

## Notice of Meeting

# Audit & Governance Committee



**Date & time**  
**Thursday, 9 April**  
**2015**  
**at 10.00 am**

**Place**  
Ashcombe Suite,  
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](mailto:cherylh@surreycc.gov.uk)

**If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9122, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email [cherylh@surreycc.gov.uk](mailto:cherylh@surreycc.gov.uk).**

**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: 16 FEBRUARY 2015

(Pages 1  
- 12)

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 (*1 April 2015*).
2. The deadline for public questions is seven days before the meeting (*2 April 2015*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

### 5 RECOMMENDATIONS TRACKER

(Pages  
13 - 28)

To review the Committee's recommendations tracker.

### 6 DISPENSATION

(Pages  
29 - 34)

To enable the Committee to consider an application by Councillor Graham Ellwood for a dispensation in respect of a disclosable pecuniary interest, which is registered in the Register of Members Interests. The effect of the dispensation would be to enable Mr Ellwood to participate in Council business from which he would otherwise be excluded by reason of the pecuniary interest.

- 7 EXTERNAL AUDIT: AUDIT PLAN FOR SURREY COUNTY COUNCIL (YEAR ENDED 31 MARCH 2015)** (Pages 35 - 56)
- This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2014/15 financial statements of the Council.
- 8 EXTERNAL AUDIT: AUDIT PLAN FOR SURREY PENSION FUND (YEAR ENDED 31 MARCH 2015)** (Pages 57 - 74)
- This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2014/15 Pension Fund financial statements of the Council.
- 9 S.E. BUSINESS SERVICES LTD 2013/14 ACCOUNTS** (Pages 75 - 92)
- This report, requested by the committee, provides the 2013/14 statement of accounts for SE Business Services.
- 10 EXTERNAL AUDIT: 2013/14 AUDIT FINDINGS REPORT FOR S.E. BUSINESS SERVICES LTD** (Pages 93 - 108)
- This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2013/14 financial statements of S. E. Business Services Ltd.
- 11 UPDATE: CAPITAL PROGRAMME REVIEW** (Pages 109 - 118)
- This report, requested by the committee, provides an update on the action required on the capital programme, following the 2013/14 audit.
- 12 2014/15 REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT** (Pages 119 - 132)
- This report sets out the findings and recommendations from the 2014/15 review of the effectiveness of the system of internal audit in Surrey County Council.
- 13 COMPLETED INTERNAL AUDIT REPORTS** (Pages 133 - 148)
- 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 February 2015.
- 14 SOCIAL CARE DEBT AUDIT - MANAGEMENT ACTION PLAN: PROGRESS UPDATE** (Pages 149 - 158)
- To provide the committee with a progress update on the Management Action Plan in relation to the Review of Social Care Debt 2013/14 Audit Report that was published in June 2014.
- 15 INTERNAL AUDIT PLAN 2015/16** (Pages 159 - 192)
- The purpose of this report is to present the Annual Internal Audit Plan for

2015/16 to the Committee.

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 2015/16 as good practice dictates that these should be updated and reviewed on an annual basis.

Also included in this report are the updated Internal Audit Reporting and Escalation Policy and Quality Assurance and Improvement Programme as required by the Public sector Internal Audit Standards (PSIAS).

- 16 LEADERSHIP RISK REGISTER** (Pages 193 - 206)
- The purpose of this report is to present the Leadership Risk Register as at 28 February 2015 and update the committee on any changes made since the last meeting to enable the committee to keep the council's strategic risks under review.

- 17 SPECIAL EDUCATIONAL NEEDS AND DISABILITY STRATEGY - PROGRESS** (Pages 207 - 210)
- To update the committee on the preparation of a new Special Educational Needs and Disabilities ("SEND") Strategy for the County Council.

- 18 EXCLUSION OF THE PUBLIC**
- Recommendation:** That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

**PART TWO  
IN PRIVATE**

- 19 UPDATE ON REVIEW OF PLACEMENT CRITERIA FOR RESIDENTIAL PROVISION IN SURREY'S MAINTAINED SPECIAL SCHOOLS** (Pages 211 - 214)
- The purpose of this report is to update the Committee on the progress of this Review. It follows the audit report of Special Schools – Funding for Residential Provision. It is an interim report for information only.

**Confidential: Not for publication under Paragraph 4**  
Information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under the authority.

- 20 PUBLICITY FOR PART TWO ITEMS**
- To consider whether the items considered under Part 2 of the agenda should be made available to the Press and the public.

## 21 DATE OF NEXT MEETING

The next meeting of Audit & Governance Committee will be on 28 May 2015.

**David McNulty**  
**Chief Executive**

Published: 27 March 2015

### **MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE**

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It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

*Thank you for your co-operation*

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**MINUTES** of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.30 am on 16 February 2015 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

**Elected Members:**

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

**Apologies:**

Mr Will Forster

**In Attendance**

Cath Edwards, Risk & Governance Manager  
Cheryl Hardman, Regulatory Committee Manager  
Sue Lewry-Jones, Chief Internal Auditor  
Sheila Little, Director of Finance (Section 151 Officer)

**1/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies for absence were received from Will Forster and from the Cabinet Member for Business Services, Denise Le Gal.

Tim Evans and Bill Barker had said that they would be late to the meeting.

**2/15 MINUTES OF THE PREVIOUS MEETING: 1 DECEMBER 2014 [Item 2]**

Subject to amending the title of Sue Lewry-Jones to Chief Internal Auditor, the Minutes were approved as an accurate record of the meeting.

**3/15 DECLARATIONS OF INTEREST [Item 3]**

There were none.

**4/15 QUESTIONS AND PETITIONS [Item 4]**

There were none.

**5/15 RECOMMENDATIONS TRACKER [Item 5]****Declarations of interest:**

None.

**Witnesses:**

Sheila Little, Director of Finance

**Key points raised during the discussion:**

1. In relation to A22/14 (capital programme), the Director of Finance updated the committee. She had spoken to the Chief Property Officer who was monitoring the capital programme regularly. On the basis of a report from him, it would be decided whether to hold a workshop in March 2015.
2. In relation to A23/14 (SEN Strategy), the committee noted the letter from the Cabinet Member for Schools and Learning.

Bill Barker joined the meeting at 10.40pm.

3. In relation to A49/14 (Teachers' Pension Return), the Director of Finance informed the committee that although numerous letters had been sent to Teachers' Pensions, no response had been forthcoming.
4. In relation to A41/14 (Adult Social Care savings), the Chairman confirmed that discussions were ongoing with regard to the Adult Social Care budget. Members discussed the need to have the right expertise to develop a more co-ordinated approach with other organisations. The Director of Finance informed the committee that she had been working with the Chief Executive to provide supportive budget challenges to services. This had recently been done with Adult Social Care and had in particular focused on Families, Friends and Communities initiative. The Strategic Director had taken them through a detailed plan which she and the Chief Executive had been reassured by. A Member highlighted networking lunches that were being held in his local area. This was aiming to ensure that the council knew what organisations were in each local area. A Member expressed concern



about the numerous pots of money allotted to Adult Social Care as he felt this obscured the true picture. The Director of Finance offered to circulate the current monitoring position for Adult Social Care to members of the committee (**Recommendations tracker ref: A1/15**). It was suggested and agreed that the Chairman should write to the Leader of the Council about the difficulties and seriousness of the Adult Social Care budget situation (**Recommendations tracker ref: A2/15**).

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

- i. The Director of Finance to circulate the current monitoring position for Adult Social Care to members of the committee.
- ii. The Chairman to write to the Leader of the Council about the difficulties and seriousness of the Adult Social Care budget situation.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

**6/15 GRANT THORNTON: AUDIT & GOVERNANCE COMMITTEE UPDATE [Item 6]**

**Declarations of interest:**

None.

**Witnesses:**

Andy Mack, Engagement Lead – Grant Thornton  
Kathryn Sharp, Senior Manager – Grant Thornton

Jonathan Evans, Principal Accountant – Financial Accounting  
Sheila Little, Director of Finance

**Key points raised during the discussion:**

1. The Engagement Lead introduced the update report. The headlines regarding the audit approach were outlined on pages 47 and 48 of the report pack.
2. Members expressed concern about the accounting for schools issue. The Senior Manager agreed that there continued to be a lively debate on this issue. The current position is that all Foundation schools will be shown in the balance sheet and that Voluntary Aided and Voluntary Controlled Schools would be determined on a case by case basis, dependent on the right of any other authority to those assets. The Principal Accountant – Financial Accounting informed the committee that for the previous year's accounts, all Foundation Schools and Voluntary Aided Schools were off the balance sheet while all Voluntary Controlled Schools were on the balance sheet. Property is in discussion with the valuation office on Foundation Schools. An estimated value would have to be included in the accounts this year, with a full valuation conducted for next year. A review was also underway on who owns property at Voluntary Aided and Voluntary Controlled schools. A high level estimated valuation would again be included in this year's accounts with a full valuation conducted for next year. Members queried if there was a clear pathway for where

schools which had been removed from the council's balance sheet would go. The Senior Manager explained that the situation was not that clear cut and that the schools may not appear in another set of accounts. However, overall the position would see more schools come onto the council's balance sheet than be taken off. Members were concerned with the suggestion that an asset may not be listed on any accounts as this would introduce a lack of clarity to issues such as ownership and insurance. The Director of Finance agreed to look into the process and legal issues which follow schools being removed from the council's accounts (**Recommendations Tracker ref: A3/15**). The committee went on to consider the situation whereby a number of schools are off the council's balance sheet but their playing fields are on the balance sheet.

3. The Chairman queried what the year-end was for SE Business Services Ltd. The Senior Manager clarified that it is the same as for the Council. However, the Audit Findings Report for the 2013/14 financial year had been delayed to the April 2015 meeting of the committee as the Directors had wanted to see it first.
4. The Chairman queried how Grant Thornton was looking at the Better Care Fund in Surrey. The Engagement Lead stated that auditing the Better Care Fund arrangements in Surrey was high on Grant Thornton's agenda. Training sessions would be arranged for the Council and the Clinical Commissioning Groups (CCGs) on the accounting arrangements.

*Tim Evans joined the meeting at 11.05am.*

5. The Director of Finance informed the committee that the finance governance framework had been agreed as part of the Surrey Local Plan. The Local Plan had also been agreed by the Department of Health. Section 75 agreements were being developed for each CCG. The CCGs were appointing a single solicitor to work with the County Council's solicitor on the Section 75 agreements. Discussions were being held with the Chief Finance Officers for the CCGs to establish a consensus on financial reporting. All were happy for the County Council to host the Fund and work was being undertaken to establish what the resource implications are.
6. Grant Thornton have accepted self-certification of the CCG accounts for 2013/14 and 2014/15. It is unclear at present what the accounting arrangements for 2015/16 would be.
7. The Engagement Lead agreed with the committee that the risks identified were unlikely to apply in local government because of the checks and balances in place. The audit findings report would identify the risk and likely rebut the risk.
8. A Member asked how the findings of the national report '2020 Vision' were being addressed within Surrey County Council. The Director of Finance remarked that, as Section 151 officer, she sat on the Society of County Treasurers. She also has regular one to ones with Chief Finance Officers within the Department of Communities and Local Government. She sought to enlighten government about the complexity of local government funding through these routes.

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

- i. The Director of Finance to look into the process and legal issues which follow schools being removed from the council's accounts and report back.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

To receive detailed audit plans for the Council and Surrey Pension Fund in April 2015.

**7/15 LEADERSHIP RISK REGISTER [Item 10]**

*As the Director of Finance would need to leave the meeting shortly, it was agreed to bring forward item 10 on the agenda.*

**Declarations of interest:**

None.

**Witnesses:**

Cath Edwards, Risk & Governance Manager  
Sheila Little, Director of Finance

**Key points raised during the discussion:**

1. The Risk & Governance Manager introduced the report and highlighted the changes since the previous meeting.
2. The Chairman queried if the residual risk for Risk L7 (Future Funding) was high enough. The Director of Finance explained that the controls were key in bringing down the residual risk level to medium. The Risk was more focused now on council tax and the control shows confidence that Members will make the right decisions. Many discussions had been held on this risk.
3. A Member suggested that L6 (Safeguarding – Children's Services) and L13 (Safeguarding – Adult Social Care) should spell out recruitment and retention problems. The Director of Finance warned about complicating the risks and pointed out that avoidable failure could include lack of resource.
4. It was highlighted that L11 (Information Governance) does not specify hacking as a risk to the council.
5. Members complimented the Risk & Governance Manager on the chart on page 122 for clearly illustrating inherent and residual risk levels.
6. The Director of Finance clarified that while officers are named as lead risk owner, this does not mean that they are individually responsible for managing all that risk. They have responsibility for driving the establishment of controls.

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

None.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

*The Director of Finance left the meeting at 11.35am.*

**8/15 RISING TO THE CHALLENGE: THE EVOLUTION OF LOCAL GOVERNMENT [Item 7]****Declarations of interest:**

None.

**Witnesses:**

Andy Mack, Engagement Lead – Grant Thornton  
Kathryn Sharp, Senior Manager – Grant Thornton

**Key points raised during the discussion:**

1. The Senior Manager introduced the report and highlighted the inclusion of Surrey County Council as a good practice case study.
2. Members stressed that the unexpected (the unknown unknown) is the likeliest doomsday scenario.
3. The Grant Thornton officers stated that they used the good practice checklist in essence each year when looking at the council's financial resilience. They would be happy to share this assessment with officers.
4. Grant Thornton explained that they would check if the council has a good understand of its risk areas and if it has plans to mitigate them. Whether the plans have achieved their aim won't be known until the year end.

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

None.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

**9/15 ASSURANCE MAPPING [Item 8]****Declarations of interest:**

None.

**Witnesses:**

Sue Lewry-Jones, Chief Internal Auditor  
Simon White, Audit Performance Manager

**Key points raised during the discussion:**

1. The Audit Performance Manager introduced the report, explaining the background to assurance mapping.

2. In response to a query, the Chief Internal Auditor explained that the self-assessment column is unlikely to be completed at the Leadership Risk Register level but would more likely be at Directorate or Service Risk Register level. The Audit Performance Manager explained that assurance framework dashboards would be completed for the Leadership Risk Register, the Directorate Risk Registers and the service-level risk registers. In total there would be about 25 assurance framework dashboards.

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

To receive updates on assurance mapping on a six-monthly basis  
(**Recommendations Tracker ref: A4/15**).

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

**10/15 COMPLETED INTERNAL AUDIT REPORTS [Item 9]**

**Declarations of interest:**

None.

**Witnesses:**

Sue Lewry-Jones, Chief Internal Auditor

Siva Sanmugarajah, Leader Auditor

Phil Triggs, Strategic Finance Manager – Pensions and Treasury

**Key points raised during the discussion:**

1. The Chief Internal Auditor introduced the report and the nine internal audit reports that had been completed since the previous meeting of the committee. She highlighted the effective opinion given for SAP application controls. This provided reassurance that vigorous and effective controls were in place.
2. **Bus Operating Contracts:** Members expressed surprise that an obsolete access database was still being used for bus operating contracts given that IMT had a programme to review IT systems being used. It was also queried how the current review of local transport could go forward without an effective contracts system. The Lead Auditor explained that the system had not been seen as a priority. Work was now underway to transfer the database into the new Mobisoft database. The deadline for this is 1 April 2015. There are three types of bus operating contracts: minimum subsidy contracts and minimum cost contracts which are dealt with through normal procurement processes; and de minimis contracts (under the £3,000 threshold) which do not go through normal procurement processes. It is the latter which have not been reviewed. Also, where a single contract becomes unviable, new routes have been added under the old contract reference which has caused confusion and has made some contracts which were originally de minimis much larger.

3. **Pension Fund Investments:** The Strategic Finance Manager – Pensions and Treasury explained that reconciliations did take place on a timely basis but that in this instance SAP had not been updated quickly enough.
4. **SAP Application Controls:** In response to a question, the Chief Internal Auditor offered to circulate information on who provides SAP support (**Recommendations Tracker ref: A5/15**).
5. **Financial Assessments and Benefits:** The Chief Internal Auditor confirmed that Internal Audit was supportive of the changes identified through the Rapid Improvement Event on Financial Assessments and Benefits. However, benefits were yet to materialise. She also pointed out the link between this process and social care debt. The Chairman offered to bring the findings of the audit of Financial Assessments and Benefits to the attention of the Cabinet Member for Adult Social Care (**Recommendations Tracker ref: A6/15**).
6. **Property Asset Management System:** There was some concern that PAMS continued to be an issue. The Chief Internal Auditor and Lead Auditor reminded the committee of the phased approach being taken to implementing PAMS. In response to a query from the Chairman, the Lead Auditor explained why resolution of the process for filing paid invoices had been determined to be of high priority. The Chairman requested that a briefing on progress and the updated MAP be brought to a future meeting of the committee (**Recommendations Tracker ref: A7/15**). He also agreed to write to the Cabinet Member for Business Services and the Cabinet Associate for Assets and Regeneration Programmes about the continuing issues identified by Internal Audit regarding PAMS (**Recommendations Tracker ref: A8/15**).

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

- i. Chief Internal Auditor to circulate information on who provides SAP support.
- ii. The Chairman to bring the findings of the audit of Financial Assessments and Benefits to the attention of the Cabinet Member for Adult Social Care.
- iii. A briefing on the implementation of PAMS and the updated MAP to be brought to a future meeting of the committee.
- iv. The Chairman to write to the Cabinet Member for Business Services and the Cabinet Associate for Assets and Regeneration Programmes about the continuing issues identified by Internal Audit regarding PAMS.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

**11/15 TREASURY MANAGEMENT 2015/16: BRIEFING [Item 11]**

**Declarations of interest:**

None.

**Witnesses:**

Phil Triggs, Strategic Finance Manager – Pensions & Treasury

**Key points raised during the discussion:**

1. The Strategic Finance Manager – Pensions & Treasury introduced the report and updated the committee that in the past week £30m had been added to borrowing at 3.23% interest.
2. A Member asked if the recent announcement about grant aid would require the strategy to be updated. The Strategic Finance Manager clarified that the strategy gave the general approach to management.

*The Director of Finance rejoined the meeting at 12.35pm.*

3. The Strategic Finance Manager – Pensions & Treasury confirmed that the remaining deposit with Icelandic banks had been auctioned off and that the monies had been received that day. This brings the Icelandic situation to a close.
4. In response to a query about the 364 day limit on investments, the Strategic Finance Manager – Pensions & Treasury explained that the limit was seen as a reasonable timescale.
5. Members asked why the US was not included as an approved country for investment. The Strategic Finance Manager – Pensions & Treasury said that neither the US nor the UK are in the sovereign AAA rated category. However, with the recovery in the US, it would not be long until its AAA rating was resumed. He reminded the Board that the use of Money Market Funds is restricted to funds with three AAA ratings, from two of the three rating agencies.
6. It was queried what the Council's exposure was if gilt yields were to go negative. The Strategic Finance Manager – Pensions & Treasury informed the Board that gilt yields translate directly into the rates on offer twice-daily. If gilt yields were to enter negative territory it would mean very low interest rates for the authority. It was felt that we had seen the lowest point for gilt yields.

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

None.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

**12/15 STATUTORY RESPONSIBILITIES NETWORK [Item 13]**

*It was agreed to bring this item forward as the Chief Executive had arrived to introduce the report.*

**Declarations of interest:**

None.

**Witnesses:**

David McNulty, Chief Executive  
Sheila Little, Director of Finance

**Key points raised during the discussion:**

1. The Chief Executive introduced the report.
2. The Chairman asked the Chief Executive for the top three issues being considered by the Statutory Responsibilities Network. The Chief Executive explained that the Network takes an overview of the council's regulatory framework and also considers changing national expectations. His personal view was that safeguarding of children and vulnerable adults was the number one priority; a sustainable financial strategy linked to all regulatory responsibilities; and employee wellbeing, as council's services are provided by employees and so it was essential that they felt supported.
3. The Chairman asked how issues were being addressed. The Chairman explained that the Network met fortnightly. Members of the network provided updates, then there would be detailed conversations around planned agenda items. Officers could raise issues such as changes in the national or local security regime. However, informal connections were also crucial and conversations continued informally outside of the Network meetings.
4. Members queried how the outcomes of the meetings between the Chairman of the committee and the Chief Executive would be fed back to the committee.
5. The Chief Internal Auditor informed the committee that she felt that the Network was very effective and included the right people. The Chief Executive stressed that this group of people had not previously had these discussions in this combination. The Network also allowed for a greater focus at the corporate level on the Leadership Risk Register.
6. The Chief Executive felt that whistleblowing was important feedback and took comments from Members very seriously. He had in the past taken up issues raised with him with the Monitoring Officer and with the Chief Internal Auditor. Members informed the Chief Executive that it felt that it was now necessary to go higher up for action to be taken on an issue. The Chief Executive agreed that he was being asked to take action on issues which should have been dealt with at a lower level and that this was being addressed.

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

None.

**RESOLVED:**

- i. That the Committee receives twice yearly reports on progress (**Recommendations Tracker ref: A9/15**).
- ii. That the Audit & Governance Committee Chairman has regular meetings with the Network chairman, the Chief Executive, in order to go through minutes and keep up-to-date with network activity.

**Committee next steps:**

None.

**13/15 AUDIT & GOVERNANCE COMMITTEE: ANNUAL REPORT 2014 [Item 12]****Declarations of interest:**

None.



**Witnesses:**

Nick Harrison, Chairman

**Key points raised during the discussion:**

1. The Chairman introduced the report.

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

None.

**RESOLVED:**

- i. That the committee ENDORSES the 2014 annual report to full Council (**Recommendations Tracker ref: A10/15**).

**Committee next steps:**

None.

**14/15 DATE OF NEXT MEETING [Item 14]**

The date of the next meeting was noted.

Meeting ended at: 1.05 pm

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**Chairman**

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**Audit & Governance Committee  
9 April 2015**

**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, circulated by email on 17 March 2015, 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).

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**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
R3/14	29/05/14	2013/14 Annual Governance Statement	To COMMEND the draft Annual Governance Statement, subject to the amendments outlined above, to the Cabinet for publication with the council's Statement of Accounts.	Cabinet	<p>On 24 June 2014, Cabinet approved the Annual Governance Statement for inclusion within the Statement of Accounts and Annual Report.</p> <p>Audit &amp; Governance Committee is to continue to monitor the governance environment and report to Cabinet as appropriate. A half year governance update is scheduled for the meeting on 1 December 2014.</p> <p>On 25 September 2014, the Chairman reported that progress was being made on health and dental checks for looked after children. A copy of a confidential report on progress has been circulated to committee Members for information.</p> <p>The half-year update was on the agenda for 1 December 2014.</p>

## Audit & Governance Committee Recommendations Tracking

### Recommendations (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A28/14	25/09/14	Ethical Standards Annual Review	That refresher training on the Code of Conduct be provided in 2015 and a reminder be given about Gifts and Hospitality.	Director of Legal and Democratic Services	The DCLG has recently issued supplementary guidance which suggests that the Members' Code of Conduct be amended to require disclosure of "non-pecuniary interests". Refresher training on the Code of Conduct and on Gifts & Hospitality may need to be combined with training on non-pecuniary interests.
A40/14	25/09/14	Audit & Governance Effectiveness Review: Final Report	That the committee considers how to develop its involvement in major projects such as the New Models of Delivery project	Chairman/ Regulatory Committee Manager	<p>A summary of projects in progress has been shared with the Committee, together with the report and minutes on the New Models of Delivery Project which was considered at Corporate Overview &amp; Scrutiny Committee.</p> <p>At a workshop with Internal Audit on 16 February, the Audit &amp; Governance Committee heard that a number of key projects were being audited already. The committee also considered how assurance about governance and control systems were in place for partnerships at a workshop on 27 February.</p> <p>It was also decided to hold a session to consider the adequacy of governance and assurance of all IMT projects. This is scheduled for May 2015.</p>
A49/14	1/12/14	Annual Audit Letter 2013/14	Officers to report back to the February meeting of Audit & Governance Committee on progress with the certification of the Teachers' Pension Return.	Deputy Chief Finance Officer	The Director of Finance reported that progress had not been made because of a lack of response from Teachers' Pensions.

## Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A53/14	1/12/14	Treasury Management Half-Year Report	Training on the treasury management function to be arranged.	Strategic Finance Manager – Pensions and Treasury	To be arranged.
A1/15	16/02/15	Recommendations Tracker	The Director of Finance to circulate the current monitoring position for Adult Social Care to members of the committee.	Director of Finance	To be circulated.
A2/15	16/02/15	Recommendations Tracker	The Chairman to write to the Leader of the Council about the difficulties and seriousness of the Adult Social Care budget situation.	Chairman	The Chairman spoke to the Leader and followed this up with a letter on 3 March 2015. The Leader discussed the issue with the Cabinet Member for Adult Social Care and a response was received from the Cabinet Member which was circulated to the committee by email.
A3/15	16/02/15	Grant Thornton: Audit & Governance Committee Update	The Director of Finance to look into the process and legal issues which follow schools being removed from the council's accounts and report back.	Director of Finance	Director of Finance to report back.
A6/15	16/02/15	Completed Internal Audit Reports	The Chairman to bring the findings of the audit of Financial Assessments and Benefits to the attention of the Cabinet Member for Adult Social Care.	Chairman	The Chairman spoke to the Leader and followed this up with a letter on 3 March 2015. The Leader discussed the issue with the Cabinet Member for Adult Social Care and a response was received from the Cabinet Member which was circulated to the committee by email.

**Audit & Governance Committee Recommendations Tracking**

<b>Number</b>	<b>Meeting Date</b>	<b>Item</b>	<b>Recommendation / Action</b>	<b>Action by whom</b>	<b>Action update</b>
A8/15	16/02/15	Completed Internal Audit Reports	The Chairman to write to the Cabinet Member for Business Services and the Cabinet Associate for Assets and Regeneration Programmes about the continuing issues identified by Internal Audit regarding PAMS.	Chairman	The Chairman has written to the Cabinet Member for Business Services and received an acknowledgement.



## Audit & Governance Committee Recommendations Tracking

### Completed Recommendations/Referrals/Actions – to be deleted

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A12/14	29/05/14	Internal Audit Annual Report 2013/14	The Chief Internal Auditor to consider the need for an audit of recovery rates following damage to Council property.	Chief Internal Auditor	<p>A relevant note was added to the Audit Universe to highlight this as an area to consider as part of the 2015/16 annual planning process.</p> <p>This was considered as part of developing the Internal Audit Plan 2015/16. However, it was agreed with the Chairman not to include this as the risk score following assessment against set criteria did not suggest this was a priority.</p>
A22/14	31/07/14	External Audit Report on Value for Money for Surrey County Council	The Director of Finance to bring a report to committee following the Rapid Improvement Event on the capital programme.	Director of Finance	<p>On 1 December 2014, the Deputy Chief Finance Officer informed the committee that it had been decided not to undertake a Rapid Improvement Event on the capital programme as the issues were not about process but about project management. A different approach was being taken with facilitated workshops to identify a more realistic way to build in assumptions to the capital programme.</p> <p>A report has been scheduled for April 2015.</p>
A23/14	25/09/14	Recommendations Tracker	The Chairman to discuss with the Cabinet Member for Schools and Learning whether it would be possible for the committee to receive an update on the SEN Strategy and Residential Strategy in February 2015.	Chairman/Regulatory Committee Manager	A response from the Cabinet Member for Schools and Learning was attached to the meeting papers for 16 February 2015. Two update reports are on the agenda for 9 April 2015.

## Audit & Governance Committee Recommendations Tracking

A33/14	25/09/14	Audit & Governance Effectiveness Review: Final Report	That work be undertaken to improve working arrangements between Audit & Governance Committee and the Select Committees	Regulatory Committee Manager	Discussions have been held between officers supporting Audit & Governance Committee and Select Committees with regard to task group findings. Work Plans have been shared to help Select Committees with their agenda planning. Select Committee consideration of audit reports is being monitored regularly and the results shared with the Chairman and Chief Internal Auditor.
A44/14	1/12/14	Recommendations Tracker	Chairman to write to the Leader of the Council expressing the committee's concerns about the Adult Social Care budget.	Chairman	The Chairman emailed members of the committee on this subject on 15 February 2015.
A51/14	1/12/14	Completed Internal Audit Reports	Chairman to discuss value for money concerns about sustainable transport schemes with Members and raise the issues with the Local Committees' Chairmen's' meeting.	Chairman	An email was sent to the Chairman of Local Committees' Chairman's Group on 24 February following discussions with the relevant Members and sharing a draft with all Members of the Committee. Pat Frost, the Chairman of that Group agreed to raise the issues as requested.
A57/14	1/12/14	Social Care Debt Audit – MAP: Progress Update	A further report to be scheduled on progress against the management action plan, including progress on the second direct debit date, information about the two best practice local authorities and information on unsecured debt with no specific reason identified which was older than a year.	Senior Principal Accountant (Neill Moore)	Scheduled for 9 April 2015.

### Audit & Governance Committee Recommendations Tracking

A4/15	16/02/15	Assurance Mapping	The committee to receive updates on assurance mapping on a six-monthly basis.	Audit Performance Manager	Scheduled for February and September meetings.
A5/15	16/02/15	Completed Internal Audit Reports	Chief Internal Auditor to circulate information on who provides SAP support.	Chief Internal Auditor	The Chief Internal Auditor circulated information by email on 3 March 2015.
A7/15	16/02/15	Completed Internal Audit Reports	A briefing on the implementation of PAMS and the updated MAP to be brought to a future meeting of the committee	Performance Manager, Property	Scheduled for the May meeting.
A9/15	16/02/15	Statutory Responsibilities Network	That the Committee receives twice yearly reports on progress.	Regulatory Committee Manager	Scheduled for February and September meetings.
A10/15	16/02/15	Audit & Governance Committee: Annual Report 2014	That the committee ENDORSES the 2014 annual report to full Council.	Regulatory Committee Manager	Endorsed to Council on 17 March 2015.

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# Audit & Governance Committee

## 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

None

## Internal Audit update

Current Audits	<p>The following audits are currently in progress or at the planning stage:</p> <ul style="list-style-type: none"> <li>Information Governance</li> <li>Telecare</li> <li>Accounts Payable</li> <li>Accounts Receivable</li> <li>Risk Management</li> <li>Streetworks Permit Scheme</li> <li>AIS Care Assessment Process</li> <li>Appraisals - Follow-up</li> </ul>
2015/16 Internal Audit Planning Process	<p>The Internal Audit team has been meeting with key officers across all key service areas to consider areas for possible inclusion in the 2015/16 Internal Audit Plan and the views of members of the Audit and Governance Committee were captured at an informal meeting with the Internal Audit team on 16 February.</p> <p>The draft plan will be discussed at a meeting of the Statutory Responsibilities Network in March and will be presented to the Audit and Governance Committee for approval on 9 April 2015.</p>

Counter Fraud Work	<p><u>Audit &amp; Governance Committee - Seminar on Counter Fraud Arrangements</u></p> <p>Members of the Audit &amp; Governance Committee attended a seminar on the council's arrangements to counter fraud. Reem Burton and Lyle Lumsden from the Internal Audit team gave presentations covering the following:</p> <ul style="list-style-type: none"> <li>• The main areas of fraud risk the organisation is exposed to.</li> <li>• The principles of good fraud risk management practice</li> <li>• Results and implications of the Fraud Culture survey of Council staff</li> <li>• The organisation's arrangements for tackling fraud.</li> <li>• The approach to and findings from, the recent audit of Fuel Cards</li> </ul> <p><u>National Fraud Initiative</u></p> <p>The National Fraud Initiative (NFI) data upload took place in October and the results are now available.</p> <p>The NFI exercise has identified 18,500 data matches across 47 reports. This is a 5% increase from the 17,600 matches identified in the 2012/13 exercise. This is due to the inclusion of a new data set regarding direct payments.</p> <p>The three highest priority matches relating to the immigration status of employees have now been investigated. In each case there was no issue identified, the match being caused by timing issues or the failure of individuals to update their status. One point noted was the need to keep copies of updated immigration/right to work status on central personnel files.</p> <p>We are currently examining the creditor and pensions data where a high number of matches were identified. A further update on the outcomes of this work will be available at the Half Year Irregularity Report which will be presented to the Audit and Governance Committee in May.</p>
Partnership Working	<p>Internal Audit management are currently exploring opportunities to work more closely with Elmbridge Borough Council. Meetings have been held with the Deputy Chief Executive and Chief Finance Officer (S151) at Elmbridge to discuss the possible provision by Surrey County Council of Internal Audit resource, including the role of Chief Internal Auditor.</p>
Staffing News	<p>One agency member of staff, Tasneem Ali, recently left the team to take up another opportunity and a new agency member of staff, Ian Wallace has joined the team. Ian has extensive experience of working in Internal Audit in local government and will lead on audit reviews of the Better Care Fund and Public Health.</p> <p>Following a successful recruitment process we have recently appointed Revinder Hothi and Florentin Pojoranu to the position of Senior Auditor. Revinder previously worked within the team as an Auditor and Florentin had already been working as a Senior Auditor on secondment from Adult Social Care.</p> <p>We are sorry to say farewell to Dan Wilson, Senior Auditor who leaves at the end of March to take up a work opportunity outside the council. Dan has recently completed audits on Domestic Abuse and Direct Payments (Children's).</p> <p>Having successfully passed a number of examinations and completed an assignment, Reem Burton, Lead Auditor, is now confirmed as a Professionally Accredited Counter Fraud Specialist.</p> <p>Lyle Lumsden, IMT Auditor, has recently passed a Data Analytics exam and is now a Certified IDEA Data Analyst so can add CIDA to the growing list of designation abbreviations after his name.</p>

## Further information

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<p><a href="#">Accounts and Audit Regulations 2015</a></p> <p><b>February 2015</b></p>	<p>The new regulations for English local authorities (including police and fire bodies) have been published. They come into force from 1 April 2015 for the accounting year 2015/16.</p> <p>The new regulations recognise the need to follow public sector internal audit standards and also remove the need for a separate review of the effectiveness of internal audit.</p> <p>The regulations make changes to the publication of the accounts and annual governance statement. These, together with a narrative statement on the use of resources should be published by 31 July. The audit opinion should also be published by this date or 'as soon as reasonably practicable'. This date applies from 2017/18 – until then the date remains as 30 September.</p>
<p><a href="#">CfPS calls for action to address barriers to effective local scrutiny</a></p> <p><b>3 February 2015</b></p>	<p>The survey, albeit based on limited numbers, found that in a small but worrying minority of councils, local leaders and senior officers appeared to be seeking to control and limit the effectiveness of local overview and scrutiny inquiries. Findings included leaders choosing the chairs of scrutiny committees, requests for information being obstructed or refused by senior officers and leading members, and the role of the statutory scrutiny officer being low profile and misunderstood.</p>
<p><a href="#">Pickles sends team of commissioners in to Rotherham after damning report</a></p> <p><b>4 February 2015</b></p>	<p>The intervention package would include an order under the Local Government Act 2000 to move Rotherham to holding all-out elections 2016 and every four years thereafter.</p> <p>In the immediate term the commissioners would take over the roles of the “current wholly dysfunctional cabinet” at Rotherham. They would initially exercise all the functions currently exercised by the cabinet, including responsibility for children’s and adult services.</p>
<p><a href="#">Future of risk management: more strategy, communication and complex risks</a></p> <p><b>5 February 2015</b></p>	<p>Michel Dennery outlines the key factors set to change risk management in the future.</p>
<p><a href="#">Pitfalls of the schools admissions appeals process highlighted in two LGO reports out this week</a></p> <p><b>5 February 2015</b></p>	<p>The Local Government Ombudsman (LGO) is highlighting examples of some of the errors that can be made by English schools admissions panels after finding problems with two different appeals processes in Hull and London.</p>
<p><a href="#">New technologies: new fraud?</a></p> <p><b>6 February 2015</b></p>	<p>Technological innovations are facilitating greater interaction between businesses and customers, but fraudsters are exploiting the greater amount of data transactions.</p>
<p><a href="#">Business continuity planning: Video reveals fire damage to 'decimated' South Oxfordshire offices</a></p> <p><b>6 February 2015</b></p>	<p>Council leaders today conceded there was 'still a long way to go' to restore the offices, after fires tore through the building three weeks ago.</p>

<p><a href="#">‘Weak’ council scrutiny raises concerns</a></p> <p><b>9 February 2015</b></p>	<p>Over two-fifths of respondents to a survey on the effectiveness of local authority governance have warned that scrutiny committees are not doing enough to challenge the way that councils operate</p>
<p><a href="#">Council stung by £170k fraud</a></p> <p><b>11 February 2015</b></p>	<p>It’s believed the scam involved changing a council contractor’s bank details so legitimate payments would be diverted to a different account. The cash was taken from the authority’s bank account but the missing funds have since been refunded by one of the banks involved in the transfer.</p>
<p><a href="#">Councils' role in public health gives 'cause for optimism'</a></p> <p><b>12 February 2015</b></p>	<p>In a new report, published by the Royal Society for Public Health, 40% of public health teams said the transfer to local authorities was leading improvements in the sector; up from 15% in 2014.</p> <p>However, the audit also shows that some areas remain a cause for concern, with over half saying they were unable to feel positive about the integration of health and social care.</p>
<p><a href="#">FRC publishes Audit Quality Inspection Reports on Grant Thornton UK LLP</a></p> <p><b>18 February 2015</b></p>	<p>This annual report includes the results of the quality reviews and issues raised. The audits sampled were from private sector clients but three out of eight audits reviewed required significant improvement.</p>
<p><a href="#">Leader resigns after decision to vary £165m development scheme quashed</a></p> <p><b>18 February 2015</b></p>	<p>The Leader of Winchester City Council has resigned in the wake of a court ruling that the authority’s decision to adopt an updated scheme for a £165m city centre redevelopment without conducting a procurement exercise was unlawful.</p>
<p><a href="#">MPs criticise 'flawed' planning for Better Care Fund</a></p> <p><b>26 February 2015</b></p>	<p>A <a href="#">report</a> on the £5.3bn Better Care Fund from the Public Accounts Committee said that a failure to be clear with local areas over savings projections had ‘severely undermined’ initial planning for the scheme.</p>
<p><a href="#">The role of prescribed persons</a></p> <p><b>27 February 2015</b></p>	<p>The National Audit Office has published a report on the role of prescribed persons in whistleblowing. One of the principle conclusions of the NAO investigation is that more needs to be done to reduce the gap between the actions of prescribed persons and whistleblowers’ expectations, whilst recognizing that it is unlikely that the gap will ever be fully closed.</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:

Cabinet	<p>At its meeting on <a href="#">3 February 2015</a>, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> <li>• Confident in Surrey's Future: Corporate Strategy 2015-2020</li> <li>• Revenue &amp; Capital Budget 2015/16 to 2019/20 and Treasury Management Strategy</li> <li>• Finance and Budget Monitoring Report for December 2014</li> <li>• Provision of Targeted Children and Mental Health Services and the HOPE Service: Section 75 Agreement with Surrey Clinical Commissioning Groups and Contract Extension with Surrey &amp; Borders Partnership NHS Foundation Trust</li> </ul> <p>At its meeting on <a href="#">24 February 2015</a>, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> <li>• Surrey Better Care Fund Implementation – Section 75 Agreements with Clinical Commissioning Groups</li> <li>• Surrey County Council and East Sussex County Council Partnership</li> <li>• Finance and Budget Monitoring Report for January 2015</li> <li>• Leadership Risk Register</li> </ul>
Leader Decisions	<p>At his meeting on <a href="#">14 January 2015</a>, the Leader considered the following report:</p> <ul style="list-style-type: none"> <li>• Counter Fraud Fund</li> </ul> <p>At his meeting on <a href="#">29 January 2015</a>, the Leader considered the following report:</p> <ul style="list-style-type: none"> <li>• Icelandic Bank Deposit – Glitnir Auction</li> </ul>
Surrey Pension Fund Board	<p>At its meeting on <a href="#">13 February 2015</a>, the Surrey Pension Fund Board considered the following reports:</p> <ul style="list-style-type: none"> <li>• Manager Issues and Investment Performance</li> <li>• Pension Fund Business Plan 2015/16</li> <li>• Revised Statement of Investment Principles</li> <li>• Responsible Investment and Stewardship Policy</li> <li>• Corporate Governance Share Voting</li> <li>• Local Government Pension Scheme: Governance Regulations</li> <li>• Key Performance Indicators</li> <li>• Pension Fund Risk Register</li> </ul>
Adult Social Care Select Committee	<p>At its meeting on <a href="#">15 January 2015</a>, the Adult Social Care Select Committee considered the following reports:</p> <ul style="list-style-type: none"> <li>• Internal Audit Report – Review of Social Care Debt 2013/14</li> </ul>
Children and Education Select Committee	<p>At its meeting on <a href="#">26 January 2015</a>, the Children and Education Select Committee considered the following report:</p> <ul style="list-style-type: none"> <li>• School Governance Task Group</li> </ul>
Council Overview & Scrutiny Committee	<p>At its meeting on <a href="#">29 January 2015</a>, the Council Overview and Scrutiny Committee considered the following reports:</p> <ul style="list-style-type: none"> <li>• Agency Staff Audit Action Plan Update</li> <li>• Budget Monitoring Report</li> </ul> <p>At its meeting on <a href="#">4 March 2015</a>, the Council Overview and Scrutiny Committee considered the following reports:</p> <ul style="list-style-type: none"> <li>• New Models of Delivery Programme</li> <li>• Budget Monitoring Papers</li> </ul>

Health Scrutiny Committee	<p>At its meeting on <a href="#">8 January 2015</a>, the Health Scrutiny Committee considered the following report:</p> <ul style="list-style-type: none"> <li>• Follow up from CQC Inspection Quality Summit</li> <li>• Better Care Fund Locality Hubs</li> </ul>
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## Upcoming

The next meeting of the Audit & Governance Committee is on 9 April 2015. The following items are on the agenda:

- Member Dispensation
- External Audit – Audit Plan
- External Audit – Audit of SE Business Services Ltd
- Internal Audit Plan 2015/16
- Social Care Debt Audit – MAP: Progress Update
- Effectiveness Review of the System of Internal Audit
- Update: SEN Strategy and Residential Strategy
- Leadership Risk Register
- Completed Internal Audit Reports
- Whistle blowing Update
- Update on the Capital Programme

## Committee Contacts

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Audit & Governance Committee  
9 April 2015

**Dispensation**

**Purpose of the report:**

To enable the Committee to consider an application by Councillor Graham Ellwood for a dispensation in respect of a disclosable pecuniary interest, which is registered in the Register of Members Interests. The effect of the dispensation would be to enable Mr Ellwood to participate in Council business from which he would otherwise be excluded by reason of the pecuniary interest.

**Recommendations:**

It is recommended:

1. That the Committee considers the application and reaches a decision on the request for a dispensation.
2. That the Committee decides the circumstances or period for which it intends any dispensation to apply, up to a maximum of four years.

**Introduction:**

1. In accordance with the Localism Act 2011 and the Council's Constitution, unless a dispensation has been granted Members are not permitted to participate in any discussion of, vote on or discharge any function related to any matter in which they have a disclosable pecuniary interest.
2. The Audit and Governance Committee has within its terms of reference the function of granting dispensations from the requirements relating to interests set out above.

3. Mr Graham Elwood, a Member of Surrey County Council and Guildford Local Committee, is therefore applying to the Committee for a dispensation in order to allow him to carry out Council functions relating to George Abbott School.
4. Mr Graham Ellwood is the County Councillor for Guildford East. In accordance with the requirement of his office he has completed the Register of Disclosable Pecuniary Interests. The law requires him to include in the Register, details of “any employment, office, trade, profession or vocation carried on for profit or gain”. He (in common with all councillors) is required to register both his own disclosable pecuniary interests and those of a spouse or civil partner. The Register therefore rightly contains the following entry of a disclosable pecuniary interest by Mr Ellwood: “My wife Hilary is a teacher at George Abbot academy in Burpham”.
5. In accordance with the Council’s Constitution he has now submitted an application in writing to the Monitoring Officer, to enable him to exercise certain of the Council’s functions in relation to George Abbott School and the Monitoring Officer has, by this report, arranged for this application to be considered in public at this Committee. Mr Ellwood’s application is attached as an appendix to this report.

#### **Process and Criteria for considering a Dispensation**

6. The Council has delegated to the Audit and Governance Committee the decision making regarding the granting of dispensations. In deciding on an application the Committee is required to take into account the application of both legal criteria and locally agreed criteria
7. The relevant criteria set by law which should be considered in relation to the application are whether:
  - The granting of the application is in the interests of people living in the Council’s area and/or
  - It is otherwise appropriate to grant a dispensation
8. The relevant locally agreed criterion which the Committee should consider is whether:
  - The nature of the Member’s interest is such that allowing him to participate would not damage public confidence in the conduct of the authority’s business.
9. In reaching its decision the Committee should therefore look at the facts of the matter as set out in Mr Ellwood’s application and any representation or amplification made by him and reach a view on whether all or any of the above criteria are met to a sufficient degree for the dispensation to be granted. It is not essential that all the criteria are met, but the Committee should be satisfied that at least one applies before granting a dispensation.

10. The law states that a dispensation can be granted for a single event or on an ongoing basis for a maximum period of four years. If the Committee is minded to grant a dispensation it therefore should make a further decision about the time or circumstantial limits or conditions it considers appropriate to impose on the dispensation.

**Cluster funding:**

11. The Chairman requested that information be provided on the cluster funding referred to in Mr Ellwood’s application. The following has been provided by the Community Partnership Manager:

“In 2014/15 a new cluster fund was established to support projects identified by local communities in Guildford under the auspices of the local committee’s new cluster arrangement which apply a greater local focus to community engagement by the local committee.

This was part of the remit to strengthen local committee arrangements between the two authorities [Surrey County Council and Guildford Borough Council].

The fund is administered by the community partnership team and comprises the 35k local committee capital allocation and £35k of revenue funding from Guildford Borough Council”.

**Conclusions:**

**Financial and value for money implications**

12. None.

**Equalities and Diversity Implications**

13. This report consider an application by a single Member and there are no specific equality and diversity implications

**Risk Management Implications**

14. The obvious risk associated with any relaxation of the requirements of the ethical standards framework is a loss of public confidence in the transacting of Council business. This is mitigated by a fair and transparent process for recording interests and considering dispensations.

**Next steps:**

If the Committee approve this application for a dispensation Mr Ellwood will be formally notified and will be able to participate in the indentified business of the Council in which he has a disclosable pecuniary interest

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**Report contact:** Ann Charlton Director of Legal and Democratic services

**Contact details:**

[ann.charlton@surreycc.gov.uk](mailto:ann.charlton@surreycc.gov.uk)  
020 8541 9088



To: Ann Charlton

Monitoring Officer

Surrey County Council

20<sup>th</sup> March 2015

Dear Ann,

### **Request for a dispensation**

I wish to request a dispensation in respect of a disclosable pecuniary interest that I have and which is registered in the Register of Members Interests.

The interest arises in relation to my wife's employment at George Abbot School.

I would like the dispensation to enable me to conduct business of the Council, that is to propose that £6,000 from cluster funding and £3000 from my Member's Allocation is given to George Abbot School in order to contribute to the construction of a new gymnasium (the total cost of which is expected to exceed £50,000) George Abbot is part of the Guildford Education Partnership of academies and is thus a state funded school.

I believe that my application meets the following criteria:

1. The granting of the dispensation is in the interests of people living in the council's or authority's area
2. The nature of my interest is such that allowing me to participate would not damage public confidence in the conduct of the authority's business

I believe that my connection to the school through my wife's employment as a teacher at the school would not damage public confidence in the conduct of the authority's business as any member's allocation made by me to the school would benefit the school and the children, not any personal or business interests of myself or my wife.

The granting of the dispensation would allow local children to benefit from improved facilities which meet a key corporate objective of providing children with the best start in life, including attention to their health and wellbeing. This dispensation would therefore meet the interests of people living in the authority's area.

I understand that you will arrange for my application to be placed on the next available meeting of the Audit and Governance Committee, which will consider the matter in public.

Yours sincerely,

*Graham Ellwood*  
Graham Ellwood

County Councillor for Guildford East

Borough Councillor for Merrow

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Audit & Governance Committee  
9 April 2015

**EXTERNAL AUDIT: AUDIT PLAN FOR SURREY COUNTY  
COUNCIL (YEAR ENDED 31 MARCH 2015)**

**Purpose of the report:**

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2014/15 financial statements of the Council.

**Recommendations:**

It is recommended that the Committee approves the attached Audit Plan (Annex A).

**Introduction:**

1. The Audit Plan outlines the risks we have identified for the audit of the 2014/15 financial statements of the Council and our planned response to them.
2. The report also outlines the work we will undertake as part of our Value for Money conclusion.

**2014/15 Financial Statement Risks**

3. Our audit plan has identified a series of 'significant' risks and 'other' risks. The 'significant' risks comprise:
  - 2 presumed risks as required under International Auditing Standards, relating to fraud arising from revenue recognition and management override of controls
  - Valuation of property, plant and equipment, for both schools and non-schools assets
  - Valuation of your pension fund liability

- Consolidation of the assets, liabilities, income and expenditure of the Council's maintained schools into the Council's financial statements
- Preparation of group accounts for the Council to include the accounts of the subsidiaries S. E. Business Services Limited and Surrey Choices Limited

The 'other' risks comprise:

- Operating expenditure, payroll costs and property, plant & equipment. These areas are the most numerically significant elements of the financial statements that are not otherwise addressed by the significant risks above

#### **Value for Money Conclusion**

4. The Audit Plan summarises our planned approach to our Value for Money work.
5. We will conduct our work with a focus on these areas:
  - High level review of the Council's financial resilience arrangements
  - Review of the Council's progress in implementing recommendations made in 2013/14
  - Review of progress made in the implementation of Better Care Fund arrangements
  - A review of the benefits and savings achieved through the establishment of S. E. Business Services Limited and Surrey Choices Limited

#### **Results of interim audit work**

6. Our report includes detail of work undertaken so far as part of the planning and interim stages of this year's audit.

#### **Conclusion**

7. Following agreement with the Director of Finance, the Audit Plan is presented to this Committee for discussion and approval.

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

None.

#### **Equalities and Diversity Implications**

None.

#### **Risk Management Implications**

None.

**Next steps:**

None.

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**Sources/background papers:** None.

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# The Audit Plan for Surrey County Council

**Year ended 31 March 2015**

9 April 2015

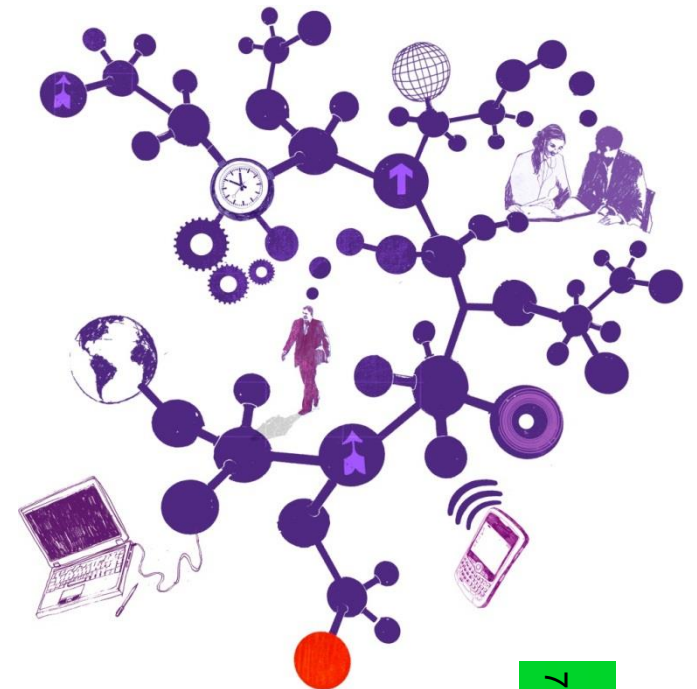
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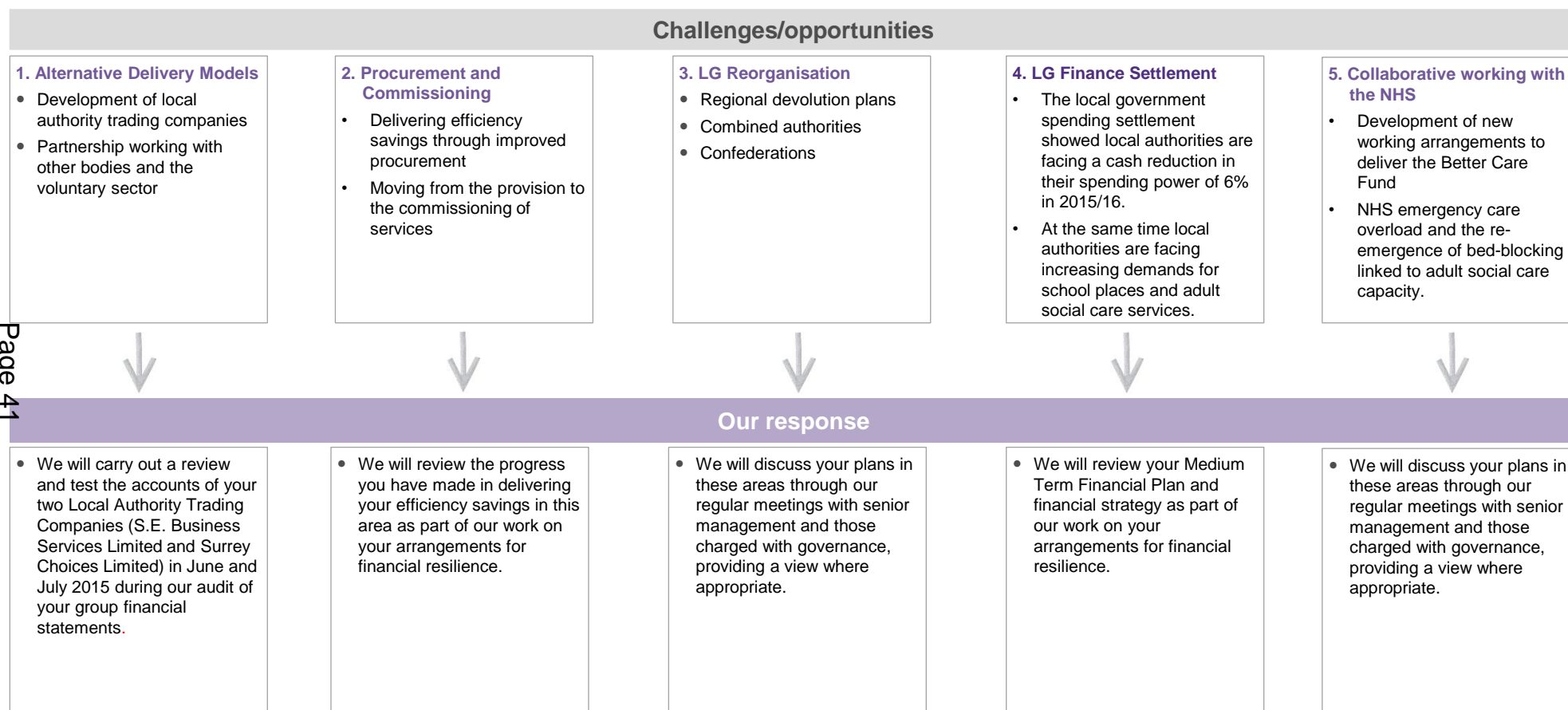
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.

# 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.

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## Developments and other requirements

<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Changes to the recognition of school land and buildings on local authority balance sheets</li> <li>Adoption of new group accounting standards (IFRS 10,11 and 12)</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>Local Government Finance settlement</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>Annual Governance Statement (AGS)</li> <li>Explanatory foreword</li> </ul>	<p><b>4. Better Care Fund</b></p> <ul style="list-style-type: none"> <li>Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>Managing service provision with less resource</li> <li>Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>The Council completes grant claims and returns on which audit certification is required</li> </ul>
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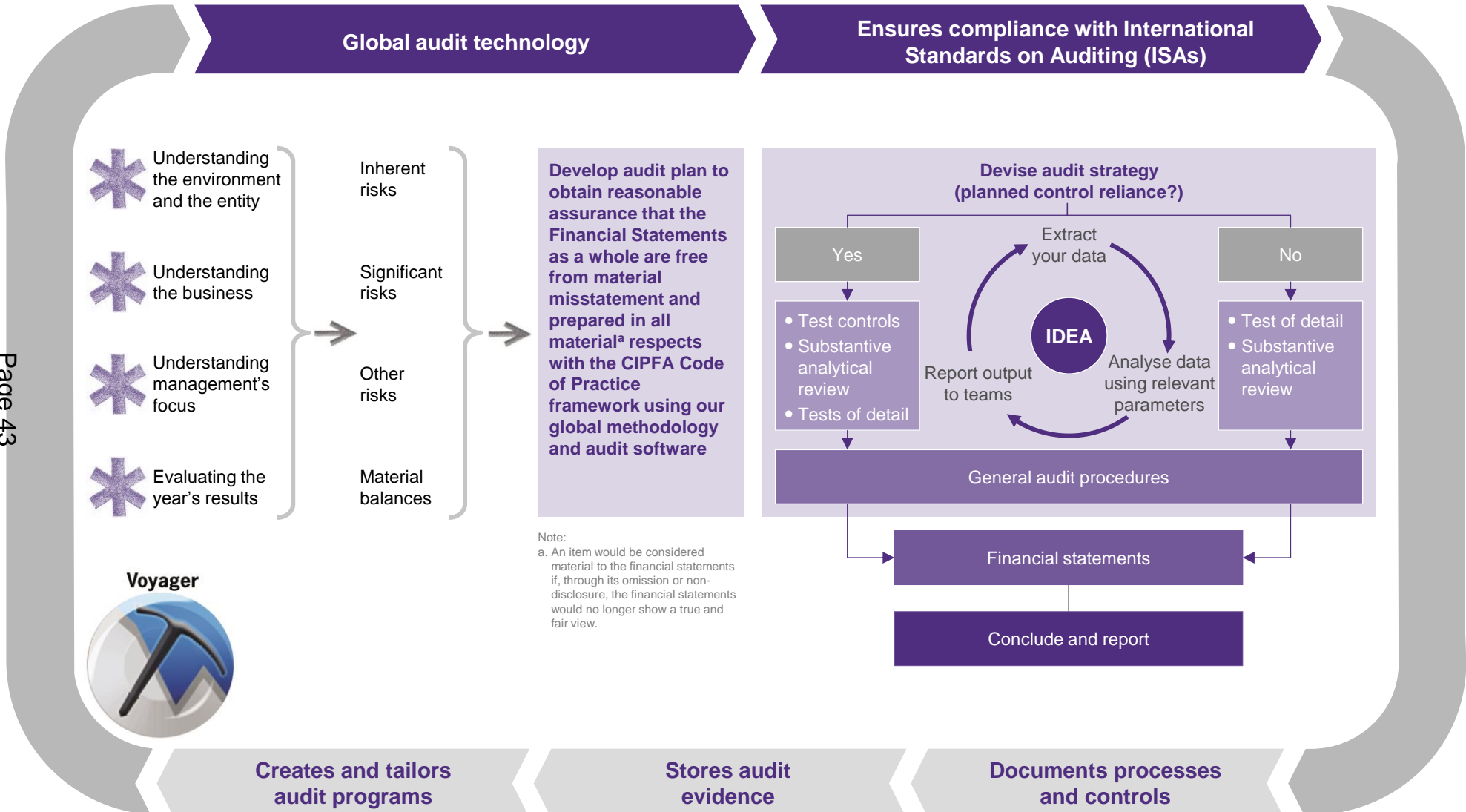
## Our response

<p>We will consider whether:</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice, through discussions with management and our substantive testing</li> <li>schools are accounted for correctly and in line with the latest guidance</li> <li>the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>We will review the arrangements the Council has in place for the production of the AGS</li> <li>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>We will evaluate the impact of the Council's involvement in the BCF for our VfM conclusion.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan</li> <li>We will undertake a review of Financial Resilience as part of our VfM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>We will carry out work on the WGA pack in accordance with requirements</li> <li>We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.</li> </ul>
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# Our audit approach

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# 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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Surrey County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Surrey County Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>

## Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of property, plant and equipment	The Council undertakes a rolling programme of revaluations of its land and buildings. This represents a significant estimate by management in the financial statements.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will identify the controls put in place by management to ensure that the carrying value of property, plant &amp; equipment is not materially different from fair value at year end. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>We will review the consistency of the financial statements with the valuation report from your valuers</li> <li>We will undertake procedures to confirm the reasonableness of the proposed revaluations, including reference to national trends.</li> </ul>
Valuation of property, plant and equipment - schools	Guidance issued during 2014 has confirmed that maintained schools (but not free schools or academies) are separate entities, and that under IFRS 10 they meet the definition of entities controlled by local authorities which should be consolidated in group accounts. The 2014/15 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires local authorities to account for maintained schools within their single entity accounts. Identifying and accounting for school land and buildings not already included in the Council's accounts is a significant exercise.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have discussed the guidance with finance team and agreed an approach for the accounting of the authority's voluntary-aided, voluntary-controlled and foundation schools</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will identify the controls put in place by management to ensure the schools to be included in the authority's accounts are correctly identified and accounted for. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>We will review the judgements made by management for each school reviewed and agree the land and buildings included to supporting working papers.</li> </ul>
Consolidation – schools	Guidance issued during 2014 has confirmed that maintained schools (but not free schools or academies) are separate entities, and that under IFRS 10 they meet the definition of entities controlled by local authorities which should be consolidated in group accounts. The 2014/15 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities. Identifying and accounting for schools not already included in the Council's accounts is a significant exercise.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have discussed the guidance with finance team and agreed an approach for the accounting of the authority's voluntary-aided, voluntary-controlled and foundation schools</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will identify the controls put in place by management to ensure the schools to be included in the authority's accounts are correctly identified and accounted for. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>We will review the judgements made by management for each school reviewed and agree assets and liabilities, income and expenditure for those schools included to supporting working papers</li> </ul>

## Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of pension fund liability	The Council's pension fund liability represents a significant estimate in the financial statements.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We will review the consistency of the financial statements with the actuarial report from your actuary</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> </ul>
Consolidation – S.E. Business Services Limited and Surrey Choices Limited.	The Council will be preparing consolidated accounts for the first time this year. Although its subsidiaries' accounts are not expected to be quantitatively material to the group, they are qualitatively material.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management over the consolidation process. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of misstatement and ensure that all required disclosures are made.</li> <li>• We will review and test the consolidation working papers and agree to supporting evidence.</li> </ul>

# 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.

Risk area	Risk description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough of your controls in place over operating expenditure</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review of the year-end reconciliation of your accounts payable system to the general ledger</li> <li>Testing of year-end creditors and accruals</li> <li>Testing of post-year end payments</li> </ul>
Employee remuneration	Employee remuneration accruals understated	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough of your controls in place over payroll expenditure</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review of the year-end reconciliation of your payroll system to the general ledger</li> <li>Trend analysis of the monthly payroll runs from during the year</li> <li>Other substantive testing as appropriate</li> </ul>
Property, plant and equipment	Property, plant and equipment activity not valid	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough of your controls in place over property, plant and equipment</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review of the reconciliation of your fixed assets register to the general ledger</li> <li>Testing of a sample of additions and disposals</li> <li>Testing of the depreciation charge for the year</li> </ul>

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# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
S. E. Business Services Limited	No	Targeted	None at this stage.	We will agree amounts to underlying financial records and conduct a high level analytical review.
Surrey Choices Limited	No	Targeted	None at this stage	We will agree amounts to underlying financial records and conduct a high level analytical review.

# 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:

- A high level review of the Council's financial resilience arrangements, including your Medium Term Financial Plan and delivery of your efficiency savings.
- A review of the Council's progress in implementing the recommendations we raised in 2013/14.
- A review of progress made in the implementation of Better Care Fund arrangements.
- A review of the benefits and savings achieved through the establishment of S. E. Business Services Limited and Surrey Choices Limited.

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.

# Results of interim 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:

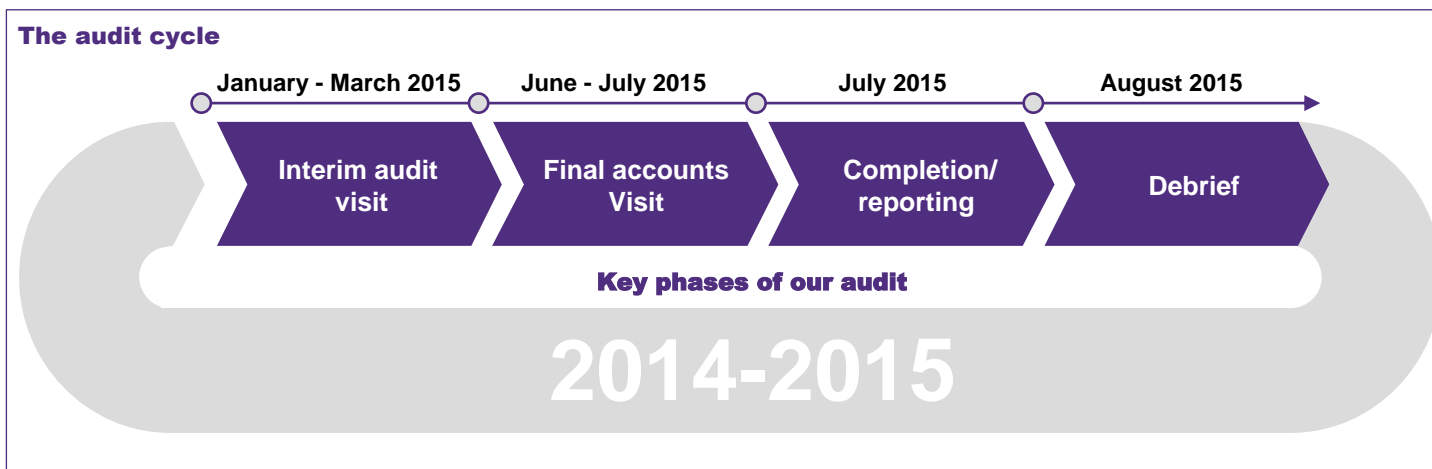
	Work performed and findings	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial 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>
<b>Walkthrough testing</b>	<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>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>



## Results of interim audit work (continued)

	Work performed	Conclusion
<b>Review of information technology controls</b>	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.	Work is in progress and any findings will be included in our Audit Findings Report.
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We will undertake detailed testing on journal transactions recorded for the first eleven months of the financial year alongside our early substantive testing below, by extracting 'unusual' entries for further review.</p>	We will report the findings of this work as part our Audit Findings Report.
<b>Early substantive testing</b>	We will undertake early testing of payroll expenditure, operating expenses and journal transactions in late March 2015.	We will report the findings of this work as part our Audit Findings Report.

# Key dates



<b>Date</b>	<b>Activity</b>
January 2015	Planning
January - March 2015	Interim site visit
9 April 2015	Presentation of audit plan to Audit & Governance Committee
June – July 2015	Year end fieldwork
July 2015	Audit findings clearance meeting with Director of Finance
27 July 2015	Report audit findings to those charged with governance
By 31 July 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	189,464
S.E. Business Services Limited	TBC
Surrey Choices Limited	TBC
<b>Total fees (excluding VAT)</b>	<b>189,464</b>

## 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

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

## Fees for other services

Service	Fees £
None	Nil

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

## 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.

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**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](http://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  
9 April 2015

**EXTERNAL AUDIT: AUDIT PLAN FOR SURREY PENSION  
FUND (YEAR ENDED 31 MARCH 2015)**

**Purpose of the report:**

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2014/15 Pension Fund financial statements of the Council.

**Recommendations:**

It is recommended that the Committee approves the attached Audit Plan (Annex A).

**Introduction:**

1. The Audit Plan outlines the risks we have identified for the audit of the 2014/15 Pension Fund financial statements of the Council and our planned response to them.

**2014/15 Financial Statement Risks**

2. Our audit plan has identified a series of 'significant' risks and 'other' risks. The 'significant' risks comprise:
  - 2 presumed risks as required under International Auditing Standards, relating to fraud arising from revenue recognition and management override of controls
  - Valuation of level 3 investments

The 'other' risks comprise:

- Contributions, member data, investment purchases and sales activity, benefits payable and the valuation of level 2 investments. These areas are the most numerically significant elements of the financial

statements that are not otherwise addressed by the significant risks above

**Results of interim audit work**

3. Our report includes detail of work undertaken so far as part of the planning and interim stages of this year's audit.

**Conclusion**

4. Following agreement with the Director of Finance, the Audit Plan is presented to this Committee for discussion and approval.

**Financial and value for money implications**

None.

**Equalities and Diversity Implications**

None.

**Risk Management Implications**

None.

**Next steps:**

None.

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**Sources/background papers:** None.



# The Audit Plan for Surrey County Council Pension Fund

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

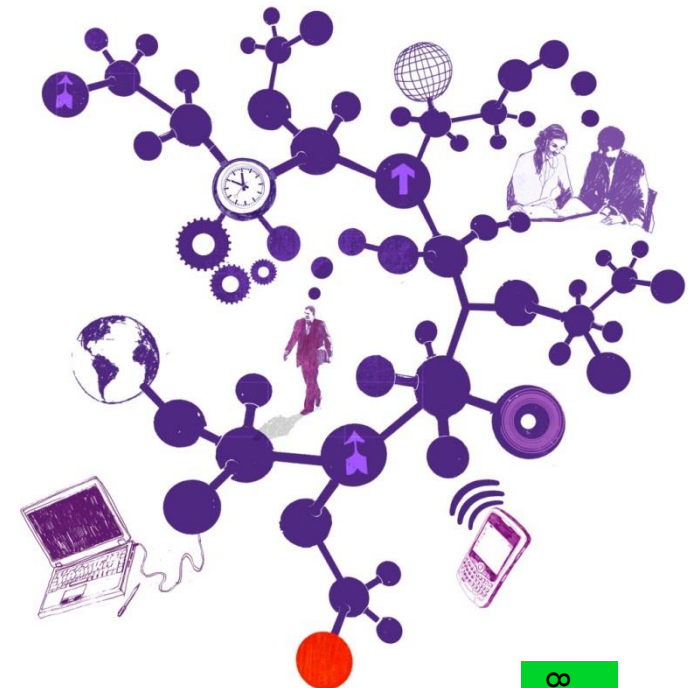
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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# 1. Understanding your business

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

## Challenges/opportunities

### 1. New governance arrangements

- The new governance regulations have introduced further changes for LGPS which take effect from April 2015. These introduce a Local Pension Board for each fund. These boards will work with the administering authority to help ensure compliance and effective governance and administration of the scheme. In addition the regulations also establish a National Scheme Advisory Board and a funding cap. There is a potential for overlap for many schemes between existing Pension Committees and the new Local Pension Boards, with a real challenge for administering authorities to meet the statutory requirements, but in a way which delivers visible improvements in the governance of the funds.

### 2. Pensions Regulator

- The Public Services Pension Act also provides for the extension of the work of The Pensions Regulator to the LGPS from 1 April 2015.
- The Fund will need to monitor compliance with requirements set by the regulator.

### 3. Future structural reform

- In May 2014 DCLG consulted on the opportunities for collaboration, cost savings and efficiencies in the management of LGPS funds. While the outcome of this is still awaited there is clearly a growing momentum for structural change.
- In the meantime the growing use of shared arrangements is delivering real benefits to funds through reduced costs, increasing access to relevant expertise and improved quality.

### 4. Local government outsourcing

- As many councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.



## Our response

- We will continue our on-going dialogue with officers around their governance arrangements.
- We will share any emerging good practice with officers.

- We will share our experience of working with The Pensions Regulator.
- We will discuss with officers any changes that have been made to existing practices for the fund to demonstrate compliance.

- We will share good practice in reducing administration costs through collaboration or other initiatives.
- We will discuss any proposals for structural change and their impact on the Pension Fund with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the Pension Fund.

## 2. 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

#### 1. LGPS 2014

- Ahead of 2014/15 funds have moved to implement LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

#### 2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015, however the Pension Fund needs to ensure on-going compliance with the Code.

#### 3. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.

#### 4. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

### Our response

- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

# 3. Our audit approach

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Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- \* Understanding the environment and the entity
- \* Understanding the business
- \* Understanding management's focus
- \* Evaluating the year's results

Inherent risks

Significant risks

Other risks

Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material<sup>a</sup> respects with the CIPFA Code of Practice framework using our global methodology and audit software

Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls



## 4. 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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Surrey Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Surrey County Council who act as the administrators of the Pension Fund, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>
Level 3 Investments – Valuation is incorrect	Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Gain an understanding of the controls which officers have put in place to gain assurance over the valuation of these investments at year end.</li> <li>• For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31<sup>st</sup> March 2015 with reference to known movements in the intervening period.</li> <li>• We will also review the nature and basis of estimated values, as well as the opinions issued on the audited accounts of the specific investments where applicable.</li> </ul>

## 5. 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 risks	Description	Audit Approach
Investment values – Level 2 investments	Valuation is incorrect. (Valuation - Net)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for any significant variances identified</li> <li>• If required, we will test a sample of level 2 investments to independent information from custodian/manager on units and on unit prices to ensure these have been correctly recorded within the Accounts.</li> </ul>
Contributions	Recorded contributions not correct (Occurrence)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Controls testing over occurrence, completeness and accuracy of contributions from member bodies</li> <li>• Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained</li> <li>• We will also undertake substantive testing on a sample of contributions received by the Fund during the year to ensure they have been deducted at the correct rates given the changes under LGPS 2014.</li> </ul>



## Other risks identified continued

Other risks	Description	Audit Approach
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for any significant variances identified</li> <li>As required, we will then select a sample of purchases and sales incurred during the year and agree these back to supporting documents.</li> </ul>
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Controls testing over the completeness, accuracy and occurrence of benefit payments</li> <li>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained</li> <li>We will also select a sample of pensions in payment (new and existing), lump sum benefits and refunds and test them by reference to the benefit calculation on the respective member file</li> <li>We will compare the movements on membership statistics to material transactions in the accounting records</li> </ul>
Member Data	Member data not correct. (Rights and Obligations)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Controls testing over annual/monthly reconciliations and verifications with individual members</li> <li>Sample testing of changes to member data made during the year back to source documentation. We will also ensure the processing of new starters is considered within this testing</li> </ul>

## 6. Results of interim audit work

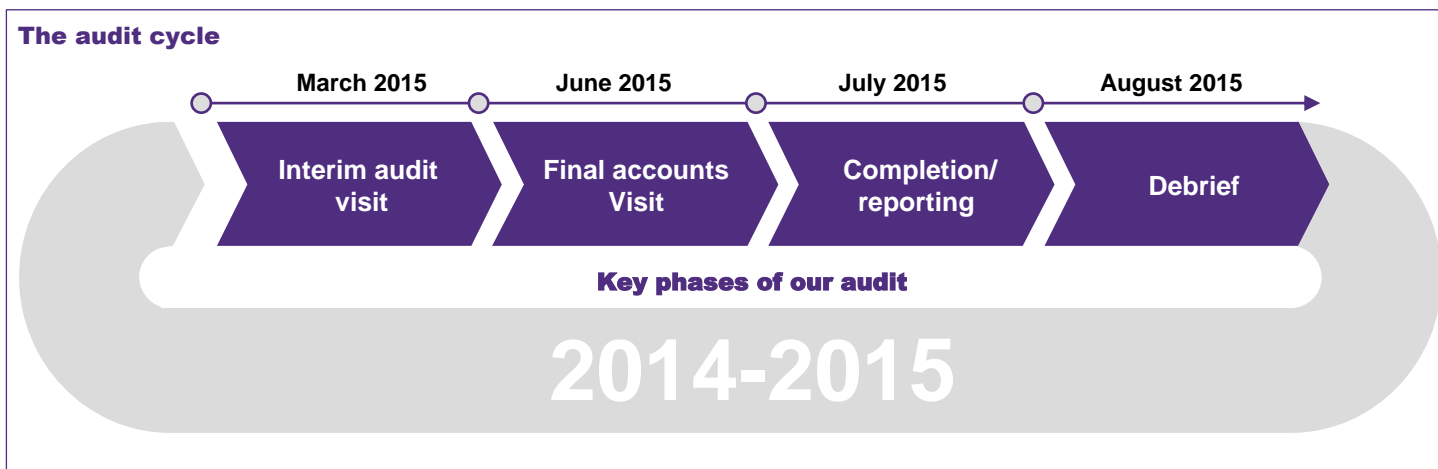
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. 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 Fund'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 Fund and that internal audit work contributes to an effective internal control environment at the Administering Authority.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<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>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p>

# Results of interim audit work cont'd

	Work performed	Conclusion
<b>Review of information technology controls</b>	<p>Our information systems specialist will be performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also be performing a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls in our walkthroughs were observed to have been implemented in accordance with our documented understanding.</p>	<p>The work of our information systems specialists is outstanding at this stage, and the results of this will be included within the Audit Findings Report issued in July 2015</p>
<b>Journal entry controls</b>	<p>We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.</p>	<p>No control deficiencies have been identified. Detailed testing of journals will be performed during our year end visit and reported within the Audit Findings Report mentioned above.</p>

# 7. Key dates



Date	Activity
w/c 2 March 2015	Planning and interim site visit
w/c 30 March 2015	Early substantive testing visit
9 April 2015	Presentation of audit plan to Audit Committee
June 2015	Year end fieldwork
July 2015	Audit findings clearance meeting with Director of Finance
July 2015	Report audit findings to those charged with governance (Audit and Governance Committee)
by end of July 2015	Sign financial statements opinion

## 8. Fees and independence

### Fees

	£
Pension Fund Scale Fee	27,105
<b>Total fees (excluding VAT)</b>	<b>27,105</b>

### Fees for other services

Service	Fees £
None	Nil

#### 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, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations

#### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

#### 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.

# 9. 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.

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## 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](http://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  
9 April 2015

**SE Business Services Ltd 2013/14 Accounts**

**Purpose of the report:**

This report, requested by the committee, provides the 2013/14 statement of accounts for SE Business Services.

**Recommendations:**

It is recommended that the committee note the accounts of SE Business Services Ltd for the 2013/14 financial year and the profit after taxation of £147,756.

**Introduction:**

1. SE Business Services Ltd is a wholly owned subsidiary company of Surrey County Council. The company was incorporated in June 2013, following the approval of the county council's cabinet. The aim of the company is to provide commercial IT services. During its first year of trading, the company expanded into the provision of fire related services.
2. The creation of this company forms a part of the council's strategy of innovation and new models of delivery

**Statement of Accounts**

3. The full statement of accounts is included in Annex 1 of this report. The audit report is also on the agenda of this meeting.
4. The statement of accounts show the company earned a profit after taxation of £147,756 in its first part year of trading.
5. The directors of the company resolved to retain the first year's profits within the company as it continues to develop. It is anticipated that when fully established a dividend will be paid in future years.

## Financial and value for money implications

6. The creation and operation of this company forms a part of the council's strategy for developing innovative ways of working and new models of delivery. The profit generated by through the company's trading in its first part year of trading is positive for the council.

## Equalities and Diversity Implications

7. The company states its policy on the employment of disabled people within the statement of accounts.

## Risk Management Implications

8. There are no material risks in this report

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### Report contact:

Susan Smyth, Strategic Finance Manager  
[susan.smyth@surreycc.gov.uk](mailto:susan.smyth@surreycc.gov.uk)

Kevin Kilburn, Deputy Head of Finance  
020 8541 9207  
[kevin.kilburn@surreycc.gov.uk](mailto:kevin.kilburn@surreycc.gov.uk)

### Background papers:

None.



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**S.E. Business Services Limited**

**Company Registration Number:  
08578463 (England and Wales)**

**Report of the Directors and  
Audited Financial Statements**

**Period of accounts  
Start date: 20 June 2013  
End date: 31 March 2014**

**S.E. Business Services Limited  
Contents of the Financial Statements  
for the Period Ended 31 March 2014**

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<b>Balance Sheet</b>	<b>8</b>
<b>Audit Report</b>	<b>9 to 10</b>
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**S.E. Business Services Limited  
Company Information  
for the Period Ended 31 March 2014**

**Directors:** J Stebbings  
P Brocklehurst

**Registered office:** County Hall  
Penrhyn Road  
Kingston Upon Thames  
Surrey  
KT1 2DN

**Company Registration Number:** 08578463 (England and Wales)

**S.E. Business Services Limited  
Directors' Report  
for the Period Ended 31 March 2014**

The directors present their report with the financial statements of the company for the period ended 31 March 2014.

**Principal activities**

The principal activities of the company in the period under review were:  
Professional Business Services including IT managed services, data centre hosting and fire and rescue resilience services.

**Directors**

The directors shown below have held office during the whole of the period from 20 June 2013 to 31 March 2014

J Stebbings

P Brocklehurst

**Political and charitable donations**

None

**Company policy on the employment of disabled persons**

It is the company's policy to give employment to disabled persons wherever practicable and to make all reasonable adjustments to enable a person with a disability to perform to their highest ability.

**Directors' responsibilities statement**

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

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

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



The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Provision of information to auditor**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditor in connection with preparing its report and to establish that the company's auditor is aware of that information.

**Auditor**

Grant Thornton UK LLP offers themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

In preparing this report, the directors have taken advantage of the small companies exemptions provided by part 15 of the Companies Act 2006.

This report was approved by the board of directors on 12/12/2014

**And Signed On Behalf Of The Board By:**

Name:

*Paul Brumby*

Status:

*Director*

**S.E. Business Services Limited**  
**Profit and Loss Account**  
**for the Period Ended 31 March 2014**

	Notes	2013/14 £
Turnover:		972,311
Cost of sales:	2	<u>(768,170)</u>
Gross Profit/(Loss):		204,141
Administrative expenses:		<u>(18,171)</u>
Operating Profit		185,970
Interest Payable and Similar Charges	3	<u>(1,275)</u>
Profit / (Loss) on ordinary activities before taxation:		184,695
Tax on Profit / (Loss) on ordinary activities:	4	<u>(36,939)</u>
Profit / (Loss) on ordinary activities after taxation:		<u><u>147,756</u></u>

The notes form part of these financial statements

**S.E. Business Services Limited  
Statement of Total Recognised Gains and Losses  
for the Period Ended 31 March 2014**

**Statement of total recognised gains and losses**

The company does not have any gains and losses other than Profit and Loss for the period to report.

**S.E. Business Services Limited**  
**Balance sheet as at 31 March 2014**

	Notes	2014	
		£	£
<b>Current Assets</b>			
Debtors	5	539,017	
Cash at Bank and In Hand		104,938	
			643,955
Creditors Amounts Falling Due Within One Year	6+7	(496,198)	
		(496,198)	
Net Current Assets			147,757
Total Assets less Current Liabilities			147,757
<b>Capital and Reserves</b>			
Called Up Equity Share Capital	8		1
Profit and Loss Account			147,756
Shareholders' Funds	10		147,757

These accounts have been prepared in accordance with the special provisions in part 15 of Companies Act 2006 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities January 2015 (which allows for early adoption).

The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts  
The financial statements were approved by the Board of Directors on 12/12/2014

**SIGNED ON BEHALF OF THE BOARD BY:**

Name:   
Status: Director

The notes form part of these financial statements



### **Independent auditor's report to the members of S. E. Business Services Limited**

We have audited the financial statements of S. E. Business Services Limited for the period ended 31 March 2014 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities effective January 2015 (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption in preparing the Directors' Report.

*Grant Thornton UK LLP*

Christian Heeger

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Gatwick

*12 December 2014*

**S.E. Business Services Limited  
Notes to the Financial Statements  
for the Period Ended 31 March 2014**

## 1. Accounting policies

### Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2015).

### Turnover

The turnover shown in the profit and loss account represents revenue earned during the period, exclusive of VAT.

### Going Concern

The company has considerable financial resources together with long term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the company is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## 2. Cost of Sales and Staff Costs

	2013/14
	£
Cost of Sales	738,355
Wages and Salaries	26,226
Social Security Costs	2,582
Pension Costs	1,007
	<u>768,170</u>

S.E. Business Services has three full time employees, two of whom have been enrolled in a National Employment Savings Trust (NEST) pension scheme. In addition the company has two directors who were unpaid.

### 3. Interest Payable and Similar Charges

Interest was payable on an intergroup loan between S.E. Business Services Limited and Surrey County Council.

	2013/14
	£
Interest on loan	1,135
Misc. Bank Charges	140
	<u>1,275</u>

### 4. Taxation

The tax charge on the profit on ordinary activities for this period was as follows:

	2013/14
	£
UK Corporation Tax	36,939
Deferred Tax	-
Tax on profit (loss) on ordinary activities	<u>36,939</u>
Profit (loss) on ordinary activities before taxation	<u>184,695</u>
Rate of tax for the period	20%
Profit (loss) on ordinary activities before taxation multiplied by the rate of tax for the period	36,939
Expenses not deductible for tax purposes	-
Accelerated capital allowances	-
Adjustments in respect of prior periods	-
Current tax charge (credit)	<u>36,939</u>

### 5. Debtors

	2014
	£
Trade Debtors	490,127
VAT	7,586
Prepayments and Accrued Income	41,304
	<u>539,017</u>

All amounts are due within one year



## 6. Loans and Overdraft

An intergroup loan of £100,000 has been provided from Surrey County Council to S.E. Business Services Limited. This was repaid in full on the 30 September 2014.

## 7. Creditors

	2014
	£
Corporation Tax	36,939
Deferred Income	100,477
Loan	100,000
Trade Creditors	258,782
	<u>496,198</u>

All amounts are due within one year.

## 8. Called Up Share Capital

Allotted and called up

Class	Number of Shares	Nominal Value per Share	Total
Ordinary	1	1	1

The authorised share capital of S.E. Business Services Limited consists of 100 ordinary shares with a nominal value of £1, of which 1 ordinary share has been issued at par.

## 9. Related Party Disclosures

The company is 100% owned by Surrey County Council. No transactions between these parties are to be disclosed under the provisions of the Financial Reporting Standard 8.

## 10. Reconciliation of movement in shareholders' funds

	2014
	£
Opening shareholders' funds	1
Share capital issued in the year	-
Exchange differences	-
Profit for the year	147,756
Dividends paid	-
Closing shareholders' funds	<u>147,757</u>





Audit & Governance Committee  
9 April 2015

**2013/14 Audit Findings Report for S. E. Business Services Ltd**

**Purpose of the report:**

This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2013/14 financial statements of S. E. Business Services Ltd.

**Recommendations:**

1. It is recommended that the Committee consider the contents of the 2013/14 Audit Findings Report for S. E. Business Services Ltd.

**Introduction:**

2. The Directors of the company approved the 2013/14 financial statements as presenting a true and fair view of the company's financial position as at the 31 March 2014 and its profit for the period then ended. The financial statements are presented as a separate item for Member information.
3. The attached Audit Findings Report provides a commentary on the financial statements.
4. An unmodified opinion on the financial statements was issued on 12 December 2014 and the audited financial statements and directors report were submitted to Companies House ahead of the 31<sup>st</sup> December deadline.

**2013/14 Financial Statements**

5. The audit process identified four individually significant adjustments to the draft financial statements, all of which have been corrected by management. These adjustments, in combination with other minor items, had the effect of increasing the company's profit per the draft financial statements by £13,174.

- An element of income relating to 2014/15 for which cash had not been received until after 31 March 2014 had been mistakenly classified as deferred income.
- A proportion of income that related to 2014/15 was incorrectly included in the 2013/14 financial statements.
- An element of 2013/14 data hosting expenditure was overstated.
- A liability for PAYE was overstated at 31 March 2014.

### **2013/14 Audit Findings**

6. The Audit Findings Report summarises the findings of the 2013/14 audit, which was completed in December 2014. The report sets out a summary of the work carried out during the audit of the financial statements and the conclusions reached.
7. At the beginning of the audit an Audit Plan was shared with the company directors, which identified areas of significant risk and other risks of material misstatement. The Audit Findings Report summarises the work completed in relation to these areas. Aside from the adjustments detailed above, no issues were identified in respect of these areas.
8. The audit fee is in line with the planned amount and there was no unplanned work required.
9. There were no recommendations arising from the 2013/14 audit.

### **Conclusion**

10. Following the changes included above, and the results of the audit, the Audit Findings Report is now presented to this Committee for information.

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

None.

### **Equalities and Diversity Implications**

None.

### **Risk Management Implications**

None.

**Next steps:**

The 2014/15 company financial statements will be consolidated into those of the Council for the same period. We will undertake sufficient testing of the company financial statements alongside the Council audit to support our audit opinion of the Council's consolidated financial statements for 2014/15.

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**Sources/background papers:** None.

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# The Audit Findings for S. E. Business Services Limited

**Period ended 31 March 2014**

December 2014

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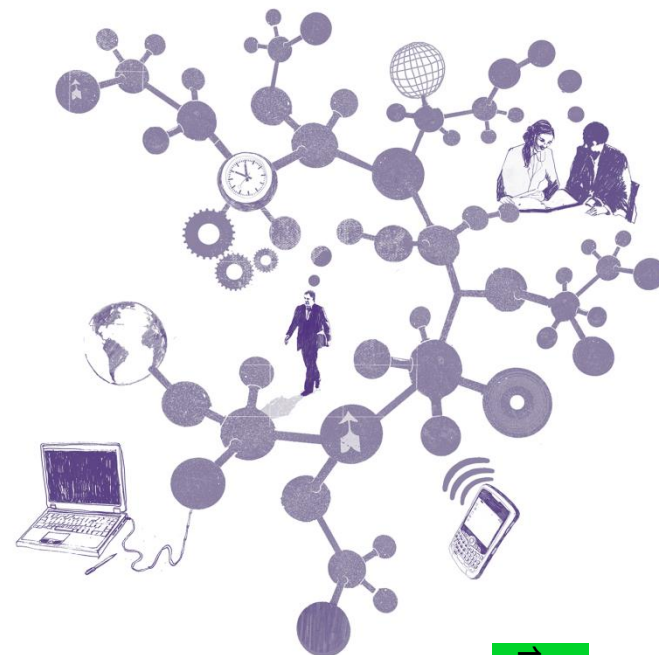
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December 2014

Dear Sirs

**Audit Findings for S. E. Business Services Limited for the period ended 31 March 2014**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours faithfully

Christian Heeger

**Chartered Accountants**

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## Status of the audit and audit opinion

**Our work is substantially complete and there are currently no matters of which we are aware which would require modification of our audit opinion.**

**Our anticipated audit report will be unmodified**

# Overview of audit findings

Account	Material misstatement risk?	Description of risk	Changes to Audit Plan?	Sufficiency of controls?	Significant audit findings?
Revenue	Significant	Recorded revenues and debtors not valid	No	●	Yes
Payroll	Remote	-	No	●	None
Other operating expenses	Reasonably Possible	Creditors understated or not recorded in correct	No	●	Yes
Administrative expenses	Reasonably Possible	Creditors understated or not recorded in correct	No	●	None
Interest payable and similar charges	-	-	-	●	-
Taxation	Remote	-	No	●	None

## Changes to Audit Plan

- We have not had to alter or change our Audit Plan as previously communicated to you in November 2014.

Account	Material misstatement risk?	Description of risk	Changes to Audit Plan?	Sufficiency of controls?	Significant audit findings?
Trade debtors	Reasonably Possible	Recorded revenues and debtors not valid	No	●	Yes
Cash	Remote	-	No	●	None
Trade creditors	Reasonably Possible	Creditors understated or not recorded in correct	No	●	Yes
Accruals and deferred income	Reasonably Possible	Recorded revenues and debtors not valid	No	●	Yes
Bank loans & overdrafts	Remote	-	No	●	None
Equity	-	-	-	●	-
Reserves	Remote	-	No	●	None

Our audit has identified non-trivial amendments to revenue, other operating expenses, trade and VAT debtors, trade creditors and deferred income. These are detailed on page 7. Management have corrected all identified misstatements.

## Controls

For further details see Internal controls

- Significant deficiency
- Deficiency
- No findings
- Controls not evaluated under Audit Plan

# Significant findings

	Risks identified in our audit plan	Commentary	Communicated in Audit Plan?
1.	<p><b>Improper revenue recognition</b></p> <ul style="list-style-type: none"> <li>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue</li> </ul>	<ul style="list-style-type: none"> <li>We undertook the following procedures in response to this risk:               <ul style="list-style-type: none"> <li>review and testing of revenue recognition policies</li> <li>review of revenue for consistency with contracts</li> <li>review of revenue transactions in last quarter of the period</li> <li>review of unusual significant transactions</li> </ul> </li> </ul> <p>Our audit work has identified amendments to revenue, but no issues have been identified in respect of revenue recognition. The findings in respect of our testing of revenues are described on page 7.</p>	Yes
2.	<p><b>Management override of controls</b></p> <ul style="list-style-type: none"> <li>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities</li> </ul>	<ul style="list-style-type: none"> <li>We undertook the following procedures in response to this risk:               <ul style="list-style-type: none"> <li>review of accounting estimates, judgements and decisions made by management</li> <li>review of unusual significant transactions</li> </ul> </li> </ul> <p>Our audit work has not identified any evidence of management override of controls.</p>	Yes

# Other findings

	Risks identified in our audit plan	Work completed	Issues arising
1.	<p><b>Revenue and debtors</b></p> <ul style="list-style-type: none"> <li>Recorded revenues and debtors not valid</li> </ul>	<ul style="list-style-type: none"> <li>Walkthrough of the revenues system</li> <li>Agreeing all income to supporting invoices and contracts</li> <li>Review of in-year and post year-end receipts to ensure income accounted for in the correct period</li> </ul>	<p>Our audit work has identified amendments to revenue, debtors and deferred income. This is due to miscalculation of an invoice relating to 13/14 and 14/15, for which cash was received before year-end. Management have agreed to correct for all issues noted and as 100% testing was undertaken, this allows us to confirm that the errors are isolated. Further details of the amendments are on page 9.</p> <p>There are no other issues in relation to this risk we are required to report to you.</p>
2.	<p><b>Operating expenses and trade creditors</b></p> <ul style="list-style-type: none"> <li>Operating expenses understated or not recorded in correct period</li> </ul>	<ul style="list-style-type: none"> <li>Walkthrough of the operating expenses system</li> <li>Agreeing all expenditure to supporting invoices</li> <li>Review of in-year and post year-end payments to ensure expenditure accounted for in the correct period</li> </ul>	<p>Our audit work has identified amendments to other operating expenses and trade creditors. This is due to overstatement of accruals for payroll and operating expenditure, and misclassification of a revenue, debtors and deferred income as a result of miscalculation of a supplier credit note. Management have agreed to correct for all issues noted and as 100% testing was undertaken, this allows us to confirm that the errors are isolated. Further details of the amendments are on page 9.</p> <p>There are no other issues in relation to this risk we are required to report to you.</p>

# Other communication requirements

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Board . We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Company.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>

# Misstatements

## Adjusted

Detail	Profit and loss account		Balance sheet		Profit effect
	Debit	Credit	Debit	Credit	
<b>Profit/(Loss) per draft accounts</b>					<b>171,521</b>
Deferred income Turnover Income relating to 14/15 for which cash was not received until after 31 March was mistakenly accounted for as deferred income.		17,807	17,807		17,807
VAT debtor Turnover Trade debtors Income relating to 14/15 was incorrectly included in the 13-14 accounts.	16,521		3,306	19,827	(16,521)
Trade creditors Cost of sales Accrued data hosting expenditure was overstated.		10,960	10,960		10,960
Trade debtors Trade creditors Debtors included a credit note from a supplier which should have been accounted for as a negative creditor.				5,355	-
Trade creditors Cost of sales A creditor for PAYE was overstated.		1,411	1,411		1,411
Other insignificant adjustments					(483)
<b>Profit/(Loss) per final accounts</b>					<b>184,695</b>

## Unadjusted

There were no unadjusted misstatements.

# Non-audit fees and independence

	Fees	Threat Y/N	Safeguard
Audit	7,500	N	n/a
Other	None	n/a	n/a
<b>Total</b>	7,500		

## 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
- 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

<b>Our communication plan</b>	<b>Audit Plan</b>	<b>Audit Findings</b>
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 Company 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 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		✓

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 here.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## **Distribution of this Audit Findings report**

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance

## **Respective responsibilities**

As auditor we are responsible for performing the audit in accordance with ISA's (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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Audit & Governance Committee  
9 April 2015

**Update: Capital Programme Review**

**Purpose of the report:**

This report, requested by the committee, provides an update on the action required on the capital programme, following the 2013/14 audit.

**Recommendations:**

It is recommended that Audit & Governance Committee note the progress made to improve the capital profiling and monitoring procedures, in particular by Property Services.

**Introduction:**

1. The 2013/14 audit carried out by Grant Thornton stated that the Council needs to ensure:
  - i. improved profiling of capital expenditure for budget setting
  - ii. consider the effectiveness of project management arrangements
  - iii. ensure cash flow impacts are understood and can be planned for
2. On 1 December 2014, the Deputy Chief Finance Officer informed the Audit & Governance Committee that it had been decided not to undertake a Rapid Improvement Event on the capital programme as the issues were not about process but about project management. A different approach was being taken with facilitated workshops to identify a more realistic way to build in assumptions to the capital programme.
3. This report provides an update on the progress made to improve the capital profiling and monitoring procedures, in particular by Property Services.

<b>Details:</b>
-----------------

4. Since the Council's audit report Property Services has reviewed its procedures for profiling capital spend and the way it forecasts this spend in year. The service held a workshop on 8 July 2014. The main reasons for slippage in capital projects were identified as planning permission, intrusive investigations and severe weather. While these factors are largely outside the control of the service, the workshop established that considerable improvements had been made during 2013/14 including robust challenge of forecasts by Property's Senior Management Team at their monthly budget monitoring meetings.
5. In building upon these improvements the workshop identified further improvements in capital procedures. The procedures were introduced in August, and are continuously reviewed with a view to improving accuracy and consistency.
6. Following the workshop a group was established to document the procedures the service should follow to ensure good capital profiling and monitoring. The senior management team in Property are part of the process and are committed to ensuring it is successfully followed. The procedures are provided as annex 1.

<b>Conclusions:</b>
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7. There have been considerable improvements to the process and this can be measured by Property's February estimated full year capital variation of -£0.9m, this compares to the 2013/14 variation of -£32.8m. The service is committed to continually reviewing its procedures and has a workshop planned on 27 April to carry out its first review since the procedures were implemented.

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

8. None, no additional resources were required to make improvements.

### **Equalities and Diversity Implications**

9. None.

### **Risk Management Implications**

10. None.

**Next steps:**

11. Property Services will review its capital procedures on 27 April with a view to ensuring improved accuracy and consistency. The service will continually review and evaluate its procedures thereafter.

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**Report contact:**

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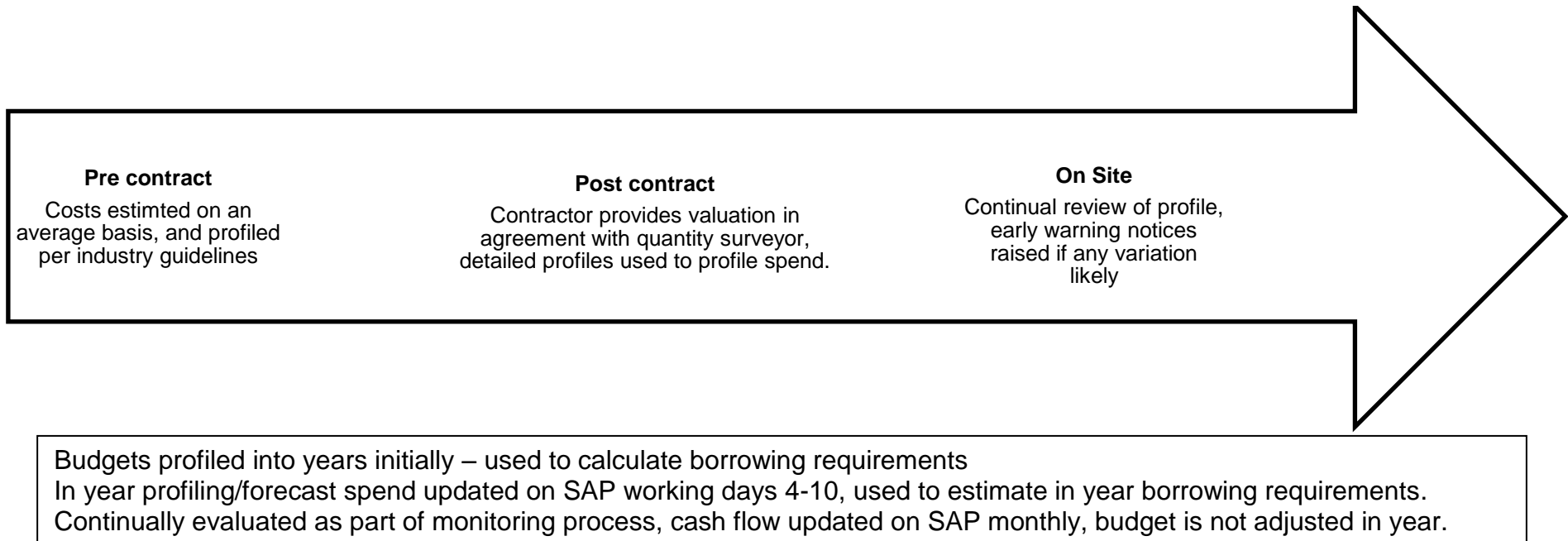
# SCC Property Services Capital Budget Management

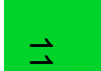
## Capital Budget Setting

A capital budget is included in the Medium Term Financial Plan (MTFP) following scrutiny at Capital Working Group (CWG) and approval in principle by Cabinet. Once the scheme is included in the MTFP a detailed business case, including more accurate estimates, is reviewed by the Investment Panel prior to proceeding to the approval stage. This review is not required for Recurring Maintenance programmes or for the Schools Basic Need programme. In order to proceed with a scheme, approval is required from Cabinet or Cabinet member.

The profile of spend on a project or scheme is established by the following procedures which is a continual review process. The budget monitoring process both relies on and informs the budget profiling process.

## Capital Budget Profiling

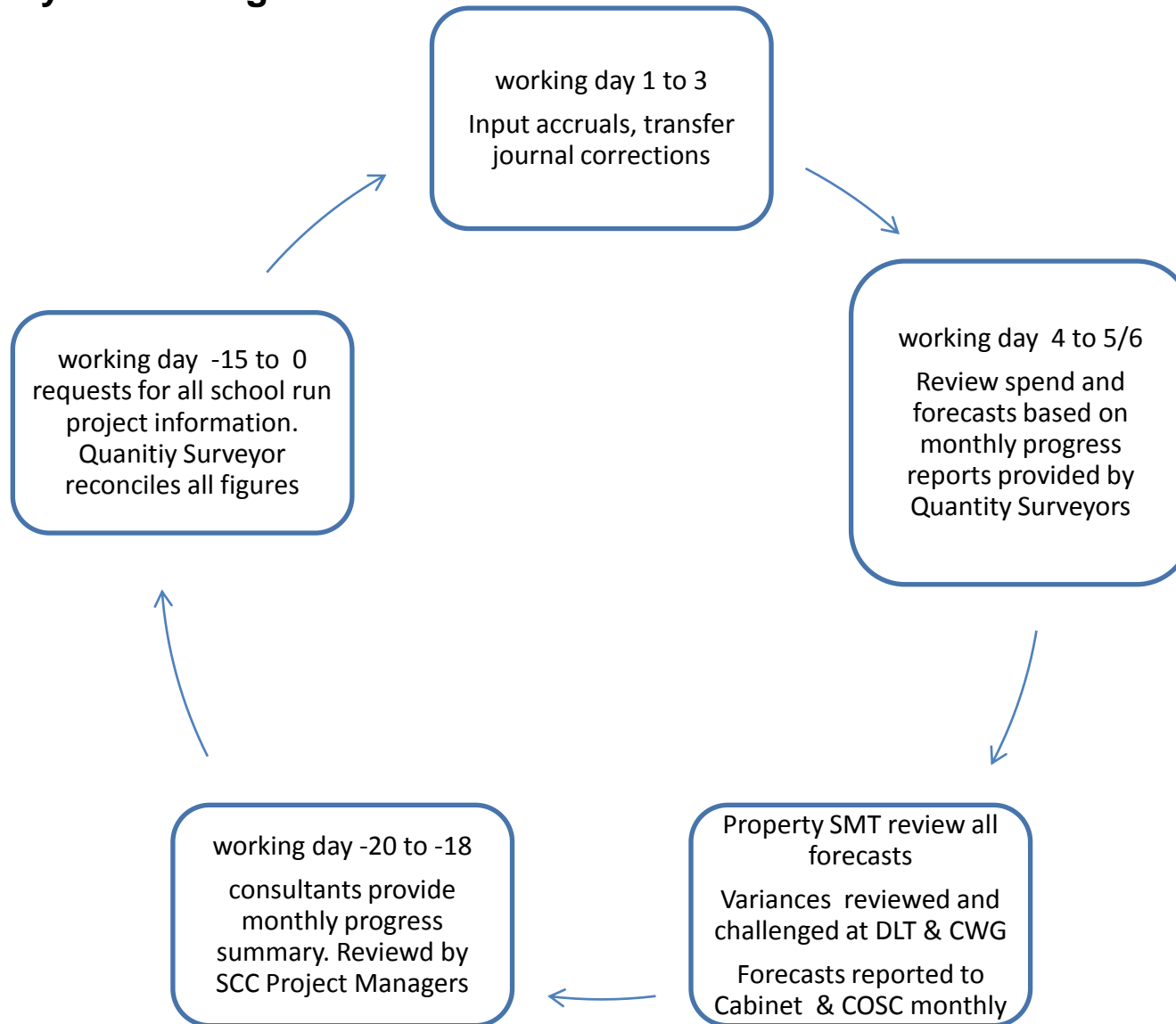


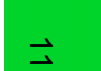


- Budgets and early estimating – The initial MTFP figures are based on estimated project and scheme costs using industry standards. School schemes are set on a cost per pupil basis. Other schemes are estimated based on average industry costs, using the Royal Institution of Chartered Surveyors (RICS) Building Cost Information Service (BCIS).
- As schemes are developed the cost estimates are reviewed and updated at regular intervals, throughout the early life of the project at each gateway.
- The Property Professionals prepare a Pre-Tender Estimate (PTE) which is reviewed and a report presented to cabinet for approval. This becomes the approved project allocation budget.
- Prior to tender and contract award, Property Professionals provide through the monthly reporting process; current project and programme status, an update of the cost estimates based on latest surveys and risk analysis, together with an updated cash flow projection.
- Projects are tendered and approved for contract award under delegated powers if within the cabinets approved PTE. If in excess of this figure then the award is referred to cabinet for review and approval, the project is then monitored against cabinets approved project cost.
- On contract award Property Professionals prepare monthly project cost updates, status reports and cash flows, based on the contractors programme of works, which give current forecast of final costs. These identify any changes to the anticipated final forecast costs and take into account any variations, delays or expenditure of provisional sums included in the contract. They track forecast cost against budget and cabinet approval, together with any actions required under financial regulations and delegated powers for variations to approved funding.
- Early warning notices (EWN's) are given by the PM or the contractor where either party becomes aware of any matter that might affect time, cost, any other date or might impair the performance of the works in use. The PM or Contractor must raise this EWN as soon as they become aware of such an issue. Such events are raised with the SPM and actions agreed and exception reports raised. .
- The forecast project costs are cashflow profiled monthly and annually and are updated each month by the Property Professionals to reflect any changes to the project.
- SCC PM's and QS provide monthly project update reports. These reports review and provide commentary on the current position of each project.



## Capital Monthly Monitoring





- Working Day 10. Monthly progress reports submitted by Property Professionals on projects, which includes progress, cost, cashflow and budget information.
- Working Day 12. Monthly reports issued by Project Managers on all projects, which reviews and sense checks the property professionals' information.
- Working Day 15. Reminder to all Property Professionals and third parties for them to issue their monthly cashflow updates. On projects managed by third parties this extends to include programme updates and monthly flash reports.
- Working Day 20 to 25. Property Professionals and third parties provide the cash flow and project status reports. Property Services QS reviews and reconciles with previous month. Any major changes are queried with Property Professionals and third parties.
- Working Day 25. QS reviews reports, liaises and reviews with the Programme Management team and PM's. Property Professionals and third parties are questioned on an exception basis regarding abnormal in-month changes and movement.
- Working Day 25 to 27. The Finance tracker is updated for each project taking into account any variance from the previous month on all projects. Actual costs and accruals are reviewed. A notes column gives basic project information along with in month variance.
- Working Day 27. A high level review of all projects is undertaken between PM/QS/PF/SPM to look at any anomalies or irregularities. The output of this meeting is the final version of the updated tracker. The QS also issues a summary report which outlines any major in month changes to profile or any major risk areas or any large accruals.
- Working Day 28. Revised tracker is issued to PF
- Working Day 1 to 8. Preparation of monthly accruals from actual and revised forecasts. Property Finance review all actual payments on the system for each project and calculate accruals based on the cashflows/valuations provided by QS. This figure is compared with the forecast spend to this point in time with the accruals being the difference between the two eg pending payments. Accruals are reviewed to see they are in line with the profiling.
- Working Day 4 to 7. PF undertakes monthly budget monitoring meetings with PM/QS/PF/SPM/APM. This is an overview of the programme to see if planned yearly spend and planned spend on projects is in line with expectations. Schools and Programme Manager and Non-Schools team discusses specific issues with Strategic Finance Manager as appropriate.
- Working Day 8 to 10 (ongoing). Ongoing reviews with PF and his team to review all costs. Spot checks on SAP entries. Review of cost forecast for individual projects to ensure they are up to date and accurate with PM's, QS and PF.
- Working Day 6. Review of estimates at Property SMT.

- Working Day 8. Review of estimates at Directorate Leadership Team (DLT).
- Working Day 10. Forecasts challenged at CWG.
- Estimates reported to Cabinet and Council Overview & Scrutiny Committee as part of monthly budget monitoring report.
- Monthly a School Place Planning Meeting is held with the Cabinet Member for schools and learning SPM and Strategic Finance Manager to provide updated position.
- Bi-monthly a meeting is held with the SPM and Strategic Finance Manager for programme finance review.
- Monthly meetings are held with the services to update on programme and projects status.

**Initials and abbreviations:**

- APM – Aecom Programme Manager
- BS – Business Support
- CWG – Capital Working Group
- DLT – Directorate Leadership Team
- HCC – Hampshire County Council
- MTFP – Medium Term Financial Plan
- PF – Property Finance
- PM – Project Manager
- QS – Quantity Surveyor
- RICS – Royal Institution of Chartered Surveyors
- SBN – School Basic Needs
- SCC – Surrey County Council
- SPM – Schools and Programme Manager
- SMT – Property Senior Management Team

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Audit & Governance Committee  
9 April 2015

**2014/15 Review of the Effectiveness of the System of Internal Audit**

**SUMMARY AND PURPOSE:**

This report sets out the findings and recommendations from the 2014/15 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 (England) Regulations 2011 required a review of the effectiveness of the Council's internal audit arrangements to be conducted at least annually and it was under this statutory requirement that the 2014/15 review was conducted. It should be noted however that from 1 April 2015, these regulations have been replaced by the Accounts and Audit (England) regulations 2015 which remove the requirement for such an annual review. Internal Audit's Quality Assurance and Improvement Programme has been amended to reflect this change in legislation although an annual review of the effectiveness of the system of internal audit - notably an assessment of compliance with the Public Sector Internal Audit Standards - will continue to be conducted.
2. For 2013/14 a comprehensive check against the PSIAS and the Local Government Application Note was conducted by an officer from the Performance and Research team and consequently it was agreed by the Chairman of this Committee that the 2014/15 review would be more light touch and would focus on the controls 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

## **KEY FINDINGS:**

3. There is evidence to show that appropriate controls were in place during 2014/15 to ensure an effective Internal Audit service was provided.
4. Internal Audit in Surrey County Council is independent of undue influences and has a high profile within the organisation. The Internal Audit team is sufficiently well resourced with highly skilled and experienced auditors and resource is properly focussed on key areas of risk. Appropriate controls are in place to ensure Internal Audit work is of high quality. Management action in response to audit recommendations is generally both effective and timely and Select Committee scrutiny is effective in ensuring this.
5. The evidence underpinning the above conclusions is set out in Annex B

## **FOLLOW-UP OF 2013/14 REVIEW RECOMMENDATIONS:**

6. An updated assessment of implementation of the recommendations arising from the 2013/14 Effectiveness Review is attached at Annex C. This shows all recommendations as “Green” with the exception of one which relates to printing of confidential materials. There have been delays in implementing the “Managed Print” facility which includes the facility to use locked print functionality when printing confidential materials. In the interim the Internal Audit team are mindful of the need to take care when printing confidential materials.

## **CONCLUSIONS:**

7. Internal Audit in the Council is well led and given a high priority by those charged with good governance. During 2014/15 additional steps have been taken to further raise the profile of Internal Audit work – notably through Internal Audit representation on the Statutory Responsibilities Network and the Continual Improvement and Productivity Network.
8. A joint Cabinet/Audit and Governance Committee seminar on Internal Audit, planned for July 2015, is an opportunity to further improve the understanding of the role Internal Audit plays in driving improvement across services to improve outcomes for Surrey residents.

## **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 2014/15 Annual Governance Statement.

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**Sources/background papers:** Public Sector Internal Audit Standards and Internal Audit Quality Assurance and Improvement Programme.

## ANNEX A

### TERMS OF REFERENCE

#### Effectiveness of the System of Internal Audit 2014/2015

##### 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 check against the PSIAS and the Local Government Application Note was conducted last year by an officer from the Performance and Research team, this year's review will be more "light touch" and will focus on those areas where the 2013/14 review suggested the Internal Audit service was not fully compliant with the standards.

**OUTCOMES**

The findings of this review will be presented at a meeting of the Audit and Governance Committee in April 2015. Any significant areas of non conformance with the PSIAS must be referred for inclusion in the 2014/15 Annual Governance Statement.

**REPORTING ARRANGEMENTS**

Auditor:	Sue Lewry-Jones
Reporting to:	Audit and Governance Committee



**Effectiveness of the System of Internal Audit 2014/2015**

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:

Risk	Controls in place/evidence	Conclusion
Internal Audit is not viewed as sufficiently independent of undue influences	<p>Internal Audit has no operational responsibilities which might impair its ability to provide an objective opinion.</p> <p>All members of the team are reminded, at least annually, of the Code of Ethics they are expected to follow and are asked to inform the Chief Internal Auditor of any known conflict of interest or any matter that may impair their ability to be impartial and unbiased in performing their duties as an Internal Auditor. If there are none - a "nil" return is required for completeness.</p> <p>The position of the Internal Audit team, within Policy and Performance in the Chief Executive's Directorate, means it is suitably removed from Business Services where operational responsibility for most of the council's corporate systems and processes resides.</p>	The controls in place should ensure Internal Audit is sufficiently independent of undue influences.
Internal Audit resource may not be focussed on key areas of risk	<p>The Internal Audit planning process is risk based in accordance with the Public Sector Internal Audit Standards. Directorate/Service risk registers are used to inform the annual audit plan and an assurance mapping exercise has been completed at Leadership Risk Register level to highlight any gaps in the assurance framework.</p> <p>The Internal Audit plan is aligned to the Corporate Strategy. The plan detail is not rigid however and regular service liaison meetings throughout the year would highlight if there is a change in risk priority which may require a change of audit focus/timing.</p>	The audit planning process should ensure that audit resource is focussed on the key areas of risk. Regular service liaison meetings throughout the year would highlight if there is a change in risk priority which may require a change of audit focus/timing.

Risk	Controls in place/evidence	Conclusion
<p>The Internal Audit team may not be sufficiently resourced/skilled</p>	<p>The Internal Audit team has an establishment of 12fte and in addition currently has one apprentice (funded centrally). The number of audit days in the 2014/15 Internal Audit plan is 2180 which is a small reduction on the previous year (2228).</p> <p>The Chief Internal Auditor, the two Audit Performance Managers and all three of the Lead Auditors are CCAB qualified. Other members of the team hold other relevant qualifications (eg Institute of Internal Auditors and Certified Information Systems Auditor). All members of professional bodies are required to maintain and evidence Continuing Professional Development as a practical means of demonstrating on-going competency.</p> <p>Continuing Professional Development during 2014/15 is in evidence with one member of the team achieving accreditation as a professional Counter Fraud Specialist and another becoming a Certified IDEA Data Analyst.</p> <p>Suitably experienced agency resource has been used during the year to cover vacancies and recruitment of permanent staff to vacancies has been managed in a timely way.</p>	<p>There was a 33% turnover of staff in the period, which is unusually high for the service and reflects the planned retirement of two members of the team. Use of agency resource has meant that resourcing levels were sufficient in 2014/15 to give a good level of audit coverage.</p> <p>The Internal Audit team is well qualified and highly skilled with a broad range of relevant experience.</p>
<p>Internal Audit work may not be to an acceptable level of quality</p>	<p>Internal Audit work is performed by suitably skilled staff in accordance with the Public Sector Internal Audit Standards.</p> <p>The level of supervision of audit work depends on the experience of the auditor and complexity of the area being reviewed. The Audit Performance Managers review audit terms of reference, working papers and draft audit reports. The Chief Internal Auditor also reviews all draft Internal Audit reports prior to issue.</p> <p>Auditees have an opportunity to comment on the usefulness of audits through specific customer satisfaction surveys and any feedback received is discussed as necessary in 1-2-1s.</p>	<p>The quality assurance controls in place should ensure Internal Audit work is of a high quality and feedback (both formal and ad hoc) received throughout the year would appear to endorse this.</p> <p>Auditees have an opportunity to comment on the factual accuracy of draft audit reports and the relatively low level of concerns raised in this regard, is another indicator of the high quality of audit work.</p>

Risk	Controls in place/evidence	Conclusion
<p>Management action in response to audit recommendations may not be timely/effective</p>	<p>Management Action Plans (MAPs) must be agreed by the relevant Head of Service who is then responsible for timely completion of actions and for informing Internal Audit if timescales are likely to be missed.</p> <p>Twice yearly reports to Audit and Governance on progress on implementing MAPs are a useful spur to encourage completion of agreed actions. Service liaison meetings throughout the year are another opportunity to check on MAP progress.</p> <p>Where an audit attracts an audit opinion of Unsatisfactory or Significant Improvement Needed, a follow-up audit will usually take place with a formal audit report on progress.</p>	<p>There are appropriate controls in place to encourage timely completion of agreed management actions.</p> <p>Although the MAP progress report included in the Half Yearly report to Audit and Governance in December showed generally good progress, one Medium Priority audit recommendation was assessed as “Red” six months after completion of the audit. 10 High Priority Recommendations were assessed as “Amber” more than a year after completion of the audit (out of a total of 69 High Priority recommendations made in the corresponding period).</p>
<p>Select Committee review of progress in implementing management action plans may be inconsistent</p>	<p>A process is in place which ensures that Select Committee Chairmen consider audit reports that include an “Unsatisfactory” or “Significant Improvement Needed” audit opinion and/or High Priority audit recommendations, for inclusion in their forward plan. Internal Auditor attendance at Select Committees assists this process.</p>	<p>Select Committee scrutiny of management action in response to Internal Audit recommendations has been helpful during 2014/15 in encouraging timely completion of actions.</p>

Risk	Controls in place/evidence	Conclusion
<p>Internal Audit may not have a sufficiently high profile within the organisation to be a force for change</p>	<p>Internal Audit reports are circulated to senior officers (including Strategic Directors) as well as the relevant Cabinet Member and Select Committee Chairman. All final Internal Audit reports are stored in an on-line members' library accessible to all members.</p> <p>The Chief Internal Auditor is a member of the council's extended leadership team and a member of the Statutory Responsibilities Network and a member of the Council's Investment Panel. Internal Audit is also represented on the Continual Improvement and Productivity Network</p> <p>The Chief Internal Auditor meets regularly on a 1-2-1 basis with the Chief Executive, the Director of Finance (S151 Officer) and the Cabinet Member for Business Services.</p> <p>The Audit and Governance Committee met informally with the whole Internal Audit team on two occasions during the year and members of the Committee have received copies of all Internal Audit reports issued. The Committee supports the work of the Internal Audit team through consideration, and follow up action where necessary, of a Completed Audit Reports item included in every Committee meeting agenda.</p> <p>Throughout the year Internal Audit have presented 28 Fraud Awareness presentations to more than 450 members of staff which has further raised the profile of Internal Audit across key service areas.</p>	<p>Internal Audit has a high profile within the Council and the six monthly reports to Audit and Governance Committee on management action plan progress provide positive assurance that Internal Audit reviews lead to change and improvement.</p>

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

**ANNEX C**

**Schedule of recommendations – Progress update @ March 2015**

	<b>Recommendation</b>	<b>Action Proposed by the Chief Internal Auditor (Timescale)</b>	<b>Progress at March 2015</b>	<b>RAG Status</b>
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)	The new print facility which includes this functionality was not implemented during 2014/15 as planned. In the interim the Internal Audit team are mindful of the need to take care when printing confidential materials.	A
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)	Actioned	G
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)	Actioned	G
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)	Actioned	G
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)	Actioned	G
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)	Actioned	G

	<b>Recommendation</b>	<b>Action Proposed by the Chief Internal Auditor (Timescale)</b>	<b>Progress at March 2015</b>	<b>RAG Status</b>
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)	Actioned	G
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)	Actioned	G
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)	Actioned	G
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)	Actioned	G
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)	Actioned	G
12	That the Chief Internal Auditor develops a Quality Assurance and Improvement Programme (QAIP) that meets the requirements of the PSIAS	A formal QAIP addressing the requirements of the PSIAS will be presented to Audit & Governance Committee in March 2014 (24 March 2014)	Actioned	G
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)	Actioned	G

	<b>Recommendation</b>	<b>Action Proposed by the Chief Internal Auditor (Timescale)</b>	<b>Progress at March 2015</b>	<b>RAG Status</b>
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)	Actioned	G
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)	Actioned	G
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	Actioned	G
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)	Actioned	G
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)	Actioned	G

	<b>Recommendation</b>	<b>Action Proposed by the Chief Internal Auditor (Timescale)</b>	<b>Progress at March 2015</b>	<b>RAG Status</b>
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)	An approach to assurance mapping was agreed at the February 2015 meeting of the Audit and Governance. The Assurance Framework Dashboard, based on the Leadership Risk register was used to inform the 2015/16 annual audit planning process. The assurance mapping process is now part of "business as usual" and will be extended to include directorate/service level information.	G
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)	The Chief Internal Auditor has in previous years updated the Corporate Leadership Team, but more recently has also attended the Continual Improvement Board. The Chief Internal Auditor does not believe more "formal" arrangements are required.	G
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)	Actioned	G



	<b>Recommendation</b>	<b>Action Proposed by the Chief Internal Auditor (Timescale)</b>	<b>Progress at March 2015</b>	<b>RAG Status</b>
22	That consideration be given to adding a resource identification section to the Audit Terms of Reference template.	This will be considered at the April meeting of the Audit Management Team (April 2014)	Actioned – the TOR show the name of the auditor(s) assigned to the audit and the date it is expected that the audit will be reported at Audit and Governance Committee. The Chief Internal Auditor considers this to be sufficient “resource” information in the current circumstances.	G
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)	Actioned	G
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)	Actioned – but note the Internal Audit team started using MKInsight as a replacement to Galileo during 2014/15.	G
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)	Actioned – but note the Internal Audit team started using MKInsight as a replacement to Galileo during	G

	<b>Recommendation</b>	<b>Action Proposed by the Chief Internal Auditor (Timescale)</b>	<b>Progress at March 2015</b>	<b>RAG Status</b>
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)	Some research was carried out into use of such wording and the Chief Internal Auditor also sought the views of the Head of Legal and Democratic Services. Following this, the Chief Internal Auditor is satisfied that no additional wording limiting use of report findings is required at this time.	G
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)	Actioned	G
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)	Actioned	G



**AUDIT & GOVERNANCE COMMITTEE**  
9 April 2015

**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 February 2015 - 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 15 audit reports issued since the last report to this Committee in February 2015. 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	Surrey Choices	Some Improvement Needed	0
2	Members' Interests	Some Improvement Needed	0
3	CRSA for Governance Panel	Some Improvement Needed	0
4	Absence Management	Some Improvement Needed	0
5	Fire Station Capital Project Management	Some Improvement Needed	0
6	Schools - SFVS self assessment	Some Improvement Needed	0
7	Corporate Parenting Board	Effective	0
8	Health & Wellbeing Board	Effective	0
9	Appraisals - follow-up audit	Effective	0
10	General Ledger	Effective	0

11	Organisational Ethics	Effective	0
12	Payroll	Some Improvement Needed	0
13	Business Continuity	Some Improvement Needed	0
14	Emergency Management	Some Improvement Needed	1
15	Domestic Abuse	Effective	0

- 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 Communities Select Committee will scrutinise the Management Action Plan for Review of Emergency Management at its meeting on 18 May 2015.

#### **IMPLICATIONS:**

- 8 Financial  
Equalities  
Risk management and value for money
- 9 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:**

- 10 See Recommendations above.

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

## Completed Audit Reports (February - March 2015)

## Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Surrey Choices	<p>In December 2013, the Cabinet approved a business case to create a local authority trading company (later named Surrey Choices), for some services for adults with disabilities that were at that time, delivered in-house.</p> <p>Surrey Choices was incorporated on 3 March 2014 and went “live” in August 2014.</p>	<p>Transitional planning was largely effective in setting up the company and beginning to provide services to residents.</p> <p>Mechanisms were found to be in place for the monitoring of service delivery, both in terms of fulfilling client requirements and satisfying the council that appropriate standards of care and financial prudence are being observed.</p>	Some Improvement Needed	No recommendations requiring action by Surrey County Council.
Members' Interests	The requirement for elected members to disclose their interests is stipulated in the Localism Act 2011. The council's Members' Code of Conduct sets out the local requirements that support this legislation.	<p>Overall the arrangements in place meet the minimum legal requirements.</p> <p>While the council's Members' Code of Conduct requires members to register their “pecuniary” interests, it does not also require “non pecuniary” interests to be registered. This is in contrast to both DCLG guidance and the approach taken by other neighbouring councils.</p>	Some Improvement Needed	In the light of supplementary guidance issued by the DCLG, consider whether the Members' Code of Conduct should be amended to require disclosure of “non pecuniary” interests. <b>(M)</b>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Control Risk Self Assessment (CRSA)	<p>SCC's Governance Panel advises on the adequacy of governance arrangements and proposes areas for improvement through the Annual Governance Statement.</p> <p>The Annual Control Risk Self Assessment audit of selected corporate governance policies helps to inform this process.</p> <p>The policies chosen for the 2014/15 review were:</p> <ul style="list-style-type: none"> <li>• Corporate Complaints Policy</li> <li>• Surrey Compact</li> <li>• Complaints against Members</li> </ul>	<p>Although the list of Corporate Policies would appear to be largely appropriate, there are some other policies that may require consideration by the Governance Panel (eg the Gifts and Hospitality policy and the Safeguarding Policy) for inclusion in the corporate governance framework.</p> <p>Survey responses suggested a good level of understanding of the Council's Complaints Policy. The corporate policy is further supported by specific procedures in several directorates and services and useful supporting materials on complaint handling on the SNET. There may be some advantage in future of re-promoting the details of Complaints Service Leads on the SNET and reminding staff what to do where the complainant is unhappy with the Stage 1 response.</p> <p>It is likely that the funding for the Surrey Compact support that is paid by SCC will be reviewed and may reduce or cease.</p>	Some Improvement Needed	<p>The Governance Panel should more demonstrably act as the Editorial Board for the policies to be included within the list of corporate governance policies. However, the detailed work on maintaining these policies should remain with the policy authors within Services. <b>(M)</b></p> <p>The Customer Relations Team should update the Service Contact Leads list on SNET and consider the other feedback from the CRSA survey in its awareness raising activities during 2015/16. This might include, for example, raising awareness of the process of escalation where the complainant is unhappy with the Stage 1 response. <b>(M)</b></p> <p>The Strategic Partnership Manager for the Surrey Compact should consider options suggested by the Auditor for managing the potential eventuality that direct funding for the Surrey Compact organisation may be reduced or withdrawn. <b>(M)</b></p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Absence Management	<p>Absence management for Surrey County Council is governed by the "Absence Management Policy". The policy sets out the reporting and management of absence due to sickness or injury; Fit Notes (previously known as medical certificates); Return to Work discussions; and, dealing with short and long term absence.</p> <p>The policy aims to minimise absence levels across the Council and provide reasonable support to those absent to assist their return to work at the earliest opportunity. The subsequent procedures are designed to provide a clear process to maximise attendance at work, ensuring effective service delivery, and minimising any work related causes of sickness absence.</p>	<p>The Auditor contacted a sample of 20 employees with a sickness record that indicated the possibility of poor recording. The Auditor established if the lack of sickness was genuine or the result of non-reporting. Two examples of non-reporting were identified.</p> <p>The Auditor heard multiple anecdotal accounts of failure to properly record sickness, a preparedness to substitute sick for annual leave and cultural barriers to proper sickness recording.</p> <p>The auditor found that 13% of all sickness reported in the period reviewed was recorded on a Z1 or "Awaiting Mgr Recording code". Any sickness absence data segregating by illness type reported is less reliable than it should be.</p> <p>Only 18% of HR dashboard users accessed the system on a monthly basis and 53% of users had never accessed the system.</p>	Some Improvement Needed	<p>Management must consider the impact of the non reporting on the reliability of data used for guiding policy on sickness and wellbeing. An informed decision must be made to either tolerate a system whereby data is less accurate than it could be or to take actions to reduce the failure to report sickness. <b>(M)</b></p> <p>Management should seek to minimise the level of Z1 coding of sickness. <b>(M)</b></p> <p>Senior management should commit to a minimum expectation of managers checking their dashboard – the Auditor would suggest monthly – and take action to ensure this is achieved. <b>(M)</b></p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Fire Station Capital Project Management	<p>The Medium Term Financial Plan 2013/18 includes £13.6m in capital projects to be delivered for SFRS, including Fire Station reconfiguration, Fire Stations minor works, the new Guildford Fire Station, and replacement of a Fire training tower. The first of these is of particular financial import as the successful completion of the project is anticipated to result in savings to SFRS of £2.4m.</p> <p>Timescale slippage on the reconfiguration was the highest risk on the SFRS Risk Register (as at September 2014).</p>	<p>Clear business needs were identified for the creation of new stations in Salfords, Spelthorne and Elmbridge, a range of options were considered, and appropriate approvals obtained at the outset of the projects.</p> <p>There was evidence of adequate planning and stakeholder engagement between Property Services and SFRS on all three projects although it was not clear how risk was being managed within the project.</p> <p>Project updates are regularly reported to the Programme Board, though inconsistency was noted in the risk analyses. There was scope to improve the information provided on project delays and progress against milestones.</p> <p>A clear business need was established for the installation of temperature sensors in the Fire House at SFRS headquarters in Reigate. Evidence of good planning, stakeholder engagement, defining of user requirements, risk management and work scheduling for this project was noted.</p>	Some Improvement Needed	<p>SFRS and Property Services should consider ensuring that project updates and risk assessments present a consistent representation of uncertainty. <b>(M)</b></p> <p>Consider jointly agreeing a revision to the information provided in reports to governance bodies, notably in regard to explaining project delays, achievements towards milestones, and accurate risk analysis. <b>(M)</b></p>



Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Schools Financial Value Standard (SFVS) - self assessment</p>	<p>The SFVS has been designed with schools to help them in managing their finances and to give assurance that they have secure financial management in place.</p> <p>Schools are required to complete and send the completed self-assessment return to SCC annually.</p> <p>In order to develop an Internal Audit schools programme for the 2015/16 Annual Plan, a review of the robustness of SFVS assessments was undertaken for a sample of schools.</p>	<p>From the sample of schools reviewed, Internal Audit is content that Governing Bodies and school management have in general fulfilled their responsibilities for the process of completion and submission of the SFVS assessment.</p> <p>From documents analysed, it is apparent that more work needs to be done in raising awareness of fraud and whistle-blowing policies amongst staff and governors. This has become an important area given the delegated powers to the schools and a high degree of autonomy in managing financial matters.</p>	<p>Some Improvement Needed</p>	<p>No overall audit recommendations</p> <p>Where the audit of an individual school has led to specific findings or recommendations, these have been communicated to the individual school for further review by the Auditor.</p> <p>It is proposed that the schools programme within the Annual Internal Audit Plan for 2015/16 be based on proactive anti-fraud and corruption measures rather than a 'traditional' review of financial controls as sufficient assurance can be derived for the latter from the SFVS process.</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Corporate Parenting Board	<p>The Corporate Parenting Board (CPB) has been established to ensure that Surrey County Council discharges its statutory duties effectively as Corporate Parent for the Council's Looked After Children and Care Leavers</p>	<p>The CPB Terms of Reference make reference to legislation but do not say which legislation applies nor stipulate any statutory requirements relating to Corporate Parenting.</p> <p>The CPB Terms of Reference state that the Board will advise the Council, its Cabinet and the CLT on their Corporate Parenting roles. However, evidence could only support that the Corporate Parenting Board formally reports to the CSF Select Committee, not the Council or Cabinet.</p> <p>Corporate Parenting training is offered to all elected Members in the form of workshops held several times a year. Records were obtained that show that of the 81 members, 29 have attended Corporate Parenting training since May 2013 and 11 in the last term of the Council.</p> <p>Attendance was good for all Board members with one exception, the Surrey Police representative who had neither attended nor sent a replacement since at least June 2013.</p>	Effective	<p>It is recommended that the CPB Terms of Reference mention key statutory duties to aid the oversight of these to ensure these are met by the Council. The Terms of Reference approval date and the next review date should also be shown. <b>(L)</b></p> <p>Terms of Reference are reviewed to clarify how the Council and Cabinet are kept apprised of CPB related matters. <b>(L)</b></p> <p>Consider encouraging further Member attendance/participation at Corporate Parenting training to ensure that they are fully aware of the Corporate Parenting legal framework and their Corporate Parenting role and responsibilities. <b>(L)</b></p> <p>Request that Surrey Police send a regular representative to CPB meetings. Consider revising the Terms of Reference to formalise a procedure for escalation in the event of regular non attendance by any Board member. <b>(M)</b></p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Health and Wellbeing Board	The Surrey Health and Wellbeing Board (HWB) has a statutory duty to produce a Joint Strategic Needs Assessment which looks at the current and future health and care needs of Surrey's residents to inform the planning and buying of health, wellbeing and social care services. The HWB also has a duty to jointly produce a Health and Wellbeing Strategy.	<p>The HWB has successfully agreed a Health and Wellbeing Strategy based on the initial Joint Strategic Needs Assessment.</p> <p>The Strategy comprises five key priorities and it was apparent that these priorities have been discussed by the HWB and that plans are in place for achieving the desired outcomes.</p>	Effective	<p>The HWB should establish a list of substitutes and consider whether individual meetings have sufficient representation of interests. <b>(L)</b></p> <p>The Board's Terms of Reference should be amended to reflect the need for it to have oversight of expenditure, but no commissioning role. <b>(L)</b></p>
Appraisals – follow-up audit	An Internal Audit report issued in April 2014 gave an audit opinion of Significant Improvement Needed and highlighted errors made in calculating the appraisal completion rate which had led to incorrect figures being reported which suggested 83.5% appraisal completion rather than the true percentage of 61.9%.	This follow-up audit concluded that appropriate actions had been taken in response to previous audit recommendations. A robust system is now in place for calculating and reporting rates of completion, exemptions and appraisals "in progress".	Effective	No recommendations made.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
General Ledger	<p>The SAP General Ledger supports internal accounting and the production of the annual financial statements.</p> <p>General Ledger is updated by SAP modules i.e. Payroll, the SRM ordering system, Accounts Payable and Accounts Receivable. Furthermore, a number of secondary financial systems either interface with SAP automatically or require semi-automated data transfer into the SAP ledger.</p>	<p>Only one person is trained on how to transfer data between SIMs and SAP and procedure notes are incomplete. This interface has some processes that could be further automated and the file transmission software could be updated to a more secure version in line with other such software used.</p> <p>There is no reconciliation on Code 8161 (ACL PDQ income holding a/c) and any introduced should incorporate information from an independent source, perhaps using a PDQ processing transaction report.</p> <p>Babcock4S (B4S) are responsible for certifying 8 GL codes, one of which has many Profit Centres. As at January 2015, for Period 8 (Nov 14), B4S had reconciled three of the codes, which includes the code for Schools Local Bank Accounts. The Schools Cheque book coded (£77.5m) and Schools Tranches (£90.5m) were amongst those not yet addressed.</p>	Effective	<p>Further staff should be trained in the processes around the SIMS/SAP interface and systems notes should be enhanced. <b>(M)</b></p> <p>Reconciliation of the Adult Community Learning (ACL) income should involve the use of information from PDQ card payment machines. <b>(M)</b></p> <p>B4S should be reminded of the need to provide adequate assurance on the reconciliation of specific Schools balances within the appropriate timeframes. <b>(M)</b></p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Organisational Ethics	<p>In order to satisfy Public Sector Internal Audit Standard (PSIAS) 2110.A1, Internal Audit are required to evaluate the design, implementation and effectiveness of the Authority's ethics related objectives, programmes and activities.</p> <p>The findings of this work will contribute to the Annual Governance Statement for 2014/15.</p>	<p>The Council has effective arrangements in place to ensure its decisions and operations are open, accountable and in line with recognised ethical standards.</p> <p>The Officer Code of Conduct enshrines the four Surrey values and a number of the Seven Principles of Public Life.</p> <p>Within the Member Code of Conduct, SCC has mentioned only the compulsory requirement for members to declare their pecuniary interests.</p> <p>SCC complies with the Transparency Code requirement to publish expenditure that exceeds £500, but does not comply with voluntary practice – ie publishing all transactions exceeding £250.</p> <p>Audit work in 2014/15 has shown how irregular practices can flourish where proper management oversight is not in evidence. Where cultures are actively managed, good practice is apparent, but where managers are not actively managing there is an increased risk of unacceptable behaviour and irregular practice.</p>	Effective	<p>Consider reviewing the Officer Code of Conduct to align more clearly with the Seven Principles of Public Life, in particular with Selflessness, Openness and Leadership. <b>(L)</b></p> <p>In the light of supplementary guidance issued by the DCLG, consider whether the Members' Code of Conduct should be amended to require disclosure of "non pecuniary" interests. <b>(M)</b></p> <p>Consider whether there would be any additional benefit in disclosing the recommended level of data as described in the Local Government Transparency Code 2014 and publish data of all transactions exceeding £250 <b>(L)</b></p> <p>The Chief Internal Auditor to raise awareness of management responsibilities in relation to fraud, through a presentation, to include recent case studies, to the Extended Leadership Team. <b>(L)</b></p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Payroll	<p>Surrey County Council employs more than 25,000 employees and in addition provides payroll services to a number of external agencies. As such, very significant amounts of money are paid in salaries on a weekly and monthly basis and the payroll system is a key financial system of the Council. Consequently, Payroll is subject to an annual audit review by Internal Audit as part of its overall annual assessment of the robustness of internal controls.</p>	<p>The various payrolls operated by Shared Services have been run in line with the agreed timetables, ensuring that staff are paid on time and that financial accounting information is up to date. Analysis of the values of transactions processed via these payrolls and examination of budget reports was conducted to obtain broad assurance that the expected values of staff costs were processed via the various payrolls.</p> <p>Fieldwork for a wider audit on absence management has recently been completed which identified some scope for improvements in the completeness of recording of sickness absence within SAP.</p> <p>Overpayments can arise if an individual, for whom a leaver's form has been completed/submitted, takes annual leave.</p> <p>The nature of some payments made under the Recognition Payment heading are a weak match to the policy description for such payments. This could potentially lead to the unintended proliferation of such payments, approved or otherwise.</p>	Some Improvement Needed	<p>Consider what additional long stop controls might be needed in areas where there is incomplete reporting of sickness in SAP to minimise the risk of pay overpayments. <b>(M)</b></p> <p>Consider if there is any means of reminding managers to recheck payments for leave nearer the actual leaving date. This might involve producing a risk identification report which highlights which employees are leaving and who will be paid for more than five days leave, so that a request can be made to their line manager to recheck that these employee's have not taken additional unrecorded leave. <b>(M)</b></p> <p>HR&amp;OD to consider whether to widen the definition of permitted payments under the recognition payment heading, or ask Shared Services to implement a new ad hoc / bulk pay adjustment to agreed scales policy and a new wage type. <b>(M)</b></p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Review of Business Continuity Planning	The Council should have adequate business continuity arrangements in place to ensure that service delivery can resume as soon as possible following disruption due to emergency incidents.	<p>The guidance on the S-net and the external website for creating and maintaining robust business continuity plans (BCP) and business impact assessments (BIA) is comprehensive. However, some critical services are not complying with the requirement.</p> <p>The internal re-structure of the EMT completed prior to the departure of the deputy Head of Emergency Management was a good example of business continuity planning.</p> <p>Adequate efforts have been made in implementing business continuity arrangements for external suppliers with effect from 1 April '15. This will be monitored by the Statutory Responsibilities Network (SRN) in 2015/16.</p> <p>While the business case for gaining ISO 22301 certification has not yet been considered by the Continuous Improvement and Productivity Network due to financial pressures, alternative solutions to raise the profile of the EMT have been suggested by the Head of EMT.</p>	Some Improvement Needed	<p>Heads of Services should be responsible for maintaining up to date BCPs and BIAs while the EMT is willing to assist in completing them <b>(M)</b>.</p> <p>The Heads of EMT and Procurement and Commissioning should ensure that arrangements agreed are in place and the SRN should monitor them <b>(M)</b>.</p> <p>Continuous Improvement and Productivity Network to decide on the arrangements going forward in place of the costly ISO 22301 certification <b>(L)</b>.</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Review of Emergency Management	To review the current arrangements in place for Emergency Management and determine the extent of their robustness in the event of emergency incidents.	<p>The Constitution of the Council has the Emergency Management and Business Continuity Policy dated June 2011 instead of the Corporate Resilience Policy (CRP) which came into effect in January 2014.</p> <p>The extensive work done by the Flooding Task Group following the floods in late 2013 and early 2014 resulted in a number of recommendations approved by the Cabinet.</p> <p>There are budget constraints within the Emergency Management Team (EMT) for meeting training requirements and emergency expenditure.</p>	Some Improvement Needed	<p>The Head of Emergency Management should ensure that the CRP is included in the Constitution of the Council <b>(H)</b>.</p> <p>The recommendations of the Flooding Task Group should be regularly tracked for implementation and updated as required <b>(L)</b>.</p> <p>The Head of Emergency Management should address the budget requirements for the team as a priority <b>(M)</b>.</p>



Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Domestic Abuse (DA)	<p>The Auditor considered the strength of the Council's domestic abuse policy, comparing it to policy recommendations from key anti domestic abuse organisations and similar organisations (other councils/NHS trusts). The Auditor examined the training program and the process under development for directing training resources. The Auditor verified the data collection and management within the service.</p>	<p>The Auditor found the service's management of this complex and challenging data set to be based on sound principles blending the hard data available, such as police data regarding arrests, with soft data provided by outreach organisations regarding reported incidents.</p> <p>The Auditor found that the Council is clear in its zero tolerance approach in strategy and policy. The Council undertakes awareness raising via electronic means on the council intranet and also via media campaigns placing posters across the Council.</p> <p>The Council policy includes almost every key element recommended by national DA organisations. The Auditor concludes that the Council's Domestic Abuse Policy is up to date and of a high quality.</p>	Effective	No recommendations made.

## <sup>1</sup> Audit Opinions

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

## <sup>2</sup> Audit Recommendations

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

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

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



Audit & Governance Committee  
9 April 2015

**Social Care Debt Audit – Management Action Plan: Progress Update**

**Purpose of the report:**

To provide the committee with a progress update on the Management Action Plan in relation to the Review of Social Care Debt 2013/14 Audit Report that was published in June 2014.

**Recommendations:**

It is recommended that the progress against the Audit Management Action Plan is noted.

**Introduction:**

1. In June 2014 an audit report titled 'Review of Social Care Debt 2013-14' was issued.
2. The report outlines further progress on fulfilling the Management Action Plan (MAP) and further comments following the initial report to the committee in August 2014.
3. In addition, committee asked that:
  - Results of SAP team looking into introducing a second direct debit date each month.
  - Information about best practice at the two local authorities which have a higher proportion of service users paying by direct debit (DD) than Surrey.
  - Information on the Adult Social Care (ASC) Care Debt older than 1 year old which is not categorised as either:
    - Under query
    - Query resolved, requiring adjustment
    - Probate
    - Instalments
    - Deferred payment applications
    - External Court of Protection / Deputyship

### **Progress on fulfilling the Management Action Plan**

4. An update in the progress in fulfilling this MAP is included as Annex A to this report.
5. The final incomplete item from the MAP, information on a second DD date, is included as part of the additional DD information requested by Committee.

### **Additional information requested by Committee**

6. In addition to the Management Action Plan, committee asked for additional information regarding:
  - Results of looking into introducing a second direct debit collection date each month.
  - Information about best practice at the two local authorities which have a higher proportion of service users paying by direct debit than Surrey.
  - Information on the ASC Care Debt older than 1 year old which is not categorised as either:
    - Under query
    - Query resolved, requiring adjustment
    - Probate
    - Instalments
    - Deferred payment applications
    - External Court of Protection / Deputyship

### **The introduction of a second direct debit collection date**

7. In the context of the levels of outstanding ASC Social Care Debt, the intention of instigating a second DD date was to increase the take up of DD, and therefore reduce the amount of outstanding ASC debt.
8. The ASC Care Debt Process Owners working group considered all of the implications of instigating a second DD date. Presently Adult Social Care Debtors are billed monthly in arrears on a monthly statement. These statements are produced at the end of the calendar month, with a collection date 21 calendar days hence (approximately 15 working days – the recommended notice of a DD instruction is 10 working days). This gives time for any queries raised to be dealt with in time for the collection run to be completed. Instigating a second run would bring forward all DD collections to the earlier date, reducing time for queries to be raised and resolved prior to the debt being collected.

9. A DD instruction cannot be raised until the amount payable is confirmed. The amount payable cannot be confirmed until after a service has been initiated and a financial assessment undertaken. The point at which a DD is most likely to be agreed is the point at which the first charge is raised for the contribution towards Adult Social Care. Also, the review of ASC Debt identified that one of the reasons for non-payment of ASC debt is the lack of clarity that a contribution will be required. From a billing perspective the sooner that a charge request is sent, the sooner a payment query can be raised, or non-payment pursued. Under these circumstances the group felt that whilst instigating a second DD run would have little impact, the ability to raise interim statements for new accounts would be beneficial as this would:
- Bring the charge to the attention of the payee sooner
  - The statement for ASC debt charges would be sent closer to the provision of Adult Social Care
  - Where there are retrospective charges, the value of the retrospective charges would be lower and less daunting to the payee
10. Consequently the Group recommended that in month billing runs be implemented rather than a second DD date.
11. An officer group, separate from the ASC Care Debt process owners group, considered the options for instigating a separate billing cycle for new and amended ASC Care Debt accounts. Their conclusions were that it was not possible within the existing technology platform to implement a satisfactory system for such accounts that didn't disrupt the existing monthly statement DD collection cycle.
12. It is therefore recommended that whilst the existing process and timetable is not, it should remain in place until such time as changed corporate IT platforms are implemented that facilitate suggested improvements, for example changes through the South East Business Services. In the meantime the existing manual process of writing to the debtor to confirm new or changed ASC Care Debt charges will continue.

<p><b>Information about best practice at local authorities with a higher proportion of service users paying by DD</b></p>
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13. Previous reports have highlighted that in reviewing the latest benchmarking information from CIPFA, there are two Local Authorities that have reported a higher take up of DD than Surrey presently achieves. These Local Authorities have been contacted and have confirmed that they promote DD as the only payment method when discussing care options with ASC users and their advocates. They only offer alternative modes of payment if DD isn't available to the payee. These two Local Authorities are also Unitary Authorities and, whilst not something that can be empirically proven, one authority commented that having an on-going relationship for the payment of Council Tax by DD helped the discussions for paying for Care by DD.

14. It is presently not ASC policy to offer only one payment channel for ASC care debt, as this would not offer choice and control to the service user and their advocates.
15. Given these constraints the actual take up of DD for payment of ASC Care Debt should be viewed favourably and all appropriate actions will continue to be taken to promote DD as a payment method. The proportion of debt collected by DD will continue to be reported monthly to the process owners group, and periodically to the Adult Social Care Select Committee.

<b>Information on uncategorised ASC Care Debt over 1 year old</b>
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16. As at the end of February 2015, £1.85m of outstanding unsecured debt over 30 days old was not categorised as being
- Under query
  - Query resolved, requiring adjustment
  - Probate
  - Instalments
  - Deferred payment applications
  - External Court of Protection / Deputyship
17. The following table shows that the amount reported as not falling into those categories has been steadily decreasing as more scrutiny has been applied to reporting the reasons for outstanding ASC debt.

	Mar-14	Jun-14	Sep-14	Dec-14	Feb-15
	£m	£m	£m	£m	£m
<b>Uncategorised unsecured ASC Debt</b>	2.52	2.67	2.01	2.31	1.85

18. This unsecured outstanding ASC care debt is uncategorised as no acceptable reason for non-payment has been established with the debtor. This debt continues to be pursued by specialised debt managers following the Surrey County Council Dunning process. Alongside contacting the debtor, liaison takes place between debt management and ASC to confirm eligibility of the debt prior to escalating to more formal debt recovery processes.
19. Further analysis of the 1.85m unsecured, un-categorised debt shows there are 808 accounts, totalling £591k that is over one year old. Of these, 128 relate to deceased cases accounting for £310k of the total.
20. Dunning refers to a formal process for debt Recovery, based on the 17<sup>th</sup> Century term 'Dun', meaning 'to demand payment of a debt'. Within Surrey the Dunning process is as follows:

	Live Cases	Deceased Cases
Letter 1	13 Days	45 Days
Letter 2	30 days	75 days
Letter 3	45 days	105 days

Charges are notified by statement, monthly in arrears. Having been raised in arrears, the charges for ASC Care fall due immediately upon the statement for care charges being raised. Where a debtor has not opted to pay by DD, they will receive an initial reminder after 13 days, with subsequent reminders after 30 and 45 days. After the standard dunning timetable further communications are sent on a case by case basis following liaison between debt recovery specialist, ASC and legal colleagues

21. The outlined Dunning process will be followed unless a reason for non-payment of debt is advised and alternative payment arrangements agreed with the credit control team. If there is a DD mandate, the DD notification period allows time for the payer to ensure that the funds are either available in the nominated bank account or to contact the team to discuss other payment options. With the increasingly complex landscape for Social Care and Health, each case will be treated on merit and there will inevitably be instances where retrospective charges are raised. Whilst the ongoing charges would be affordable, being based on the Financial and Benefits assessment for the individual, where retrospective charges could cause financial or emotional hardship, the credit control team will discuss appropriate payment options.
22. Members will note that there are different dates for cases where the person to whom the care was provided is deceased.
23. Whilst some of this debt relates to deceased clients, these outstanding amounts are not classified as 'Probate' until the family advise that they are seeking probate, at which point the dunning recovery process is temporarily suspended during which liaison continues to confirm progress towards securing probate
24. In order to prioritise debt recovery activity, process owners will continue to discuss and agree new reporting categories that provide further clarity on the debt profile.

<b>Conclusions:</b>
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25. Progress has been made in delivering against the MAP. Further changes are presently difficult due to technological constraints of the existing financial and care systems.
26. Where possible these requirements will be considered within any future system procurement and / or future opportunities arising from system changes will be utilised.

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

27. None unless particular change proposals are made.

### **Equalities and Diversity Implications**

28. The present and future charging regime stems from Government rules, for which Equality Impacts are assessed at a national level.

## Risk Management Implications

29. This report makes no substantive recommendations, so any assessment of risk will stem from any proposals made by the Committee.

<b>Next steps:</b>
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30. A general update on the year end ASC Care Debt position will be presented to ASC Select Committee in June 2015.

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Appendix A – ASC Care Debt MAP

Recommendation	Management Proposed Action	Timescale	Officer Responsible	Update March 2015
<p>ASC management should consider incorporating a discussion about the impact of changing payment methods into care reviews.</p>	<p>It is not practical for care reviews to routinely include discussions about paying by direct debit (DD). However, where there are difficulties in managing finances (not related to mental capacity) practitioners will be reminded to promote DD in guidance to be issued shortly.</p>	<p>Completed Jun 14</p>	<p>Toni Carney</p>	<p>DD payments are routinely mentioned by care practitioners when discussing debt issues and instruction forms sent where appropriate. Updated guidance for Care Practitioners will be issued In April 2015 Quarterly mail shots and prompts to people who pay online will continue as now.</p>
<p>Alternative ways to promote direct debits should be investigated, including but not limited to: providing an incentive to pay by direct debit; engaging a community partner to assist and advise individuals; and discussing direct debit performance with other local authorities.</p>	<p>Use benchmarking data / contacts to identify other local authorities' practice. Final benchmarking data for 2013/14 should be available by September 2014.</p>	<p>Completed March 2015</p>	<p>Jackie Knutton</p>	<p>The two authorities with higher DD take up are unitary and collect council tax as well. They confirm that they only offer DD as a payment method, accepting other methods where DD is not an option for the payee.</p> <p>SAP team have reported that a second collection date would have to be controlled by a change to SWIFT interface to indicate specific collection group. We might be able to combine this change with the update work to comply with Care Act. Alternatively new payment terms can be set up in SAP, at present all new development work is being prioritised in advance of system change freeze.</p> <p>Paper bills are sent 1<sup>st</sup> monthly with immediate payment terms but DD collections are not made until 22<sup>nd</sup> month but this information is not currently obvious to customers. The promotion letter wording will be improved to encourage DD take up.</p> <p>The ASC debt owners group have considered the contribution a second DD date makes to reducing outstanding ASC debt. They have</p>

## Internal Audit

				<p>agreed that a second DD would be technically difficult to achieve, as it would bring forward all DD collections to the earlier date, reducing time for queries to be raised and resolved prior to the debt being collected.</p> <p>The group recommend that an additional billing cycle be implemented allowing new and changed account payees to be billed new and revised amounts quicker, bringing the charge to their attention sooner.</p> <p>This has been considered by relevant officers and a solution with unwanted consequences cannot be implemented with the existing technology platform.</p> <p>Future changes, such a paperless DDs or the changes arising from the South East Business Services venture may present an opportunity to revisit DD and billing to implement a more flexible and attractive DD process</p>
All teams must make key information available in a timely manner to enable effective management of debts.	Report value of cases with contact delays – discuss at Process Owner and FAB operations meetings.	Completed July 2014	Paul Carey-Kent (Neill Moore pro tem) Toni Carney Jackie Knutton	Monthly detailed debt reporting sent to process owners.

Internal Audit

Recommendation	Management Proposed Action	Timescale	Officer Responsible	Update May 2015
<p>In the medium term, managers from each of the teams involved in the management of social care debt should consider implementing a mutually agreed Service or Operational Level Agreement that clearly sets out expectations and responsibilities.</p>	<p>Discuss at Process Owners meetings</p>	<p>Completed January 2015</p>	<p>Paul Carey-Kent (Neill Moore pro tem) Toni Carney Jackie Knutton</p>	<p>Care Bill changes for April 15 still being discussed and may affect any Operational Level Agreement so this will be revisited next year. Discussions are held at process owner and FAB operations meetings to clarify areas of concern.</p> <p>The overall efficacy of the ASC debt process is discussed at the process owners group. This group will have defined terms of reference that identify the roles and responsibilities of the members of that group and their service roles within the overall ASC Care Debt end to end process</p>
<p>Relevant officers in Shared Services should review how they are addressing upcoming changes to charging and approach the Project Manager of the Care Bill Preparation work to establish any further action required.</p>	<p>Keep up to date with developments – Process Owner meetings. Draft regulations were published on 6 June 2014. Meeting to be arranged.</p>	<p>June 2014</p>	<p>Paul Carey-Kent (Neill Moore pro tem) Toni Carney Jackie Knutton</p>	<p>Superseded The Care Act has introduced changes that impact on the Debt Process including a new Deferred Payment Scheme and the removal of the facility to place a legal charge on a property in respect of an outstanding debt. Officers are working through the implications of these changes.</p>

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Audit & Governance Committee  
9 April 2015

**Internal Audit Plan 2015/16**

**SUMMARY AND PURPOSE:**

1. The purpose of this report is to present the Annual Internal Audit Plan for 2015/16 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 2015/16 as good practice dictates that these should be updated and reviewed on an annual basis.
3. Also included in this report are the updated Internal Audit Reporting and Escalation Policy and 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) 2015/16 Internal Audit Plan (Annex E)

**BACKGROUND:**

5. The statutory basis for Internal Audit in local government is provided in the Accounts and Audit Regulations 2015 - which require a local authority to "*undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes*".
6. The Accounts and Audit Regulations contain the expectation that Internal Audit will take into account public sector internal audit standards or guidance. 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 reflects the PSIAS Local Government Application note which was published in April 2013. There have been no substantial changes to the Charter previously approved by this Committee in March 2014, although the Charter now references the Accounts and Audit Regulations (2015) which came into effect on 1 April 2015.

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 2020 to be confident in Surrey's future. The Internal Audit Strategy has undergone a complete refresh this year. It is now set out on just one page that has some visual impact, clearly shows what Internal Audit is about and obviously aligns with our Corporate Strategy

Through approving the Internal Audit Strategy for 2015-2020 alongside the Internal Audit Plan for 2015/16, the link between the work of Internal Audit and the high level strategic vision of the Council is apparent.

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

The Internal Audit Reporting and Escalation Policy has been updated to reflect the Council's new arrangements for the security classification of data and information and the change in audit opinion classification (from "Major Improvement Needed" to "Significant Improvement Needed").

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. Although the Accounts and Audit Regulations 2015 have removed a requirement to conduct an annual review of internal audit, the Chief Internal Auditor is of the opinion that an annual review is useful to ensure compliance with the PSIAS. As such there are no significant changes to the QAIP that was approved by this Committee in March 2014.

11. **2015/16 Internal Audit Plan and resources (Annex E)**

Development of the Internal Audit Plan

The Internal Audit Plan for 2015/16, 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)

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 strategic priorities was also presented at a meeting of the Statutory Responsibilities Network on 16 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:

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000s	£000s	£000s	£000s	£000s	£000s
Audit	663	640	652	665	679	691

The Internal Audit team consists of 12 members of staff. The slightly reduced budget for 2015/16 does not allow for all 12 auditor positions to be filled with permanent staff and so some agency resourcing will be used during 2015/16 to help deliver the audit plan. The slightly reduced total audit days available for 2015/16 (2069 compared with 2180 in 2014/15) is also a reflection of the reduction in budget.

The Internal Audit team 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 2015/16.

**IMPLICATIONS:**

- 12. Financial Equalities Risk management and value for money
- 13. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. The Annual Internal Audit plan is designed to focus on key areas of risk and as such should help ensure effective risk management and support the achievement of value for money.

**WHAT HAPPENS NEXT:**

14. The Internal Audit team will deliver the 2015/16 Internal Audit Plan and Internal Audit reports will be produced and distributed in line with the Reporting and Escalation Policy.
15. Completed audit reports will continue to be presented to the Committee throughout the year and an update on performance against the 2015/16 Plan will be reported to the Committee in December 2015.

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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 (2015) requires every local authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

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 (2015) 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 eight 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 Director of Finance in respect of her statutory Section 151 responsibilities, including the investigation of irregularities;
- (iii) To the Director of Legal and Democratic Services 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 him;
- (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 (2015);
- (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.

Internal Audit Management attend other meetings of the council through which senior officers are updated with matters pertaining to the delivery of the Internal Audit plan. Such meetings include:

- Statutory Responsibilities Network;
- Governance Panel; and,
- Continuous Improvement and Productivity Network

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 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 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 (eg risk-based auditing and systems based auditing). 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.

A Quality Assurance Improvement Programme (QAIP) is in place 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

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. This review is sponsored by the Audit and Governance Committee Chairman. 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 which aligns with the Corporate Strategy.

The annual Internal Audit Plan is designed to complement 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.

April 2015

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## PURPOSE

To provide the statutory Internal Audit function promoting continuous improvement and correct use of public money

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## VISION

Professional Excellence  
Respected Expertise  
Independent Assurance

## VALUES



Listen



Responsibility



Trust



Respect

## Context

The Surrey County Council Internal Audit Charter sets out the purpose, authority and responsibilities of the Council's Internal Audit team. This complementary Strategy provides a framework to ensure the work of Internal Audit is aligned to the Council's Corporate Strategy and upholds and promotes the Council's values. Demands on the Council are increasing while financial resources are decreasing. The Internal Audit team will help meet these challenges by working with Services, Members and partners, sharing data, knowledge and expertise to help improve services and improve outcomes for our residents.



**ASSURANCE:** We provide an opinion each year on the Council's internal control environment, risk management arrangements and governance framework.



**ADVICE:** Based on audit findings we make recommendations for improvement and work with Services, Members and partners providing advice on a range of issues.



**PROBITY:** We take a zero tolerance approach to fraud and corruption. We investigate alleged irregularities and work proactively with Services, Members and partners to fight fraud and protect the public purse.

## Our strategic approach

### 1. Risk based

In 2015/16 we will

- Ensure the Annual Internal Audit Plan supports the Council's strategic goals:
  - Everyone in Surrey has a great start to life and can live and age well
  - Surrey's economy remains strong and sustainable
  - Residents in Surrey experience public services that are easy to use, responsive and value for money

### 2. Properly resourced

In 2015/16 we will

- Employ a strong mix of people in the Internal Audit team matching technical expertise to audit needs promoting flexibility and living the Council's values
- Encourage and support continuing professional development across the Internal Audit team
- Explore and develop opportunities for wider and more flexible resourcing and intelligence sharing with Internal Audit partners

### 3. Right profile

In 2015/16 we will

- Share Internal Audit findings promptly with key stakeholders including senior officers and Cabinet Members
- Report publically to the Audit and Governance Committee on implementation of Internal Audit recommendations and attend Select Committee meetings to discuss audit findings
- Be represented on the Statutory Responsibilities Network and the Continuous Improvement and Productivity Network, drawing attention to governance related matters

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# Internal Audit Reporting and Escalation Policy

## **CONTENTS**

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*Select Committee Review of Internal Audit Reports*

### **VERSION CONTROL:**

*ANNEX A: Agreed process re Select Committee Review*

## **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.**

### ***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 "Significant Improvement Needed" the Chief Internal Auditor will draw this to the attention of the Head of Communications.

### ***Structure and contents***

25. Audit reports are generated using a standard reporting template.
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 Security Classifications for Data and Information Policy.
29. The Chief Internal Auditor has determined that of the three levels of marking applicable to local government the third category – OFFICIAL - SENSITIVE – is likely not to be relevant to audit reports. Consequently reports will generally either be marked as 'OFFICIAL' or not marked at all, in accordance with the extract from the Policy below:

**[NOT PROTECTIVELY MARKED]**

- may have no marking or be marked [NOT PROTECTIVELY MARKED]
- contains no sensitive information
- available to all (internally or externally)
- may be published online or in print

**[OFFICIAL]**

- many of the council's routine business operations
- policy development, service delivery, statistics
- legal advice, contracts, some administrative data
- contains sensitive information but loss would not cause significant distress

**[OFFICIAL - SENSITIVE]**

- subject to a heightened risk profile and only available to limited number of users
- contains personal data, commercial confidence or financial information
- loss would cause substantial distress to individuals or damaging consequences for the council

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

31. Where the "OFFICIAL" 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 **OFFICIAL** 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. A formal follow-up review is typically carried out for audits that have attracted an audit opinion of “Unsatisfactory” or “Significant Improvement Needed”.
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.

***Select Committee Review of Internal Audit Reports***

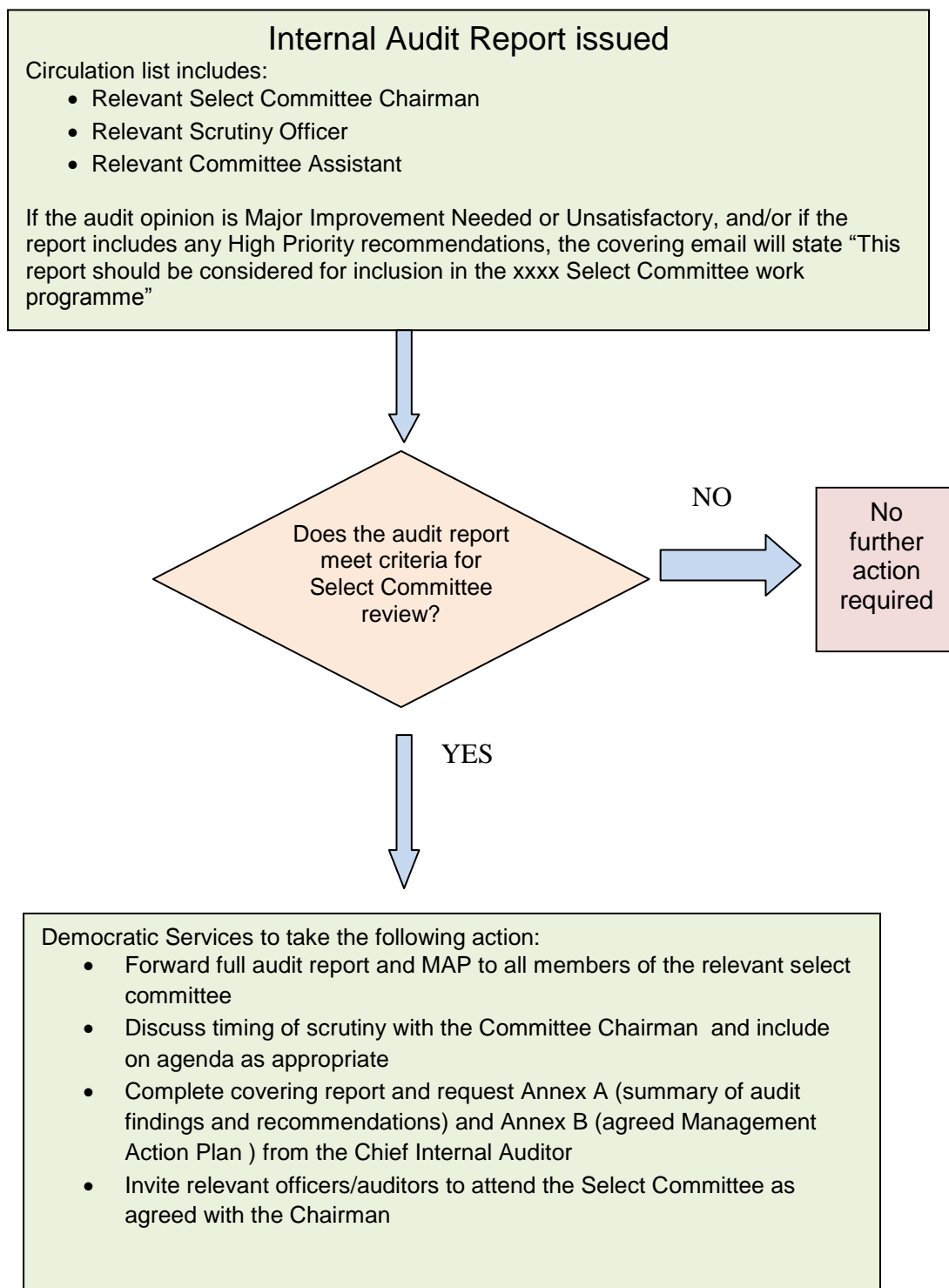
38. It has been agreed by the Chairmen of the Council’s Select Committees that any relevant Internal Audit reports that have attracted an audit opinion of either “Significant Improvement Needed” or “Unsatisfactory”, and/or those with High Priority recommendations, will be considered for inclusion on the Committee’s work programme. The process agreed with Democratic Services to ensure this happens is described at Annex A

**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
1.14	Amended to reflect agreed process for Select Committee review (note as discussed with Chairman of A&G Committee)	Effective from 25/03/2013
1.15	Amended to reflect the council's new arrangements for the security classification of data and information	Effective from 09/04/2015

## SELECT COMMITTEE REVIEW OF INTERNAL AUDIT REPORTS – AGREED PROCESS



**Note:** The Select Committee is encouraged to 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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## **ANNEX D**

# 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 with the Head of Performance and monitored through 1-2-1 conversations. The priorities for the Internal Audit team are reviewed and refreshed each year as part of the Council's annual business planning cycle.

### **Periodic Reviews**

8. 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.

9. An annual review of the effectiveness of the system of Internal Audit 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.
10. 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**

11. 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.
12. 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.
13. 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.
14. 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**

15. 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
16. 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.
17. 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.

15

18. 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
1.1	Amended to reflect the new approach to performance reporting	09/04/15



## Internal Audit

## Surrey County Council

## DRAFT Internal Audit Plan 2015/16

	Risk Score*	Audit Days 2015/16	(2014/15 Audit Days)
<b>Corporate Governance Arrangements</b>		85	(75)
CRSA and S151 responsibilities	MAN		
Risk Management	MAN		
AGS - Internal Audit Opinion	MAN		
Information Governance	MAN		
Organisational Ethics	MAN		
<b>Key Financial and Non Financial Systems</b>		185	(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		
<b>Grants</b>		61	(30)
Government Grants	MAN		
EU Grants	MAN		

\*MAN = Mandatory



## Internal Audit

## Surrey County Council

## DRAFT Internal Audit Plan 2015/16

**Contract Reviews**

Highways Contract Management	91
Surrey Choices	89
Supply Chain / Contract Resilience	88
Contract Monitoring in ASC/CSF	83
Babcock 4S	81

Audit Days 2015/16	(2014/15 Audit Days)
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125	(145)
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**Adult Social Care**

Family, Friends and Communities	97
Better Care Fund	87
Deputyships	86
Provider Portal	81
HIV Services	79
Direct Payments	78
Care Act	78
Home Based (Domiciliary) Care	73

160	(135)
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\*MAN = Mandatory

## Internal Audit

## Surrey County Council

## DRAFT Internal Audit Plan 2015/16

	Risk Score*	Audit Days 2015/16	(2014/15 Audit Days)
<b>Business Services</b>		230	(210)
Carbon Reduction Scheme	MAN		
SAP Interfaces	85		
Network Security	79		
LATC Property Company	76		
PAMS Income Module	76		
Consultancy	74		
IMT Incident Response Review	72		
Retrospective Waivers	72		
Off Contract Agency Spend	71		
Student Fare Card	71		
IT Feeder Systems	71		
Casework - Resolution and Suspension Costs	65		
Training Cancellations	60		
<b>Customers and Communities</b>		20	(55)
Fire Transformation Grant	72		



\*MAN = Mandatory

## DRAFT Internal Audit Plan 2015/16

**Chief Executive's Office**

0-5 Health Visitors	80		
Member Allocations	78		
Public Health Database Procurement	77		
Payments to GPs and Pharmacies	77		
Community Partnered Libraries	76		

<b>Risk Score*</b>	<b>Audit Days 2015/16</b>	<b>(2014/15 Audit Days)</b>
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	95	(115)
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**Children's Schools and Families**

Schools Compliance	88		
Foster Care	83		
Special Schools	83		
Children's Improvement Plan	83		
Surrey Family Support Programme	81		
Short Stay Schools	81		
Nursery Education	79		
Data Management	78		
Locally Managed School Capital Schemes	73		
School Improvement Programme	71		
Youth Centres	70		

	260	(230)
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\*MAN = Mandatory

## Internal Audit

## Surrey County Council

## DRAFT Internal Audit Plan 2015/16

**Environment and Infrastructure**

Green House Gases

Highways Schemes

Highways Savings

Works Management System

Risk Score*	Audit Days 2015/16	(2014/15 Audit Days)
	80	(100)
MAN		
91		
84		
80		

**Follow-up Audits including:**

Fuel Cards

Looked After Children – Finances

Agency Staff Contract

Surrey Arts

50 (60)

\*MAN = Mandatory

## Internal Audit

## Surrey County Council

## DRAFT Internal Audit Plan 2015/16

	Risk Score*	Audit Days 2015/16	(2014/15 Audit Days)
<b>Client Support and Service Liaison</b>		123	(156)
<b>Innovation and New Models of Delivery - Support</b>		30	(30)
<b>Irregularity and Special Investigations including Fraud Prevention</b>		280	(345)
NFI - Support to Other LAs			
Irregularity Contingency			
Anti Fraud and Data Interrogation			
NFI Data Matching Exercise			
<b>Internal Management, Corporate Support and Organisational Learning</b>		285	(294)
Audit & Governance Support			
Member support			
Audit Planning			
Audit Management			
Corporate Support Activities			
<b>Total Audit Days</b>		<u>2069</u>	(2180)

\*MAN = Mandatory



Audit & Governance Committee  
9 April 2015

**Leadership Risk Register**

**Purpose of the report:**

The purpose of this report is to present the Leadership Risk Register as at 28 February 2015 and update the committee on any changes made since the last meeting to enable the committee to keep the council's strategic risks under review.

**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 1) is owned by the Chief Executive and shows the council's 13 key strategic risks. The register is regularly reviewed by the Strategic Risk Forum<sup>1</sup> (chaired by the Director of Finance) and the Statutory Responsibilities Network<sup>2</sup> on a monthly basis.
4. Since it was last presented to the committee in February, the risk register has been reviewed by the Strategic Risk Forum, the Statutory Responsibilities Network and the Directors reporting to the Chief Executive.

<sup>1</sup> Strategic Risk Forum membership – Director of Finance (Chair), strategic risk leads, Chief Internal Auditor, Head of Emergency Management, Risk and Governance Manager.

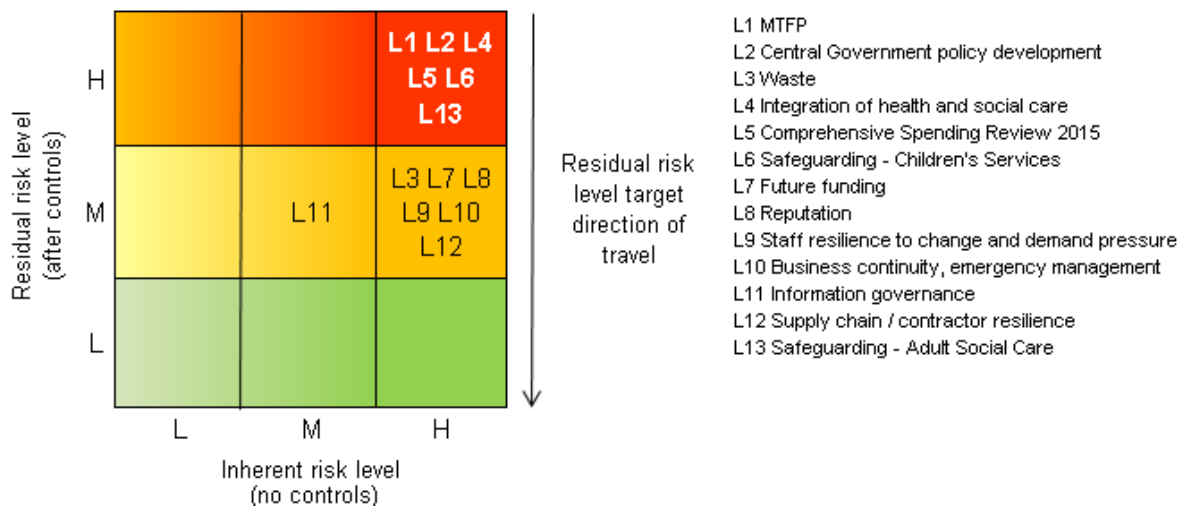
<sup>2</sup> Statutory Responsibilities Network membership – Chief Executive (Chair), statutory officers for Social Care, Education, Fire, Public Health, Director of Finance, Director of Legal and Democratic Services, Chief Internal Auditor, Director of People and Development.

## Changes to the Leadership risk register

5. Minor wording changes have been made to the following risk controls:
  - Safeguarding – Children’s Services (L6); and
  - Safeguarding – Adult Social Care (L13).

### Residual risk level

6. The Leadership Risk Register includes both the inherent and residual risk levels for each risk. Inherent risk is the level of risk before any control activities are applied. The residual risk level takes into account the controls that are already in place, detailed on the risk register as both ‘processes in place’ and ‘controls.’
7. There are 13 risks on the Leadership Risk Register, of which 12 have a high inherent risk level, as illustrated in the table below. Despite mitigating actions, seven of these risks continue to have a medium residual risk level (L3,L7,L8,L9,L10,L11,L12) and six continue to have a high residual risk level (L1,L2, L4,L5,L6,L13): showing the significant level of risk that the council is facing despite processes and controls being put in place to manage the risks.



### Cabinet risk workshop

8. A risk workshop, facilitated by the Director of Finance, was held with the Cabinet on 24 March 2015. The Cabinet discussed the definition of strategic risk and considered the strategic risks the council is facing.
9. The output from the workshop was reviewed at the Chief Executive’s Direct Reports meeting on 30 March 2015 and next steps agreed.



**Implications:****Financial and value for money implications**

10. There are no direct financial implications relating to the Leadership risk register.

**Equalities and Diversity Implications**

11. There are no direct equalities implications but any actions taken need to be consistent with the council's policies and procedures.

**Risk Management Implications**

12. Effective management of risks and financial controls supports the council to meet its objectives and enable value for money.

**Next steps:**

The Leadership Risk Register will be presented to Cabinet on 28 April 2015 and then to the next Audit and Governance Committee on 28 May 2015.

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**Report contact:** Cath Edwards, Risk and Governance Manager, Finance

**Contact details:** 020 8541 9193 or [cath.edwards@surreycc.gov.uk](mailto:cath.edwards@surreycc.gov.uk)

## Leadership risk register as at 28 February 2015 (covers rolling 12 months) Owner: David McNulty Annex 1

Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place (ie the 'how' risks are being mitigated)	Controls (i.e. decisions needed)	Lead risk owner	Residual risk level (after existing controls)
L1	ASC2, 29 BUS01 CAC2 CSF4, EAI1, 3 FR72, 85	<p><b>Medium Term Financial Plan (MTFP) 2015-20</b></p> <p>Failure to achieve the MTFP, which could be as a result of:</p> <ul style="list-style-type: none"> <li>• not achieving savings</li> <li>• additional service demand and/or</li> <li>• over optimistic funding levels.</li> </ul> <p>As a consequence, lowers the council's financial resilience and could lead to adverse long term consequences for services if Members fail to take necessary decisions.</p>	<b>High</b>	<ul style="list-style-type: none"> <li>• Monthly reporting to Continuous Improvement and Productivity Network and Cabinet on the forecast outturn position is clear about the impacts on future years and enables prompt management action (that will be discussed informally with Cabinet)</li> <li>• Budget Support meetings (Chief Executive and Director of Finance) continue to review and challenge the robustness of MTFP delivery plans and report back to Cabinet as necessary</li> <li>• Clear management action reported promptly detailing alternative savings / income if original plans become non deliverable or funding levels alter in year</li> <li>• Monthly formal budget reports focus on funding levels comparing actual spend to forecasts</li> <li>• Budget planning discussions with Cabinet and Select Committees</li> <li>• Formal review of MTFP (2015-20) planned for summer 2015 once the new Government is formed.</li> </ul>	<ul style="list-style-type: none"> <li>- Prompt management action taken by Strategic Directors / Leadership Teams to identify correcting actions. (Evidenced by robust action plans)</li> <li>- Members (Council, Cabinet, Select Committee) make the necessary decisions to implement action plans in a timely manner</li> </ul>	Director of Finance	<b>High</b>
L6	CSF2,3	<p><b>Safeguarding – Children's Services</b></p> <p>Avoidable failure in Children's Services, through action or inaction, including child sexual exploitation, leads to serious harm, death or a major impact on well being.</p>	<b>High</b>	<ul style="list-style-type: none"> <li>• Working within the frameworks established by the Children's Safeguarding Board ensures the council's policies and procedures are up to date and based on good practice</li> <li>• Adult Social Care and Children, Schools &amp; Families are working as key stakeholders in the further development of the Multi-Agency Safeguarding Hub.</li> </ul>	<ul style="list-style-type: none"> <li>- Timely interventions by well recruited, trained, supervised and managed professionals ensures appropriate actions are taken to safeguard and promote the well being of children in Surrey. Actively respond to feedback from regulators.</li> <li>- Robust quality assurance and management systems in place</li> </ul>	Strategic Director for Children's Schools and Families	<b>High</b>

Key to references:

ASC = Adult Social Care

BUS = Business Services

CAC = Customers and Communities

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CSF = Children, Schools and Families

EAI = Environment and Infrastructure

FR = Fire and Rescue

**Leadership risk register as at 28 February 2015 (covers rolling 12 months) Owner: David McNulty Annex 1**

Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place (ie the 'how' risks are being mitigated)	Controls (i.e. decisions needed)	Lead risk owner	Residual risk level (after existing controls)
					<p>to identify and implement any key areas of learning so safeguarding practice can be improved.</p> <ul style="list-style-type: none"> <li>- The Children's Safeguarding board (chaired by an independent person) comprises senior managers from the County Council and other agencies facilitating prompt decision making and ensuring best practice.</li> </ul>		
L13	ASC31, 32	<p><b>Safeguarding – Adult Social Care</b>                      Avoidable failure in Adult Social Care, through action or inaction, leads to serious harm, death or a major impact on well being.</p>	<b>High</b>	<ul style="list-style-type: none"> <li>• Working within the framework established by the Surrey Safeguarding Adults Board ensures that the council's policies and procedures are up to date and based on good practice.</li> <li>• A revised safeguarding structure is being put in place following a Peer Review.</li> <li>• Implications of the Care Act 2014 are being consulted on.</li> <li>• Adult Social Care and Children, Schools and Families are working as key stakeholders in the further development of the Multi Agency Safeguarding Hub.</li> <li>• Established a locality safeguarding advisor to assure quality control.</li> <li>• Close involvement by Associate Cabinet Member for Adult Social Care in safeguarding functions.</li> </ul>	<ul style="list-style-type: none"> <li>- Continue to work with the Independent Chair of the Surrey Safeguarding Adults Board to ensure feedback and recommendations from case reviews are used to inform learning and social work practice.</li> <li>- Agree and imbed agreed changes resulting from Care Act 2014 consultation.</li> <li>- Actively respond to feedback from regulators.</li> </ul>	Strategic Director for Adult Social Care	<b>High</b>

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Key to references:  
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## Leadership risk register as at 28 February 2015 (covers rolling 12 months) Owner: David McNulty Annex 1

Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place (ie the 'how' risks are being mitigated)	Controls (i.e. decisions needed)	Lead risk owner	Residual risk level (after existing controls)
L2	ASC24, 29	<p><b>Central Government policy development</b></p> <p>Central Government policy changes, in particular the Care Act, may put additional pressure on demand for all public services leading to an erosion of financial resilience and ability to deliver statutory and essential services.</p>	<b>High</b>	<ul style="list-style-type: none"> <li>• Effective horizon scanning to ensure thorough understanding of intended policy changes</li> <li>• Implementation of a welfare reform programme including districts and boroughs covering:               <ul style="list-style-type: none"> <li>- Advice and information</li> <li>- Financial resilience</li> <li>- Emergency assistance</li> <li>- Localisation of council tax support</li> <li>- Housing and homelessness</li> <li>- Employment training and support</li> </ul> </li> <li>• Taking opportunities to influence central Government policy development e.g. via the Local Government Association.</li> <li>• The Welfare Reform Task Group is monitoring the implementation of its recommendations, which are intended to manage the implementation of reforms on Surrey Residents. The Task Group reports regularly to the Council Overview &amp; Scrutiny Committee.</li> </ul>	<ul style="list-style-type: none"> <li>- Working in partnership with other statutory partners (e.g. Clinical Commissioning Groups CCG's) to maximise opportunities for communities</li> <li>- Members take the opportunities and make the necessary decisions to influence central Government</li> <li>- Care Act Implementation Board in place and project programme set up to support ongoing discussion with partners. Through Association of Directors of Adult Social Services (ADASS), SCC leading best practice model in relation to financial management and working closely with Department of Health in the development of regulations that underpin the Care Act.</li> </ul>	Strategic Director for Adult Social Care	<b>High</b>
L4	ASC9 CEO13	<p><b>Integration of health and social care</b></p> <p>Failure in partnership working reduces our ability to:</p> <ul style="list-style-type: none"> <li>- co-ordinate/integrate health and social care services;</li> <li>- improve health outcomes; and</li> <li>- develop a financially sustainable model.</li> </ul>	<b>High</b>	<p>Governance arrangements:</p> <ul style="list-style-type: none"> <li>• robust partnership governance arrangements are in place through the Better Care Board, Public Sector Transformation programme and Surrey's Health and Wellbeing Board</li> <li>• regular monitoring of progress and risks against key Health &amp; Social Care integration workstreams and agreed financial governance framework (including the Better Care Fund)</li> </ul>	<ul style="list-style-type: none"> <li>- National approval of Surrey's Better Care Fund plan (which includes agreed financial plans, metrics to measure progress and risk sharing arrangements).</li> <li>- Progress discussions with Clinical Commissioning Groups in Surrey about plans for integration beyond the Better Care Fund.</li> </ul>	Assistant Chief Executive	<b>High</b>

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## Leadership risk register as at 28 February 2015 (covers rolling 12 months) Owner: David McNulty Annex 1

Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place (ie the 'how' risks are being mitigated)	Controls (i.e. decisions needed)	Lead risk owner	Residual risk level (after existing controls)
				<ul style="list-style-type: none"> <li>prioritisation of resources and clear senior leadership across Council directorates to support the development of Health &amp; Social Care workstreams.</li> <li>continued focus on building and maintaining strong relationship with partners through regular formal and informal dialogue</li> <li>Surrey Better Care Fund plan now approved by Surrey's Health &amp; Well-Being Board and has been submitted to Department of Health for approval.</li> <li>Formal pooling agreements (section 75 agreements) being developed for the operation of the Better Care Fund, for approval by the County and each CCG ahead of the start date from April 2015.</li> </ul>	<ul style="list-style-type: none"> <li>Inclusion of key partners in local whole systems planning.</li> <li>Members continue to endorse approaches to integration across the County (and formally approve Sec 75 agreements for BCF).</li> </ul>		
L5	BUS02	<p><b>Comprehensive Spending Review (CSR) 2015</b> Risk that CSR 2015:</p> <ul style="list-style-type: none"> <li>reduces further the total public sector funding available, and</li> <li>introduces a revised distribution mechanism which lowers the councils financial resilience.</li> </ul>	<b>High</b>	<ul style="list-style-type: none"> <li>Contribution to Local Government Commission to review Local Government Funding and development of scenarios for budget planning process is ongoing and will continue throughout 2015.</li> <li>Officers (Finance and Policy in particular) to sustain pro-active horizon scanning for insight into potential funding change.</li> </ul>	<ul style="list-style-type: none"> <li>Cabinet fully consider the implications of CSR in budget planning and agree an MTFP that reflects likely impacts.</li> </ul>	Director of Finance	<b>High</b>
L3	EAI2	<p><b>Waste</b> Failure to deliver the key elements of the waste strategy leads to negative financial and reputational impact.</p>	<b>High</b>	<ul style="list-style-type: none"> <li>Implementation monitored by the Waste Programme Delivery Board with strategic overview provided by the Strategic Waste Board</li> <li>All major decisions are reported to Cabinet on a regular basis</li> <li>Cabinet paper in November outlined a</li> </ul>	<ul style="list-style-type: none"> <li>Strong resourcing and project management regime in place to ensure prompt resolution of any issues that may hinder progress.</li> <li>Collaborative work with Districts and Boroughs is</li> </ul>	Director of Environment and Infrastructure	<b>Medium</b>

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## Leadership risk register as at 28 February 2015 (covers rolling 12 months) Owner: David McNulty Annex 1

Ref	Dir. RRef.	Description of the risk	Inherent risk level (no controls)	Processes in place (ie the 'how' risks are being mitigated)	Controls (i.e. decisions needed)	Lead risk owner	Residual risk level (after existing controls)
				<p>strategy to work towards a single waste authority.</p> <ul style="list-style-type: none"> <li>Joint strategic partnership reinforces collaboration and will, if successful, strengthen the ability to deliver the key elements of the waste strategy</li> <li>Support from external strategic advisors assists senior officers in management and mitigation of key technical, financial and legal risks.</li> <li>Senior officers working closely with Government departments.</li> </ul>	<p>delivered through the Surrey Waste Partnership with close involvement of all Surrey Chief Executives</p> <ul style="list-style-type: none"> <li>The Waste Programme Delivery Board comprises senior managers from the service together with Procurement and Finance and is chaired by the Assistant Director Environment facilitating prompt decision making.</li> </ul>		
L7	ASC2 BUS07, 11,12 CSF4 EAI1	<p><b>Future Funding</b></p> <p>The council is highly dependent on Council Tax for funding, and the ability to increase that in real terms is constrained (by current Government policy). This could lead to a reduction in the council's financial resilience with the consequence that funding for key services will be seriously eroded.</p>	<b>High</b>	<ul style="list-style-type: none"> <li>Structured approach to ensuring Government understands the council's Council Tax strategy and high dependence</li> <li>Targeted focus with Government to secure a greater share of funding for specific demand led pressures (in particular School Basic Need)</li> <li>Continued horizon scanning of the financial implications of existing and future Government policy changes</li> <li>Development of alternative / new sources of funding (e.g. bidding for grants)</li> <li>Review how systems and processes can lead to greater efficiencies.</li> </ul> <p>Notwithstanding actions above, there is a significant risk of Central Government policy changes /austerity measures impacting on the council's long term financial resilience.</p>	<ul style="list-style-type: none"> <li>Members make decisions to reduce spending and or generate alternative sources of funding, where necessary, in a timely manner.</li> <li>Officers unable to recommend MTFP unless a credible sustainable budget is proposed.</li> </ul>	Director of Finance	<b>Medium</b>

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## Leadership risk register as at 28 February 2015 (covers rolling 12 months) Owner: David McNulty Annex 1

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L8	ASC31, 32,34 BUS01 CSF3,4 CEO7 EAI2,14	<b>Reputation</b> A significant failure to deliver within the organisation (caused by an event or individual), could lead to a loss of trust and confidence in the organisation by external stakeholders (e.g. residents, Government, Partners) or internal staff, affecting our ability to deliver services effectively and harming our freedoms and flexibilities from Government controls.	<b>High</b>	<ul style="list-style-type: none"> <li>Processes in place that minimise the likelihood of organisational failure include:                             <ul style="list-style-type: none"> <li>Active learning by senior leaders from experiences / incidents outside the council inform continual improvement within the council</li> <li>Strong corporate values</li> <li>Robust Governance framework (including codes of conduct, health &amp; safety policies, complaints tracking).</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Regular monitoring of effectiveness of processes is in place and improvements continually made as a result of learning.</li> </ul>	Chief Executive Officer	<b>Medium</b>
L9	ASC9 BUS06 CEO8	<b>Staff resilience to change and demand pressure</b> Low morale leading to loss in productivity, increased sickness and staff turnover.	<b>High</b>	<ul style="list-style-type: none"> <li>Communication, consultation and engagement is a priority for the council with an emphasis placed on thoroughly addressing the concerns of staff and their representatives</li> <li>Currently eight training courses available that address various aspects of change. Trained coaches who are available in all services to support staff.</li> <li>High Performance Development Programme being offered across the organisation to support leaders to develop their own and the organisations behaviours.</li> <li>Comprehensive range of surveys and focus groups provide a measure of the staff satisfaction with the council and its management of change.</li> <li>The smarter working framework and flexible working policy are in place to support managers and their teams to work differently.</li> </ul>	<ul style="list-style-type: none"> <li>Decision by members on pay and reward system taken in timely manner and combine with staff and union consultation.</li> <li>Communications engagement plan to promote the benefits of working for Surrey and help to support engagement across the organisation to be delivered.</li> </ul>	Strategic Director Business Services	<b>Medium</b>

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				<ul style="list-style-type: none"> <li>Promotion of support mechanisms for staff (eg. employee assistance).</li> <li>Staff are encouraged to get involved in finding innovative solutions to redesign services.</li> <li>Better Place to Work outcomes are implemented</li> <li>Training of managers in effective engagement of their staff to roll out over 2015.</li> </ul>			
L10	CEO3 EAI4,5 FR06	<p><b>Business Continuity, Emergency Planning</b></p> <p>Failure to respond effectively to a known event or major incident results in an inability to deliver key services.</p>	<b>High</b>	<ul style="list-style-type: none"> <li>The Council Risk and Resilience Forum reviews, moderates, implements and tests operational plans.</li> <li>Close working between key services and the Emergency Management Team to update plans and share learning</li> <li>Continued consultation with Unions and regular communication to staff.</li> <li>External risks are assessed through the Local Resilience Forum.</li> <li>Combined Environment &amp; Infrastructure and Communities Select Committees Task Group agreed to identify improvement and best practices during the recent flooding.</li> </ul>	- Business Continuity Plans are in place and signed off (by Local Resilience Board) in timely manner	Assistant Chief Executive	<b>Medium</b>
L11	ASC12, 30, 33 BUS13 CEO7 CSF5	<p><b>Information Governance</b></p> <p>Loss of protected data by the council leads to financial penalties, safeguarding issues and erosion of public trust.</p>	<b>Medium</b>	<ul style="list-style-type: none"> <li>Encrypted laptops – 100% coverage for our 5,500 Laptop estate</li> <li>Secure environment through the Egress encrypted email system</li> <li>Internal Audit Management Action Plans in place that are monitored by Audit &amp; Governance Committee and Select Committees</li> <li>Twice-yearly communications campaign</li> </ul>	<ul style="list-style-type: none"> <li>Information governance controls work effectively overseen by Information Governance and Caldecott boards and audited annually</li> <li>Cabinet have reviewed IT security policy and as result the security policy, Code of conduct and social media</li> </ul>	Strategic Director Business Services	<b>Medium</b>

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				<p>linked to known peaks for breaches, and a refreshed and re-launched information security e-learning package.</p> <ul style="list-style-type: none"> <li>• SCC has received GCSx accreditation certificate</li> <li>• introduction of the Information Governance Board and the launch of the data classification project, both of which commenced in the first quarter of 2014/15, and will help to manage this risk.</li> <li>• continuation of training for staff to improve awareness and ensure adherence to procedures</li> <li>• Implement learning from feedback where breaches occur.</li> <li>• Directorates and Digital Delivery Team to engage with partners to deliver a platform that will enable appropriate sharing of information between agencies.</li> </ul> <p>Despite the actions above, there is a continued risk of human error that is out of the council's control.</p>	<p>policies are being updated to reflect changes agreed</p>		
L12	ASC21 BUS10	<p><b>Supply chain / contractor resilience</b> Supply chain failure, lack of business continuity arrangements in place leading to increased costs, time delays or reputational damage and failure to promote service delivery.</p>	<b>High</b>	<ul style="list-style-type: none"> <li>• Supply chain business continuity plans for strategic/critical contracts to meet required standards.</li> <li>• Consistent management of supply chain risks across all key suppliers through common reporting.</li> <li>• Regular supplier intelligence reporting in place to track industry and supplier news.</li> <li>• Risk management training provided to contract managers to enable a consistent approach.</li> </ul>	<ul style="list-style-type: none"> <li>- Supplier selection policy decision made to include financial resilience and business continuity arrangements</li> <li>- Needs strong support from ELT (Extended Leadership Team) to ensure contract resilience and business continuity is in place and regularly up-dated</li> </ul>	Strategic Director Business Services	<b>Medium</b>

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				<ul style="list-style-type: none"> <li>Mitigating actions are less effective for small/medium suppliers due to reduced business continuity.</li> </ul>			

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## Movement of risks

Ref	Risk	Date added	Current inherent risk level	Current residual risk level	Movement in residual risk level	
L1	Medium Term Financial Plan	Aug 12	High	High	-	-
L2	Central Government policy development	Feb 13	High	High	-	-
L3	Waste	May 10	High	Medium	Jan 15	↓
L4	Integration of health & social care	June 13	High	High	-	-
L5	Comprehensive Spending Review 2015	Sep 14	High	High	-	-
L6	Safeguarding – Children’s Services	May 10	High	High	Jan 15	↑
L7	Future funding	Aug 12	High	Medium	-	-
L8	Reputation	Oct 14	High	Medium	-	-
L9	Staff resilience to change and demand pressures	May 10	High	Medium	Jan 12	↓
L10	Business Continuity, Emergency Planning	May 10	High	Medium	Aug 12	↓
L11	Information governance	Dec 10	Medium	Medium	Oct 14	↓
L12	Supply chain / contractor resilience	Jan 14	High	Medium	-	-
L13	Safeguarding – Adult Social Care	May 10	High	High	Jan 15	↑

## Risks removed from the register

Risk	Date added	Date removed
<i>IT risk</i>	<i>May 10</i>	<i>Oct 14</i>
<i>Resource Allocation System in adults personalisation</i>	<i>May 10</i>	<i>Aug 12</i>
<i>Integrated Childrens System</i>	<i>May 10</i>	<i>Feb 11</i>
<i>NHS reorganisation</i>	<i>Sep 10</i>	<i>May 13</i>
<i>2012 project management</i>	<i>Sep 10</i>	<i>Aug 12</i>
<i>LLDD budget transfer</i>	<i>May 11</i>	<i>Mar 12</i>
<i>2012 command, control, coordination and communication</i>	<i>Dec 11</i>	<i>Sep 12</i>

## Leadership level risk assessment criteria

Due to their significance, the risks on the Leadership risk register are assessed on their residual risk level ie. the level of risk after existing controls have been taken into account, by high, medium or low.

Risk level	Financial impact	Reputational impact	Performance impact	Likelihood
	<i>(% of council budget)</i>	<i>(Stakeholder interest)</i>	<i>(Impact on priorities)</i>	
Low	< 1%	Loss of confidence and trust in the council felt by a small group or within a small geographical area	Minor impact or disruption to the achievement of one or more strategic / directorate priorities	Remote / low probability
Medium	1 – 10%	A sustained general loss of confidence and trust in the council within the local community	Moderate impact or disruption to the achievement of one or more strategic / directorate priorities	Possible / medium probability
High	10 – 20%	A major loss of confidence and trust in the council within the local community and wider with national interest	Major impact or disruption to the achievement of one or more strategic / directorate priorities	Almost certain / highly probable



## Audit & Governance Committee

### **Special Educational Needs and Disabilities Strategy - Progress**

#### **Purpose of the report:**

To update the committee on the preparation of a new Special Educational Needs and Disabilities (“SEND”) Strategy for the County Council.

#### **Recommendations:**

It is recommended that the committee notes the report’s description of work in progress and provides any input it wishes to the preparation of the final strategy.

#### **Introduction:**

1. On 31 July 2014, the Audit & Governance Committee considered the findings of the audit of Special Schools – Funding for Residential Provision. Of particular concern to the committee was that the SEN Strategy had not been updated since 2010. This had led to a disconnect between Schools and Learning Service’s stated strategic objectives and the delivery of residential provision. The committee was also interested in the finding that a consultant had been appointed to undertake a wide-ranging remodelling of the County Council’s residential (maintained) school provision. The Chairman wrote to the Cabinet Member for Schools & Learning to request information on the two issues. Following a response from the Portfolio Holder (attached as Annex 1), the committee requested an update at a committee meeting.
2. This paper updates the committee on the preparation of a new Special Educational Needs and Disabilities (“SEND”) Strategy for the County Council.

3. The last formal SEND strategy for Surrey was agreed by the Council in 2010. A new strategy is currently being prepared. The new strategy is intended to take into account both major legislative changes, principally from the Children and Families Act 2014, the changed position in which the Council finds itself with regard to resources, and the Council's ambition to deliver better user experiences for the families of children with SEND and better outcomes for the children and young people.

#### **Partnership**

4. It is intended that the new strategy is jointly produced and maintained by the key partners working in the area: Children with special educational needs and their families; schools and other education providers; Surrey County Council; and the National Health Service in Surrey.
5. Since July 2014 these partners have met together through the SEND Governance Board for Surrey. The Governance Board is debating and overseeing the production of a new strategy.

#### **Legislative Change**

6. The Children and Families Act 2014 sets out a significantly different system for assessing and meeting the needs of children and young people with SEND than the arrangements that preceded it. Local services available to families are described through a Local Offer. Statements of Special Educational Needs are replaced by Education, Health and Care Plans, and families are given a much larger role in the production of these plans. An element of personal budgeting is introduced. Further, the scope of Plans is significantly greater than that of statements, which were restricted to young people at school or yet to start: the new plans can support a young person who needs it to the age of 25.

#### **The Needs of Families**

7. The process of assessing a child's needs can be a difficult one for families, both because it is potentially highly emotionally charged and because it is technically complicated and requires co-operation between a range of services. Surrey is anxious to develop an assessment system that is smooth-running and experienced as supportive, and which gives parents and families a full opportunity to help shape the outcome.

#### **Outcomes for Children and Young People**

8. There has been significant criticism of past SEN assessment systems that they can be more focused on process than on what children can actually achieve as a result of extra intervention. Therefore we are trying to design a system that is outcomes-focused and which carefully steers extra support towards targeted improvement.

## Financial Sustainability

9. The limited resources currently available within the public sector present a major challenge to improving our service. To make progress it is vital that we spend money carefully and efficiently, and have a real understanding of what types of investment best benefit our children.
10. At present, the government funding for education is divided into a schools block (that supports mainstream schools), a high needs block (that supports special and additional education), and an early years block that supports early years education. In 2015/6 Surrey is making a significant transfer from its Schools to its high needs block, reflecting the fact that we have previously spent heavily in this area. There is a will to correct this position.
11. Research shows that Surrey is out of step with other authorities in two ways: first, we place a rather higher proportion of children in special schools than is the norm; second, of these children we are a much higher user of independent special schooling than is typical, with independent schools generally being much higher cost than their state-maintained equivalents. We have therefore agreed three broad aims for our strategy:
  - to increase the proportion of young people with SEND attending mainstream schools;
  - to increase the proportion of young people who require special schooling attending state maintained special schools;
  - to reduce our use of non-maintained and independent schools.

To achieve the first aim we will need to increase the skills base in mainstream schools and ensure that all schools contribute to the common direction. To achieve the second, we will need to commission an increased number of state-maintained special school places in Surrey that provide for the needs currently underserved, notably autism.

12. Through Schools Forum, we hope to agree a programme with Surrey schools whereby the “borrowing” from the schools block can be progressively reduced as more children attend both mainstream and state special schools.

## Further areas for development

13. In the coming months we will be addressing through the Governance Board a number of other areas necessary to a complete SEND strategy. These will include:
  - The linking of social care and educational services for children with disabilities;
  - The provision of health services that support children and young people with SEND;

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- Services for young people with SEND aged 18-25;
  - Home to School and College Transport for children and young people with SEND.

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

14. There is no direct cost to adopting a new strategy beyond minor administrative expenses. If the strategy is successful it will provide a means, over time, of controlling expenditure on SEND so that it comes and remains within the limits indicated by the Government's allocation of High Needs Block funding.

### **Equalities and Diversity Implications**

15. No separate Equalities Impact Assessment has been completed as this report describes the progress in preparing a strategy and does not set out the completed strategy. Children and Young People with SEND are a disadvantaged and potentially vulnerable group and it is important that the Council's SEND strategy enables their individual needs to be identified and addressed. The strategy is concerned both with improving child outcomes and family experiences and with doing this in a manner that is sustainable within the resources available.

### **Risk Management Implications**

16. Failure to deliver a new strategy entails significant risks for the County Council: the reputational risk of not having a coherent or sustainable approach to SEND; this risk to the quality of service to individual children and families; and the risk of disrupting the partnership with schools required to manage gross education funds effectively through School Forum. The Strategy when completed should ensure that there is a coherent approach in place to SEND that will balance these risk factors.

<b>Next steps:</b>
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17. Take elements of strategy bearing on resourcing by May 2015 for final agreement in November 2015.
18. Complete full strategy by September 2015
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**Background papers:**  
None



By virtue of paragraph(s) 4 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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