Officer South East (Sue Roch) has recently been assigned overall responsibility for SEN transport. She has established a group which has assessed key transport priorities, that are either impacting on the SEN budget position and/or which will improve the efficiency of the transport process. Each priority has a named lead and progress was reported at the last group meeting in February. A further meeting is scheduled for May 2014. The key priorities are detailed below:
10. Specialist escorts – at the start of the year the annual cost was around £640k and, though this has been reduced significantly (to around £300k) by negotiating reduced hours with the provider, this is still a high cost provision. The aim is to have in place an impartial and consistent assessment process that clearly identifies the level of medical or behaviour support an individual child requires. It is hoped that the use of fully qualified nurses can be largely avoided in future, with appropriate medical training given to regular escorts by school nurses. As a starting point, negotiations are in hand for the healthcare provider responsible for school nurses to reassess all existing pupils who have specialist escorts currently.
11. Regular reviews of transport – as highlighted in the 2012/13 Internal Audit report, there is a need for SEN teams to review the need for transport on a regular/annual basis. To assist in this, the TCC is working with SEN teams to use end dates on the transport request forms to trigger the need for a review. Completion of a transport end date is now a mandatory field on the SEN Transport Request Form. The intention is that, towards the end of each term, the TCC will send a report to SEN area teams listing all those pupils with a transport end date of the end of that term. SEN will then verify to the TCC, for each pupil, whether transport should end or whether it should be extended. If no response is received, then it will be assumed that transport is ending and the TCC will terminate.

12. Training for drivers and escorts transporting SEND pupils – SEN and TCC officers are working together to review the code of conduct/training for drivers and escorts. SEN schools do provide some training, but this needs to be more formalised.
13. In addition, there is a joint E&I and CSF process review currently underway to identify any process blockages and to ensure that parental information provided by both departments is consistent, avoids duplication and keeps parents properly informed.
14. A further major improvement is the introduction of a new transport software system being implemented by the TCC, with a go live date of mid April 2014. The previous system was no longer fit for purpose and, as highlighted in the Internal Audit report, did not provide an adequate level of management information for the service departments. CSF and Shared Services were fully involved in the specification for the new system and improved reporting is a priority objective.

Summary RAG status of actions in the management action plan:

15. An updated management action plan is attached. In summary the RAG status for each element is:
- | | |
|--|-------|
| SEN staff having clear written procedures to allow consistency | RED |
| Requests completed on forms with mandatory fields | GREEN |
| Management Information from new system is fit for purpose | AMBER |
| Service Level Agreement in place | GREEN |
| SEN Annual Transport Reviews | RED |
| Use of end date in system to trigger a review | AMBER |
| Budget Setting and Monitoring | AMBER |
| Risk Registers in place and regularly reviewed | GREEN |



Audit & Governance Committee
24 March 2014

LEADERSHIP RISK REGISTER

Purpose of the report:

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

Recommendations:

It is recommended that the committee:

1. Review the Leadership risk register; and
2. 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:

3. 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 Strategic Risk Forum (chaired by the Chief Finance Officer) and then by the Continual Improvement Board on a monthly basis.
4. Since the last meeting a number of small wording changes have been made to risks and controls and a new risk has been added:
 - Supply chain/contractor resilience (L17).

Implications:

Financial and value for money implications

5. Effective management of risks and financial controls helps to monitor costs and enable value for money.

Equalities and Diversity Implications

6. There are no direct equality and diversity implications.

Risk Management Implications

7. Effective risk management supports the achievement of the council's priorities and continuous improvement in service delivery.

Next steps:

The Leadership risk register will be presented to the next committee meeting.

Report contact: Cath Edwards, Risk and Governance Manager,

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Leadership risk register as at 21 February 2014

Owner: David McNulty

Ref	Directorate register ref	Description of the risk	Inherent risk level (no controls)	Controls	Risk owner – Officer	Risk owner – Member	Residual risk level (after existing controls)
L14	ASC5 BUS17,21, 22,23 CAC1 CSF4,16,22 EAI1,13	<p>Future Funding</p> <p>- Erosion of the council's main sources of funding:</p> <ul style="list-style-type: none"> • council tax – through legislative controls on levels of increase • central government grants – through further austerity cuts, policy changes, top slicing and diversion of grants to Local Enterprise Partnerships <p>and failure to generate new income streams as planned e.g. trading</p> <p>lead to lack of financial resilience and failure to deliver statutory and essential services.</p>	High	<p>- Robust quarterly monitoring to Continual Improvement Board, Corporate Leadership Team and Cabinet of actual funding (eg council tax and business rate collection levels) achieved through close working with district and borough colleagues.</p> <p>- Continued horizon scanning of the financial implications of existing and future government policy changes.</p> <p>- Development of alternative / new sources of funding (e.g. bidding for grants).</p> <p>- Review how systems and processes can lead to greater efficiencies.</p> <p>Notwithstanding actions above, there is a high risk of central government policy changes /austerity measures impacting on the council's long term financial resilience.</p>	Corporate Leadership Team / Sheila Little	Cabinet / David Hodge	High
L1	ASC2,5 BUS9 CAC8,19 CSF4,16,22 EAI1	<p>Medium Term Financial Plan (MTFP) 2014-19</p> <p>- Failure to achieve the MTFP which could be as a result of:</p> <ul style="list-style-type: none"> • not achieving savings • additional service demand and/or • over optimistic funding levels <p>lead to lack of financial resilience and failure to deliver statutory and essential services.</p>	High	<p>- Monthly reporting to Continual Improvement Board, Corporate Leadership Team (CLT) and Cabinet on the forecast outturn position is clear on the impacts on future years and enable prompt management action (that will be discussed with informal Cabinet / CLT).</p> <p>- As recommended in the Chief Finance Officers statutory budget report (Sec25) to full County Council on 11 February 2014, a mechanism whereby the Chief Executive and Chief Finance Officer will check the robustness of efficiencies delivery plans and report back to Cabinet as necessary.</p> <p>- Clear management action reported promptly detailing alternative savings / income if original plans become non deliverable or funding levels alter in year</p> <p>- Reduced risk contingency for 2014/15, from £8m (base) to £5m, takes pressure off services to find more efficiencies.</p>	Corporate Leadership Team / Sheila Little	Cabinet / David Hodge	High

Leadership risk register as at 21 February 2014

Owner: David McNulty

				<p>- Monthly tracking of actual demand compared to budget reported and reviewed by the Productivity and Efficiency Panel.</p> <p>- Monthly formal budget reports focus on funding levels comparing actuals to forecasts. Finance to sustain pro-active horizon scanning for insight into potential funding change.</p>			
L7	BUS12 EAI2	<p>Waste</p> <p>- Failure to deliver key waste targets (including key waste infrastructure) leads to increased cost to residents and tax payers and impacts on the environment.</p>	High	<p>- Strong resourcing and project planning monitored by the Waste Board</p> <p>- Further work with the Districts and Boroughs continue, to review waste plans to achieve the targeted increase in recycling.</p> <p>- Contract variation signed with SITA to deliver the Eco-park.</p> <p>- 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.</p>	Trevor Pugh	John Furey	High
L15	ASC5 CSF4,16	<p>Welfare Reform</p> <p>- Multiple central government welfare reform changes impact adversely on Surrey residents and put additional pressure on all public services.</p>	High	<p>- Effective horizon scanning to ensure thorough understanding of intended changes</p> <p>- Implementation of a welfare reform programme including districts and boroughs covering:</p> <ul style="list-style-type: none"> • Advice and information • Financial resilience • Emergency assistance • Localisation of council tax support • Housing and homelessness • Employment training and support <p>- Taking opportunities to influence central government e.g. via the Local Government Association.</p>	Nick Wilson and Dave Sargeant	Cabinet / Mary Angell and Mel Few	High
L16	ASC9 BUS22,23, 24 CEO13 CSF8,20,23 EAI3	<p>Partnership working</p> <p>Failure or breakdown of:</p> <p>(a) a significant partnership (where the council has entered into a formal partnership)</p>	High	<p>- Health and wellbeing strategy and action plan owned by partners.</p> <p>a) Leadership and managers recognise the importance of building and sustaining good working relationships and having early discussions if these</p>	Corporate Leadership Team / Susie Kemp	Cabinet	High

Leadership risk register as at 21 February 2014

Owner: David McNulty

		<p>or</p> <p>(b) a partner (other public bodies eg NHS)</p> <p>leads to service failure and delivery of savings due to increased reliance on partners to deliver services.</p> <p>(c) A breakdown in partnership working, or the failure of a key partner, results in our inability to co-ordinate and integrate health and social care services, reducing our collective impact on improving health outcomes, failing to develop a sustainable financial model across health and social care, and damaging the reputation of all partners.</p>		<p>falter.</p> <p>(b) Contracts are managed effectively through strong governance and early warning mechanisms are put in place.</p> <ul style="list-style-type: none"> - Intelligence on partners is shared and areas of risk identified as a consequence. <p>(c) The council will maintain a regular ongoing dialogue with partners to ensure collective delivery of health outcomes with regular meetings.</p> <ul style="list-style-type: none"> - Additional support will be provided where possible/appropriate to ensure development of sustainable financial model. - Regular discussions at Health and Wellbeing Board around priorities focusing on resources required to deliver. - Assistant Chief Executive chairing SCC-wide Strategic Health Board. 			
L11	ASC12 BUS26 CEO7 CSF18	<p>Information Governance</p> <ul style="list-style-type: none"> - Failure to effectively act upon and embed standards and procedures by the council leads to financial penalties, reputational damage and loss of public trust. - Cabinet Office zero tolerance policy in relation to accessing data, will impede progress towards smarter working across the organisation and may limit improvements to service delivery 	High	<ul style="list-style-type: none"> - Encrypted laptops - Secure environment through the Egress encrypted email system - Internal Audit Management Action Plans in place that are monitored by Audit & Governance Committee and Select Committees - Twice-yearly communications campaign linked to known peaks for breaches, and a refreshed and re-launched information security e-learning package. - SCC has received GCSx accreditation certificate (while many authorities have so far failed) - introduction of the Information Governance Board and the launch of the data classification project, both of which will start in the first quarter of 2014, will help to manage this risk. <p>Despite the actions above, there is a continued risk of human error that is out of the council's control.</p>	Corporate Leadership Team	Denise Le Gal	High
L4	ASC19, 22 BUS20,26	<p>IT systems</p> <ul style="list-style-type: none"> - Major breakdown and disruption of systems leads to an inability to 	High	<ul style="list-style-type: none"> - 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 	Julie Fisher	Denise Le Gal	High

Leadership risk register as at 21 February 2014

Owner: David McNulty

		deliver key services		<p>farm is in progress that will bring resilience and performance enhancements.</p> <ul style="list-style-type: none"> - Work in progress to increase the performance of login/logout times. - There are also some teething issues with the new UNICORN network in the areas of voice delivery to smaller sites and Contact Centre resilience. Special improvement projects have been established with BT to increase the efficiency of dealing with network issues to reduce the impact on service delivery. 			
L3	ASC18 CAC8, 18, 19 CEO3 EAI4,5,7	<p>Business Continuity, Emergency Planning</p> <ul style="list-style-type: none"> - Failure to plan, prepare and effectively respond to a known event or major incident results in an inability to deliver key services 	High	<ul style="list-style-type: none"> - The Council Risk and Resilience Forum reviews, moderates, implements and tests operational plans. - Close working between key services and the Emergency Management Team to update plans and share learning - Continued consultation with Unions and regular communication to staff. - External risks are assessed through the Local Resilience Forum. 	Corporate Leadership Team	Denise le Gal / Helyn Clack	Medium
L2	ASC4,9,20 BUS2 CEO8 CSF4,20 EAI2,3,10	<p>Staff resilience to major change</p> <p>Preparing for and managing the significant challenges faced over the next 4 years may result in change fatigue and lack of resilience for any future change.</p>	High	<ul style="list-style-type: none"> - Communication, consultation and engagement is a priority for the Council with an emphasis placed on thoroughly addressing the concerns of staff and their representatives - Currently eight training courses available that address various aspects of change. Also over 40 trained coaches who are available to support staff. - Questions in the Staff Survey provide a measure of the staff satisfaction with the council and its management of change. - The smarter working framework and flexible working policy are in place to support managers and their teams to work differently. - Promotion of support mechanisms for staff. - Staff are encouraged to get involved in finding innovative solutions to redesign services. 	Corporate Leadership Team	Cabinet	Medium
L5	ASC7 CSF6,16	<p>Safeguarding</p> <ul style="list-style-type: none"> - Avoidable failure in Children's and/or Adults care leads to serious harm or death 	High	<ul style="list-style-type: none"> - Appropriate and timely interventions by well recruited, trained, supervised and managed professionals, with robust quality assurance and prompt action to address any identified failings. 	Caroline Budden/ Dave Sargeant	Mel Few/ Mary Angell	Medium

Leadership risk register as at 21 February 2014

Owner: David McNulty

L17	ASC21 BUS27	Supply chain / contractor resilience - Poor understanding, monitoring or management of the councils supply chain leads to service failure.	High	- Supply chain business continuity plans for strategic/critical contracts to meet required standards. - Consistent management of supply chain risks across all key suppliers through common reporting. - Regular supplier intelligence reporting in place to track industry and supplier news.	Corporate Leadership Team	Cabinet	Medium
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Key to references:

ASC = Adult Social Care

BUS = Business Services

CAC = Customers and Communities

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	Major change programmes	May 10	High	Jan 12	↓	Medium
L3	Business Continuity and Emergency Management	May 10	Medium	Aug 12	↓	Medium
L4	IT systems	May 10	Medium	June 13	↑	High
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	<i>NHS reorganisation</i>	<i>Sep 10</i>	<i>High</i>	<i>May 13</i>	*	-
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
L15	Welfare reform	Feb 13	High	-	-	High
L16	Partnership working	June 13	High	-	-	High
L17	Supply chain / contractor resilience	Jan 14	High	-	-	Medium

* Removed from the risk register



Audit & Governance Committee
24 March 2014

Whistle blowing update

Purpose of the report:

Audit and Governance Committee have requested a regular update on whistle blowing, and to keep the profile high through publicity and preventative measures and activities.

Recommendations:

It is recommended that:

1. The Committee notes the progress outlined in the report.
2. The Committee approves the promotional activities and preventative measures in section 8 of this report.
3. In future, reporting on whistle blowing to Audit & Governance Committee is done on an annual basis in March. This will be in conjunction with any related work on whistle blowing conducted by Internal Audit.

Introduction:

4. Since the last report in September 2013, usage of the service has remained fairly consistent. There has been a slight increase in the average number of calls at around 4.5 per month, and an average of 0.6 investigations compared to 3.1 calls and 1 investigation for the same period in 2011-12. This is comparable with other organisations who use Expolink.

5. Recent service activity - Expolink

Usage Table

2013 Month	Total no. of calls	Total requiring investigation	Main Incidents Reported	Directorate
Jul	11	0		

Aug	0	0		
Sep	6	2	Grievance against manager. Concerns regarding professional conduct	ASC C&C
Oct	4	0		
Nov	1	0		
Dec	5	2	Pay issue Bullying & Victimisation	ASC CSF
TOTAL this period	27	4		

The higher number of calls in July 2013 relates to additions to previous reports, and requests for feedback on investigations which were highlighted in the previous report concerning an independent school.

Summary of recent live cases and outcomes reported via the whistle blowing service:

2013 Month	Nature of complaint	Outcome
Sept	<ul style="list-style-type: none"> Allegations of H&S bad practice by allowing non SCC staff into the kitchen. Allegations of inappropriate management of complaints against an OH advisor 	<ul style="list-style-type: none"> Investigation took place and no breach of H&S regulations was found Investigation has taken place and it was suggested that a discussion by all parties took place to resolve the issues.
Dec	<ul style="list-style-type: none"> Allegation of bank holiday entitlement not being calculated correctly for all staff Allegations of bullying and victimisation by several staff members 	<ul style="list-style-type: none"> Investigation has taken place and corrections have been made All parties have been contacted and discussions held. Clarification has been put in place regarding responsibilities. The caller is happy with the informal outcome.

6. Whistle blowing information searched by staff via s-net (intranet)

	s-net landing page	What happened next?
Number of s-net visits	322	151 ended session 76 downloaded policy 32 viewed flowchart 32 viewed Protection for whistle blowers 28 viewed Expolink page 10 viewed FAQs
Page views	495	
Unique visitors	283	

(Six months: August 13 – January 14)

7. Promotional activities

A mix of corporate communications channels is being used to continue to inform and engage the audience groups. This includes:

- A rolling programme of publicity to increase awareness of whistle blowing, as part of our People Strategy, linking to wellbeing
- Information on the s-net pages
- Details of the whistle blowing policy and Expolink's contact number is included in induction and STARS training
- Fairness champions continue to help promote the scheme and communicate key messages
- The whistle blowing service has been integrated into the Employee Benefits offer as part of the Total Reward package, which receives a high number of viewings on s-net and therefore helps to promote this service
- Expolink is highlighted in the annual benefits survey.

Schools

The importance of encouraging whistle blowing in schools is a regular agenda item on meetings with Babcock 4S.

Publicity includes:

- Awareness raising articles placed in the SOS briefings to School Bursars/HR Officers
- As a key part of the Schools Financial Value Standard, governors reassess the profile of the whistle blowing policy yearly
- Expolink promotional resources are provided on the Babcock 4S website, to encourage schools to promote the service
- As a result of the above, there is a steady flow of requests for promotional posters, queries about where to download the whistle blowing policy, and about the policy itself.

8. Future planned activities

- Working with Internal Audit, and other corporate functions, to adopt a joined up approach to any campaigns/initiatives around fraud
- A question and answer article will be placed on Chat zone (s-net) giving further details of the service and how to access it, together with other interventions such as fairness champions
- Whistle blowing promotion will be a topic at a future series of Bursar briefings for schools, to ensure awareness and encourage promotion throughout Surrey County Council schools
- An article will be published in the SOS (School Office Support) bulletin to raise awareness among teachers new to Surrey
- A short survey has been designed to check on employees' knowledge and understanding of the whistle blowing service, to help target future campaigns and will be publicised via Chat Zone
- Information on Expolink continues to be placed on payslips in 2014
- Work will be done to explore the issue of raising awareness of whistle blowing among suppliers.

Conclusions:

9. Awareness of whistle blowing continues to be raised across the workforce.

Financial and value for money implications

10. None.

Equalities and Diversity Implications

11. All equality strands will be applicable to ensure staff have access to reporting concerns, and the outcomes are monitored to ensure the overall well-being of staff. In addition the organisation/services will benefit from robust application of Strategy against Fraud & Theft. Any issues that arise through whistle blowing are addressed as they arise.

Risk Management Implications

12. None identified.

Next steps:

Identify future actions and dates.

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Sources/background papers: n/a.