

Notice of Meeting

Audit & Governance Committee



SURREY
COUNTY COUNCIL

Date & time
Monday, 7
December 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



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[@SCCdemocracy](https://twitter.com/SCCdemocracy)

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.

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 Stuart Selleck (Chairman), Mr Denis Fuller (Vice-Chairman), Mr W D Barker OBE, Mr Will Forster, Mr Tim Hall and Mr Saj Hussain

Ex Officio:

Mr David Hodge (Leader of the Council), Mr Peter Martin (Deputy Leader and Cabinet Member for Economic Prosperity), Mrs Sally Ann B Marks (Chairman of the County Council) and Mr Nick Skellett CBE (Vice-Chairman of the County Council)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 28 SEPTEMBER 2015

(Pages 1
- 14)

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

3 DECLARATIONS OF INTEREST

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

Notes:

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

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*1 December 2015*).
2. The deadline for public questions is seven days before the meeting (*30 November 2015*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER

(Pages
15 - 28)

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

6 BABCOCK 4S LIMITED - ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

(Pages
29 - 66)

The Annual Report and Financial Statements of Babcock 4S for the year ended 31 March 2015 are formally presented to the Audit & Governance Committee.

- 7 GRANT THORNTON: AUDIT & GOVERNANCE COMMITTEE UPDATE** (Pages 67 - 78)
- This paper provides the Committee with a report on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors. The paper also includes a summary of emerging national issues and developments.
- 8 EXTERNAL AUDIT: 2014/15 AUDIT FINDINGS REPORT FOR S.E. BUSINESS SERVICES LTD** (Pages 79 - 96)
- This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2014/15 financial statements of S. E. Business Services Ltd.
- 9 GRANT THORNTON: 2015/16 KEY PERFORMANCE INDICATORS** (Pages 97 - 102)
- This report provides the Audit & Governance Committee with details of our proposed Key Performance Indicators (KPIs) for the 2015/16 year.
- 10 TREASURY MANAGEMENT HALF YEAR REPORT 2015/16** (Pages 103 - 116)
- This report summarises the council's treasury management activity during the first half of 2015/16, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential and Performance Indicators for the first half of 2015/16, in accordance with the requirements of the CIPFA Prudential Code.
- 11 INTERNAL AUDIT HALF YEAR REPORT 2015/16** (Pages 117 - 162)
- This interim report summarises the work of Internal Audit during the first six months of 2015/16. The purpose of this report is to enable the Committee to consider the activities of Internal Audit during the six month period to 30 September 2015 and determine whether there are any matters that they wish to draw to the attention of the Cabinet and/or the County Council.
- 12 HALF YEAR SUMMARY OF IRREGULARITY INVESTIGATIONS AND COUNTER FRAUD MEASURES APRIL - SEPTEMBER 2015** (Pages 163 - 172)
- The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations and proactive counter fraud work undertaken by Internal Audit in the first half of this financial year from 1 April to 30 September 2015.
- 13 COMPLETED INTERNAL AUDIT REPORTS** (Pages 173 - 182)
- The purpose of this report is to inform Members of the Internal Audit reports that have been completed since this Committee last considered a Completed Internal Audit Reports item in September 2015.
- 14 HALF YEAR RISK MANAGEMENT REPORT** (Pages 183 - 198)
- This half year risk management report enables the committee to meet its responsibilities for monitoring the development and operation of the council's risk management arrangements. It also presents the latest Leadership Risk Register.

- 15 ETHICAL STANDARDS ANNUAL REVIEW** (Pages 199 - 210)
To enable the Committee to monitor the operation of the Members' Code of Conduct over the last 12 months and to consider what advice and guidance about ethical standards it recommends to be offered to Members in the next 12 months.
- 16 OPERATION HORIZON: UPDATE ON SAVINGS** (Pages 211 - 214)
At a previous meeting the Audit & Governance Committee requested clarity and update on Surrey Highway progress in realising projected Project Horizon Savings, and to ensure that a process is in place for the financial transfer of savings to Surrey County Council (SCC). This was highlighted in the 2014 Audit Report and in the resulting Management Action Plan.
- 17 GOVERNANCE UPDATE REPORT** (Pages 215 - 220)
The purpose of this report is to provide a half year update on the areas within the 'Continually Strengthening Governance' section of the 2014/15 Annual Governance Statement and the governance arrangements during the first six months of 2015/16.
- 18 DATE OF NEXT MEETING**
The next meeting of Audit & Governance Committee will be on 22 February 2016.

David McNulty
Chief Executive

Published: 26 November 2015

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Thank you for your co-operation

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 28 September 2015 at Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

Mr Stuart Selleck (Chairman)
Mr Denis Fuller (Vice-Chairman)
Mr W D Barker OBE
Mr Tim Hall
Mr Saj Hussain

Apologies:

Mr Will Forster

In Attendance

Cath Edwards, Risk and Governance Manager
Cheryl Hardman, Regulatory Committee Manager
Kevin Kilburn, Deputy Chief Finance Officer (Section 151 Officer representative)
Sue Lewry-Jones, Chief Internal Auditor

61/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Will Forster. Denise Le Gal, the Cabinet Member for Business Services and Resident Experience also gave notice that she would not be observing the meeting.

62/15 MINUTES OF THE PREVIOUS MEETING: 27 JULY 2015 [Item 2]

The Minutes were approved as an accurate record of the meeting.

63/15 DECLARATIONS OF INTEREST [Item 3]

There were none.

64/15 QUESTIONS AND PETITIONS [Item 4]

There were none.

65/15 RECOMMENDATIONS TRACKER [Item 5]**Declarations of interest:**

None

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer
Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. In relation to A28/14 (Code of Conduct training), Members noted that training was to be provided by the end of 2015.
2. In relation to A14/15 (Babcock 4S), the committee noted that a number of Members had given their apologies for the informal meeting with Babcock 4S.
3. In relation to A18/15 (SEND Strategy), the Vice-Chairman agreed to report back on the outcome of the Education and Skills Board meeting of 21 October 2015.
4. In relation to A20/15 (record keeping in Adult Social Care), the Chairman informed the committee that he had met with the Cabinet Member for Adult Social Care, Wellbeing and Independence and discussed how the issue could be resolved. He would be meeting with the Head of Resources in Adult Social Care and report back to the next meeting.
5. In relation to A22/15 (Kier discounts), the Chief Internal Auditor said she had been informed that Kier would be making an interim payment of £1m by the end of the current week. However, the final account for 2014/15 has not been agreed and the process to ensure discounts are collected in a timely manner has not yet been implemented.

Members highlighted the high number of vacancies in the Highways and Transport service and suggested that this could be contributing to the delays.

The Chairman of the committee suggested inviting officers from Highways to attend the next meeting to discuss the reasons for the delays in implementing an automated solution to recover discounts from Kier MG. Members queried why the issue had not been picked up by the relevant Scrutiny Board and suggested that the Chairman of the Board also be invited to attend to discuss how the Board had addressed Internal Audit's findings.

6. In relation to A28/15 (collection fund deadlines), the Deputy Chief Finance Officer informed the committee that the letters had been sent. Finance was following this up with supporting borough and district councils as they work towards the new earlier statutory deadlines for closing the accounts. Members stated that they had discussed the issue with senior colleagues in the borough and district councils where it had not been recognised that they had not met deadlines.
7. In relation to A49/14 (Teachers' Pensions Agency), the Chairman and the Deputy Chief Finance Officer explained that it had been agreed to stop pursuing this issue. The Teachers' Pensions Agency had been informed and the external auditors had accepted the proposed resolution.
8. In relation to A12/15 (governance of new companies), the Deputy Chief Finance Officer clarified that the same Finance officer attends each meeting of the Shareholder Board.
9. In relation to A21/15 (foster carers), the Chief Internal Auditor confirmed that the audit was almost complete and would be reported back to the next meeting of the committee. She agreed to find out the number of foster carers and report this back to committee. The audit was not just focusing on financial issues but face to face meetings with foster carers were not part of the methodology. The Chief Internal Auditor agreed to check the process whereby the service liaises with foster carers and report this back to committee.

Action/Further information to note:

None.

RESOLVED:

That the committee NOTES the report.

Committee next steps:

None.

66/15 2014/15 ANNUAL AUDIT LETTER [Item 6]

Declarations of interest:

None

Witnesses:

Thomas Ball, Manager (Grant Thornton)
Andy Mack, Engagement Lead (Grant Thornton)

Kevin Kilburn, Deputy Chief Finance Officer
Jonathan Evans, Principal Accountant – Financial Accounting

Key points raised during the discussion:

1. The Grant Thornton Manager introduced the report and informed the committee that the Whole of Government Accounts was nearly complete.
2. The Grant Thornton Manager informed the committee that the Surrey Pension Fund Annual Report was still outstanding. The Deputy Chief Finance Officer pointed out that the statutory deadline was December 2015 but stated that officers would be working on bringing the timeline in line with the Council accounts.
3. With regard to the recommendation to obtain legal advice to ensure that the approach taken to the de-recognition of schools and the use of the statutory override is appropriate, Cipfa had recently issued some useful guidance. Grant Thornton may alter or remove the recommendation on the basis of this guidance but was currently waiting on the Council's interpretation of the guidance. The Deputy Chief Finance Officer informed the committee that Legal Services was reviewing the guidance as part of its development of legal advice on this issue. The Chairman stressed that he wanted to ensure that there is no caveat in next year's accounts.

Action/Further information to note:

None.

RESOLVED:

That the committee NOTES the report.

Committee next steps:

None.

67/15 2014/15 EXTERNAL AUDIT PERFORMANCE REPORT [Item 7]**Declarations of interest:**

None

Witnesses:

Thomas Ball, Manager (Grant Thornton)

Andy Mack, Engagement Lead (Grant Thornton)

Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. The Grant Thornton Engagement Lead introduced the report.
2. The Deputy Chief Finance Officer informed the committee that the professional relationship between Finance and Grant Thornton was good. Grant Thornton had supported early closing and their recommendations had been helpful. Looking forward, it would be helpful for Finance and Grant Thornton to meet early on to discuss the risk assessment and other key issues eg school accounting. Therefore, more regular meetings would be scheduled and discussions about the current year's accounts would begin in October.

Action/Further information to note:

None.

RESOLVED:

That the committee NOTES the report.

Committee next steps:

None.

68/15 ANNUAL COMPLAINTS PERFORMANCE REPORT [Item 8]**Declarations of interest:**

None

Witnesses:

Mark Irons, Head of Customer Services and Head of Customer and Communities Directorate Support

Jo Diggins, Customer Relations Manager

Key points raised during the discussion:

1. The Customer Relations Manager introduced the report.
2. In response to a query about the high number of complaints in Environment & Infrastructure, the Customer Relations Manager explained that the service affects many people within Surrey and complaints are often topical eg where there is flooding or road closures. There had been a reduction in the proportion of complaints escalating to higher stages, reflecting the work Surrey Highways had undertaken to improve initial complaints handling.
3. The Chairman queried whether an 80% within 10 working days response target was realistic for Schools & Learning and Children's Social Care or if they should be more ambitious and work towards 90%. The Customer Relations Manager highlighted the complexity of complaints in the Children, Schools and Families department and their priority of giving a good response as early as possible. The average response time is 14 days. The target is focussed on resolution and not simple acknowledgement.
4. The committee discussed the difficulty in resolving complaints regarding third parties. The Customer Relations Manager explained how the Streetworks Team works with utilities companies to check compliance with agreed procedures. A mapping system had been launched providing more information to residents on utilities work. The Head of Customer Services highlighted the contracts and Service Level Agreements with third parties which provide leverage to the Council. The Chief Internal Auditor informed the committee that an audit of the permit scheme had recently been completed and this had given an Effective audit opinion to the Streetworks Team. The team is doing as much as it can do. However, this does not necessarily affect what utilities companies do. The Customer Relations Manager accepted that the public does not recognise relationships with third parties but all the Council can do in some instances is provide information.

5. Members stated that communications from Highways had slightly improved, with the Streetworks Team circulating a weekly email on utility works coming up. However, otherwise communications remained poor with Members not being told who is who in the new Highways structure. The Customer Relations Manager highlighted that the new structure was still settling but that workshops were being arranged to look at communications. The Customer Relations Team had been asked to get involved.
6. The Customer Relations Manager clarified that the Local Member would not be informed about individual complaints unless the complainant had involved them for support.
7. The Chief Internal Auditor informed the committee that Internal Audit did not generally look at individual complaints but used high-level information to inform specific audits.

Action/Further information to note:

None.

RESOLVED:

That the committee NOTES the report.

Committee next steps:

To receive a further report in one year.

69/15 ABSENCE MANAGEMENT [Item 9]

Declarations of interest:

None

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor

Abid Dar, Senior Equality, Inclusion and Wellbeing Manager
Rakhi Saigal, Head of HR Operations

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the report and explained that the committee had expressed an interest in absence management following the completion of an audit report. Internal Audit had carried out a follow-up audit which found that positive action had been taken to address previous audit recommendations. The Head of HR Operations and the Senior Equality, Inclusion and Wellbeing Manager outlined work ongoing in HR to manage absence and encourage healthier lifestyles.
2. Members expressed concern that some officers are not properly recording absence.
3. It was queried how the Council could reduce the proportion of people absent due to problems with joints. The Head of HR Operations explained that the service with the highest proportion of absence due to problems with joints was Surrey Fire & Rescue. They are unable to return to work until any problems with joints are fully addressed. The Senior Equality, Inclusion and Wellbeing Manager informed the committee that the service had gone out to tender for physiotherapy services which will include online preventative advice and self-assessment tools. A Member informed the committee that in July a

chair he had been sitting on collapsed in the Ashcombe, resulting in his having a series of physiotherapy appointments. Other Members agreed that chairs in County Hall committee rooms could have a detrimental effect on backs. The Senior Equality, Inclusion and Wellbeing Manager stated that there appeared to be a degree of perceived flexibility for meeting rooms. He agreed to pass on the committee's comments to Facilities and the Director of People and Development (**Recommendation Tracker ref: A30/15**).

4. With regard to stress, HR was seeking to build up managers' confidence to have discussions about stress and mental health with their staff. At present, absence categories only include stress and not depression. HR is trying to split this so that clearer data can be gathered on the prevalence of depression.
5. Members queried whether vital staff were encouraged to have flu injections. The Senior Equality, Inclusion and Wellbeing Manager stated that flu jabs had been looked at but it was costly to bring this on site. People are able to get flu jabs from a chemist and claim back at work. HR is planning an information campaign on this.
6. Members asked how flexible the Council was for planned leave. The Head of HR Operations stated that the leave policy is quite flexible and would encourage honesty with managers. She agreed to find out the number of single days of sickness taken and circulate this (**Recommendation Tracker ref: A31/15**). She highlighted that the auditor had found the accuracy of short-term sickness leave was not as good as long-term sickness leave. HR was looking at ways to improve this.

Action/Further information to note:

- i. The Senior Equality, Inclusion and Wellbeing Manager agreed to pass on the committee's comments about chairs in meeting rooms to Facilities and the Director of People and Development.
- ii. The Head of HR Operations to find out the number of single days of sickness taken and circulate this.

RESOLVED:

That the committee NOTES the report.

Committee next steps:

None.

70/15 PROPERTY ASSET MANAGEMENT SYSTEM UPDATE [Item 10]

Declarations of interest:

None

Witnesses:

Nigel Jones, Performance Manager, Property Services

Key points raised during the discussion:

1. The Chairman noted that the appendices had been withdrawn.
2. The Performance Manager introduced the report.

3. In response to a query about how far back information is integrated, the Performance Manager stated that the Property Asset Management Asset System (PAMS) has information from April 2013 onwards. As properties are disposed of, they are being input into the system. Other earlier information is still available in previous databases.
4. Partners in Surrey such as health agencies and borough/district councils are listed on the framework so they can use the same system as Surrey County Council, either separately or the Council can provide a service to them.
5. The Performance Manager clarified that underuse is not recorded on the system at the moment.
6. The Performance Manager offered to look into whether the portal could give Members access to high level information about properties and projects in their division (**Recommendations tracker ref: A32/15**).
7. The Chairman asked what assurance the Council can have of safeguards in relation to security of data and IT support. The Performance Manager informed the committee that the system is hosted in the cloud. The system had passed security tests by both Surrey County Council and Hampshire County Council. The Service Level Agreement states that the system must be up and running within 24 hours if there is an outage. The supplier rents space from Rackspace and can move data to another facility if there is a problem. This is all within the service's tolerances.
8. In response to a question about human error or staff not inputting data, the Performance Manager confirmed that all staff have to take responsibility to maintain information. This is a challenge but as the information goes in, people can see the benefit from the information which can be extracted.

Action/Further information to note:

- i. The Performance Manager, Property Services to look into whether the PAMS portal could give Members access to high level information about properties and projects in their division.
- ii. A further update to be provided in a year (**Recommendations tracker ref: A33/15**).

RESOLVED:

That the committee:

- a) NOTES the conclusion of the joint implementation project with Hampshire County Council;
- b) NOTES progress made and recognises the achievements of the joint project with Hampshire County Council;
- c) RECOGNISES any further development of PAMS as part of Property Services' "business as usual" service delivery.

Committee next steps:

None.

71/15 COMPLETED INTERNAL AUDIT REPORTS [Item 11]

Declarations of interest:

None

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. The Chief Internal Auditor explained that there was a high number of Internal Audit reports included because the committee had not considered Completed Internal Audit Reports since May 2015, focussing on the accounts at the July meeting.
2. A Member suggested that the proportion of areas where the audit opinion is 'significant improvement needed' or 'unsatisfactory' was high compared to previously and queried whether Internal Audit was being particularly diligent, whether the results suggested a stressed workforce, or was this just a particularly tricky batch of audits. The Chief Internal Auditor felt that the answer would probably be mixed. However, she stressed that the audit plan was risk-based and so Internal Audit was focussed on areas where there might be more challenges to address. She would keep a watching brief on the result of audits and report back at the end of the year.
3. In response to a question about the recent Ofsted report on Children's Services, the Chief Internal Auditor explained the three lines of defence being: front-line workers; management checks; inspections by Internal Audit and external inspectors such as Ofsted. She highlighted the Internal Audit report on the Children's Safeguarding Quality Assurance Process which found that significant improvement was needed. The Chief Internal Auditor now sat on the Quality Assurance workstream of the Improvement Plan, which was having regular meetings with the Quality Assurance Manager.
4. Members discussed the impact of a confidentiality or silo culture within Children, Schools and Families and suggested that this did not help relationships internally or with partners. There was concern expressed that the appropriate Select Committee, now Scrutiny Board, had not been given the information required or requested.
5. **Henrietta Parker Trust:** Members felt that, given the size of the Henrietta Parker Trust and the pressures on Legal Services and Finance, it would be appropriate to find an organisation from the voluntary and community sector to manage it. Rotary Clubs and Parish Councils were suggested as examples of suitable organisations. It was agreed to pass on these conclusions to the Chairman of Council Overview Board as that Board would be considering the issue of Trusts in more detail (**Recommendations tracker ref: A34/15**).
6. **Fuel Cards:** Members were concerned that managers were being given more responsibilities and it was suggested that a more supportive approach could be considered eg a reminder could be circulated on a regular basis asking managers to monitor fuel card transactions. A similar approach could be taken for other processes where managers are required to monitor or take action on a regular basis. The Chief Internal Auditor agreed to pass these suggestions back to the service (**Recommendations tracker ref: A35/15**).
7. **Managed Print Service:** It was suggested that a follow-up audit of implementation and savings be carried out (**Recommendations tracker ref: A36/15**).
8. **Risk Management:** The Risk and Governance Manager confirmed that guidance had been produced for managing risk in partnerships.

9. **AIS Care Assessments:** The Chief Internal Auditor clarified that AIS was being replaced with Liquid Logic and that a member of her team was helping to advise and support the implementation. It was suggested that a follow-up audit be undertaken (**Recommendations tracker ref: A37/15**).
10. **Agency Staffing:** Members discussed the potential liabilities of long-standing locums being deemed as employees. The Deputy Chief Finance Officer stated that he would be looking at the level of risk and amount of money involved.
11. **Planning School Places:** A Member highlighted that 600 in year admissions were in the system at the start of September and that this was a growing problem year on year.
12. **Fire Transformation Grant:** The Chief Internal Auditor informed the committee that part of this grant was being used to support a current trial whereby firefighters will attend certain 999 calls on behalf of the ambulance service, when they are able to attend an incident more quickly.
13. **Trust Funds:** The Chairman stressed that the comments to the Chairman of Council Overview Board should suggest that Trusts are looked at in the round.
14. **Surrey Choices:** The Chief Internal Auditor confirmed that a follow-up audit was scheduled in six months.

Action/Further information to note:

- i. That the committee's conclusions on Trusts be passed to the Chairman of the Council Overview Board.
- ii. The Chief Internal Auditor to pass suggestions about a supportive approach to managers' responsibilities, such as circulating reminders on a regular basis.
- iii. The Chief Internal Auditor to schedule a follow-up audit of the Managed Print Service project's implementation and savings.
- iv. The Chief Internal Auditor to schedule a follow-up audit of the software used to manage adult social care.

RESOLVED:

That the committee NOTES the report.

Committee next steps:

None.

72/15 STATUTORY RESPONSIBILITIES NETWORK [Item 13]

The agenda was reordered to take Item 13 next as the Chief Executive had arrived.

Declarations of interest:

None

Witnesses:

David McNulty, Chief Executive
Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. In response to a question about attendance at the fortnightly Network meetings, The Chief Executive informed the committee that there were no substitutes allowed and people attend unless they have good reason not to. There had been good attendance so far. The Network had developed from an original core group of the Chief Executive, Director of Finance, Director of Legal and Democratic Services and Chief Internal Auditor. It would be unusual for that original core group not to attend.
2. A Member queried how, with the governance and risk arrangements, the council had missed the issues in Children's Services identified by Ofsted. The Chief Executive highlighted the complexity of the services that the council has responsibility for. There had been concerns about aspects of performance in Children's Services and Ofsted had been invited in to assess whether those concerns were correct. It was important to note that some risks would remain red even after proper mitigations have been put in place.
3. A Member queried whether confidentiality can be a bar to getting good information from Children's Services. The Chief Executive stressed that some information held by Children's Services was confidential eg information that could be used to disrupt the activity of predators. Questions that Members could ask include: has the service got disruptive interventions; has the service got sufficient resources to disrupt predators; and is the service working effectively with the police?
4. The Chief Executive explained procedures for dealing with a child who has gone missing overnight from a Residential Home. He went on to highlight the good Ofsted reports of Children's Homes in Surrey.
5. Given the Network have some expectation of the results of an Ofsted inspection, the Chairman queried whether the Network was discussing any issues at present which may result in a similar situation. The Chief Executive stressed that the two priority areas for the Network were Children's Service and Adult Social Care because of the nature of the work they do. However, at different times attention is drawn to different issues, eg the number of fire incidents involving older people. An example over the past few weeks was an attempt to defraud the council using sophisticated techniques. Nothing had been lost but the attempt had appeared very credible. The council would learn from this and share information with partners.
6. The Chief Executive said that he had met with the Chairman of the committee to discuss the work of the Network and would continue to do this.

Action/Further information to note:

None

RESOLVED:

That the committee NOTES the report and the Chairman continue to have regular meetings with the Chief Executive to go through Minutes and keep up-to-date with network activity.

Committee next steps:

None.

73/15 LOCAL FIREFIGHTERS' PENSION BOARD [Item 14]

It was agreed to take the urgent item next as the officers had arrived.

Declarations of interest:

None

Witnesses:

Neil Mason, Senior Advisor (Pension Fund)
Andy Spragg, Scrutiny Officer

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the report and informed the committee that the Chairman of the Local Pension Board had suggested some minor changes which officers would go away and address. He had also raised a question about the quorum which would be discussed with Legal Services.

Action/Further information to note:

None

RESOLVED:

That the committee APPROVES amendments to the terms of reference of the Local Firefighters' Pension Board.

Committee next steps:

None.

74/15 LEADERSHIP RISK REGISTER [Item 12]**Declarations of interest:**

None

Witnesses:

Cath Edwards, Risk and Governance Manager

Key points raised during the discussion:

1. The Risk and Governance Manager introduced the report and informed the committee that there had been no significant changes since the previous meeting but that there would be a number of changes at the next meeting. New risks were being drafted by the Statutory Responsibilities Network in relation to partnership working and new controls being added to the Safeguarding – Children's Services risk. The Risk and Governance Manager and Director of Finance and would shortly be meeting with the senior management of the Children, Schools and Families directorate to facilitate a discussion on risk and governance.
2. The Chairman asked if fraud should be included in the Leadership Risk Register given increasingly sophisticated techniques. The Risk and Governance Manager informed the committee that fraud is a risk area that is considered by services for possible inclusion in risk registers. The Strategic Risk Forum could consider if this needs to be given a higher risk rating (**Recommendation tracker ref: A38/15**).

Action/Further information to note:

The Risk and Governance Manager to discuss the risk level of fraud with the Strategic Risk Forum.

RESOLVED:

That the committee NOTES the report.

Committee next steps:

None.

75/15 DATE OF NEXT MEETING [Item 15]

The date was noted.

Meeting ended at: 1.10 pm

Chairman

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Audit & Governance Committee
7 December 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 13 November 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).

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 (ACTIONS)

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A18/15	09/04/15	SEND Strategy	Assistant Director for Schools and Learning to share a summary work programme for developing the SEND Strategy with the committee.	Assistant Director for Schools and Learning	On 27 July 2015, the Chairman informed the committee that an officer had been seconded to lead on the development of the SEND Strategy. The redrafted Strategy was shared with the Education and Skills Board on 22 October 2015. The Vice-Chairman will report back on the Board's findings.
A20/15	28/05/15	Completed Internal Audit Reports	The Chairman to write to the Leader of the Council and relevant Cabinet Members recommending that the function of record keeping for accounts relating to individuals' care charges be moved from Adult Social Care to Business Services.	Chairman	A letter was sent to the Leader of the Council and relevant Cabinet Members on 12 June 2015. A response from the Cabinet Member for Adult Social Care, Wellbeing and Independence was tabled at the meeting on 27 July. The Chairman undertook to meet with the Cabinet Member and reported back on 28 September. The Chairman has met the Head of Resources in Adult Social Care since the September meeting and will report back to the next committee meeting.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A22/15	28/05/15	Internal Audit Annual Report 2014/15	The Chief Internal Auditor to find out if an investigation into whether an automated solution to recover discounts from Kier MG had been completed and circulate the answer.	Chief Internal Auditor	<p>A response was included in the committee bulletin.</p> <p>On 27 July 2015, the Chairman asked for an update on whether the final balance for 2014/15 was settled in the July batch payment to Kier and what the final figures were.</p> <p>The response from the Chief Internal Auditor is as follows: The final account for 2014/15 has not been agreed and payment has not yet been received from Kier. A process to ensure these discounts are collected in a timely manner going forward has not yet been implemented.</p> <p>On 28 September 2015, the Chief Internal Auditor informed the committee that Kier was making an interim payment of £1m. The committee requested that officers from Highways attend the next meeting to explain the reasons for the delay in implementing an automated solution. It was also requested that the Chairman of the Economic Prosperity, Environment & Highways Board attend to explain how the Board addressed the findings of the original audit report.</p>
A26/15	28/05/15	2014/15 Annual Governance Statement	That the Committee COMMENDS the draft AGS to the Cabinet, subject to additional amendments, for publication with the council's Statement of Accounts and Annual Report.	Cabinet	<p>On 23 June 2015, Cabinet approved the Annual Governance Statement for inclusion within the Statement of Accounts and Annual Report.</p> <p>Audit & Governance Committee is to continue to monitor the governance environment and report to Cabinet as appropriate.</p>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A30/15	28/09/15	Absence Management	The Senior Equality, Inclusion and Wellbeing Manager agreed to pass on the committee's comments about chairs in meeting rooms to Facilities and the Director of People and Development.	Senior Equality, Inclusion and Wellbeing Manager	Facilities have confirmed that they will try to change the chairs in the Ashcombe, Committee Room B and Committee Room C in the new financial year.
A38/15	28/09/15	Leadership Risk Register	The Risk and Governance Manager to discuss the risk level of fraud with the Strategic Risk Forum.	Risk and Governance Manager	The Strategic Risk Forum discussed fraud risk at the meeting on 19 November and will discuss again at the January meeting along with the fraud risk register.

Audit & Governance Committee Recommendations Tracking

Completed Recommendations/Referrals/Actions – to be deleted

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	<p>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.</p> <p>Training to be delivered on 14 December 2015, with a catch-up session in February for any Members who missed the December opportunity.</p> <p>Non-pecuniary interests are being considered by the Constitutional Review Group.</p>
A14/15	09/04/15	Completed Internal Audit Reports	Committee to discuss governing bodies' adoption and awareness of whistleblowing policies with Babcock 4S.	Committee	An informal meeting with Babcock 4S was held on 12 October 2015 and whistleblowing was discussed.
A21/15	28/05/15	Internal Audit Annual Report 2014/15	The Foster Care audit to be prioritised for commencement in the new financial year.	Chief Internal Auditor	<p>On 27 July 2015, Chief Internal Auditor informed the committee that the foster care audit was underway.</p> <p>On 28 September 2015, the Chief Internal Auditor agreed to find out the number of foster carers in Surrey and the process whereby the service liaises with foster carers and report back to committee. A response was provided in the November edition of the committee bulletin (attached as an annex to this tracker).</p>

Audit & Governance Committee Recommendations Tracking

A28/15	27/07/15	SCC: Statement of Accounts	The Chairman to write to the Leader and Chief Executive, copying in the Audit Committee Chairman, of each of the three borough and district councils named at committee, stressing the importance of meeting the deadlines on provision of collection fund figures.	Chairman	Letters have been drafted and sent to the individuals suggested on 2 September 2015. The committee will be informed if and when a response is received.
A31/15	28/09/15	Absence Management	The Head of HR Operations to find out the number of single days of sickness taken and circulate this.	Head of HR Operations	The data was included in the November issue of the committee bulletin (attached as Annex 1 to these Minutes).
A32/15	28/09/15	Property Asset Management System Update	The Performance Manager, Property Services to look into whether the PAMS portal could give Members access to high level information about properties and projects in their division.	Performance Manager, Property Services	A response was included in the November edition of the Committee bulletin, attached as an annex to this tracker.
A33/15	28/09/15	Property Asset Management System Update	A further update to be provided in a year	Performance Manager, Property Services	Scheduled for 26 September 2016.
A34/15	28/09/15	Completed Internal Audit Reports	That the committee's conclusions on Trusts be passed to the Chairman of the Council Overview Board.	Regulatory Committee Manager	The committee's views were passed to the Chairman of Council Overview Board on 1 October 2015.

Audit & Governance Committee Recommendations Tracking

A35/15	28/09/15	Completed Internal Audit Reports	The Chief Internal Auditor to pass suggestions about a supportive approach to managers' responsibilities, such as circulating reminders on a regular basis.	Chief Internal Auditor	The Chief Internal Auditor has emailed the Head of Shared Services regarding the need for reminders to be sent to managers on a regular basis. In addition, all members of the Internal Audit team have been asked to consider this when carrying out audits of such relevant corporate wide activities.
A36/15	28/09/15	Completed Internal Audit Reports	The Chief Internal Auditor to schedule a follow-up audit of the Managed Print Service project's implementation and savings.	Chief Internal Auditor	This has been added to the audit planning notes for 2016/17.
A37/15	28/09/15	Completed Internal Audit Reports	The Chief Internal Auditor to schedule a follow-up audit of the software used to manage adult social care.	Chief Internal Auditor	Internal Audit is currently supporting the AIS replacement project and has fed in the lessons learned from the AIS Care Assessment Audit. An audit of the new system will be considered for inclusion in the 2016/17 Internal Audit Plan.

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.

Contents	Page No.
1. Update from previous Audit & Governance Committee meetings	1
2. Internal Audit update	3
3. Further information	3
4. Updates from other committees	4
5. Upcoming	6
6. Committee Contact Details	6

Update from previous Audit & Governance Committee meetings

Foster Carers	<p>On 28 September 2015, the Chief Internal Auditor agreed to find out the number of foster carers in Surrey and the process whereby the service liaises with foster carers and report back to committee. She has provided the following response:</p> <p>“The Chief Internal Auditor is advised that as at 30/10/2015 there were 359 foster carers.</p> <p>The council's arrangements for service liaison with foster carers include supervision visits every 6 weeks or as required; annual reviews; and, unannounced visits. From observation/discussions as part of Internal Audit fieldwork it is apparent that foster carers consult with the service on visits; overnight stays; arranging contact; missing incidents; and, any other issues that come up on a day to day basis. The supervising social workers are always available to support the foster carers”.</p>
Property Asset Management System (PAMS) – Member access to Property Information	<p>The Audit & Governance Committee asked the Property Performance Manager to look into whether the PAMS portal could give Members access to high level property information.</p> <p>Access to high level property information through the PAMS Portal could be developed in a similar way to the access available to schools. However, this is not standard functionality and would need to be a programmed piece of work requiring a detailed specification and business case.</p> <p>The type of information available would be property name, address, Service portfolio, electoral division, district/borough, tenure and locations displayed on a map.</p>

Additional information on works and other activities at properties would be requested from Property Services.

An alternative option has also been looked into which is access to the Government Property Unit's Electronic Property Information Mapping Service (EPIMS)

A number of public sector organisations across the UK, including Surrey CC, have added information to the EPIMS database as part of the government's Transparency Agenda. The EPIMS system holds high level information on approximately 650 Surrey CC operational properties, but will soon include non-operational properties and land over half a hectare in size.

Further information on EPIMS can be found through the following link: [EPIMS](#)

In both options above, a piece of work would be required to ascertain Members detailed requirements.

Sickness Absence

On 28 September, the Audit & Governance Committee requested data on single days of sickness absence. The table below shows the data from 8 October 2014 to 8 October 2015:

	= 1 Day Absence
Sickness Reasons	<u>Days</u>
Await Mgr Recording	103
Back	101
Blood	17
Chest	108
Digestive	742
Disability related	3
Ear, Nose, Throat	295
EE Decline Reason	39
Eyes	67
Flu/Cold	696
Gynaecological	76
Heart	13
Industrial Injury	3
Joints	125
Kidneys or Urinary	54
Nervous System	297
Not assigned	3
Pandemic	3
Pregnancy related	15
Skin	43
Stress	43
TOTAL	2846

Internal Audit update

5

Current Audits	<p>The following audits are currently in progress or at the planning stage:</p> <ul style="list-style-type: none"> Member Allocations General Ledger Treasury Management Public Health Payments to GPs and Pharmacies Public Health Contracts IT Feeder Systems Schools Audits Foster Care Families Friends and Communities Adult Social Care Strategic Contracts Training Course Cancellations <p>Please advise the Chief Internal Auditor (Sue.Lewry-Jones@surreycc.gov.uk) if you have concerns regarding any of the above areas of work which we may consider as part of our audit review.</p>
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Further information

<p>Ten lessons from a cyber-attack response exercise</p> <p>24 August 2015</p>	<p>Business continuity consultant, Charlie Maclean-Bristol FBCI, recently conducted a response exercise using cyber-attack as the scenario. In this article he captures ten lessons learnt from conducting the exercise.</p>
<p>Managing supplier compliance risks: the way forward</p> <p>3 September 2015</p>	<p>As organisations are placed under increasing scrutiny for the actions of their suppliers they can no longer shy away from the importance of building a stronger supplier compliance management programme.</p>
<p>Devo Why? Devo How?</p> <p>September 2015</p>	<p>This paper challenges local authorities to think about key governance issues as part of their devolution deals. It argues that authorities need to think about why and how devolution will help solve the challenges they face, the need for transparent and accountable governance structures and a need to capture the views of local people in discussions on governance.</p>
<p>Simplified accounts: Small isn't always beautiful</p> <p>28 September 2015</p>	<p>Cut out the clutter, but don't expect half a dozen pages to give a true and fair view of local authority finances says this Public Finance article.</p>
<p>Outsourcing and the role of Internal Audit</p> <p>September 2015</p>	<p>This report outlines a number of approaches in the private and public sectors to managing the risks associated with supplier relationships, including the practices of internal audit functions. It includes some case studies of the approach towards auditing contracts taken by the BBC, EDF Energy, Crossrail, Ministry of Justice and the Home Office.</p>
<p>Crime figures: 'Five million' fraud cases in past year</p> <p>15 October 2015</p>	<p>There were more than five million incidents of fraud in England and Wales in the last year, estimates suggest. The Office for National Statistics (ONS) has published an estimate of fraud for the first time, based on its Crime Survey. There were also 2.5 million cybercrime offences, such as computer hacking, the ONS estimated.</p>

Local audit contracts for local authorities and police extended for one year October 2015	DCLG has decided to extend the audit contracts for one year only. This means that from the financial year 2018/19 the appointment process under the Local Audit and Accountability Act 2014 will be operational. Under the legislation appointments must be in place before the start of the financial year to which they relate – so in practice the procurement must be completed by December 2017. Further guidance will be available from CIPFA as DCLG commissioned guidance on the establishment of auditor panels.
Council leader at Guildford resigns over governance changes 19 October 2015	Councillors at Guildford approved a recommendation for the introduction of two executive advisory boards. The new arrangements have been designed with a view to making all councillors feel involved in part of the process of running the council.
Government lacks ambition to tackle benefits and tax credit fraud and error, says PAC 28 October 2015	Failures in tackling fraud and error in the benefits and tax credit systems remain prevalent, with combined underpayments and overpayments in excess of £47bn in 2013/14, the Public Accounts Committee has found.
Better Care Fund confirmed until 2017 28 October 2015	The Better Care Fund (BCF) was created by the last government to help local authorities and NHS trusts integrate health and social care, but there had been uncertainty over whether it would continue. However, it has been reported that local areas may be able to decide whether their current BCF schemes should be continued, adapted or discontinued into 2016/17.
Whitehall paid millions to Kids Company despite governance concerns, NAO finds 29 October 2015	Bankrupt charity Kids Company received at least £46m in public funding over the last 15 years despite evidence that officials raised concerns about its financial management and sustainability as far back as 2002, the National Audit Office has revealed.

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 22 September 2015, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • Finance and Budget Monitoring Report for July and August 2015 • Highways Cold Weather Plan for 2015/16 • Award of Contract for Managed Service for Temporary Agency Resources <p>At its meeting on 27 October 2015, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • Finance and Budget Monitoring Report for September 2015 • Revision of Procurement Standing Orders • Leadership Risk Register • Orbis Initial Business Plan
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Cabinet Member for Business Services and Resident Experience Decisions	At her meeting on 13 October 2015 , the Cabinet Member for Business Services and Resident Experience made a decision on SAP Support and Maintenance.
Orbis Joint Committee	At its meeting on 28 September 2015 , the Orbis Joint Committee considered the Orbis Business Plan.
Council Overview Board	At its meeting on 10 September 2015 , the Council Overview Board considered the Arrangements for Joint Scrutiny of Orbis. At its meeting on 1 October 2015 , the Council Overview Board considered the following reports: <ul style="list-style-type: none"> • Annual Report of the Shareholder Board • Orbis Business Plan • Budget Monitoring: August 2015
Health & Wellbeing Board	At its meeting on 10 September 2015 , the Health & Wellbeing Board considered the outcome of an Internal Audit Report into itself.
Surrey Pension Fund Committee	At its meeting on 18 September 2015 , the Surrey Pension Fund Committee considered the following reports: <ul style="list-style-type: none"> • Chancellor's Budget: Update • Local Pension Board • Unitisation of Assets • Manager Issues and Investment Performance • Key Performance Indicators and Administration Update • Surrey Pension Fund Accounts 2014/15 • Revised Statement of Investment Principles • Pension Fund Risk Register • Corporate Governance Share Voting • Private Equity Investment Performance Review • Pension Fund Cost Base: Deep Dive Review
Surrey Local Pension Board	At its meeting on 12 October 2015 , the Surrey Local Pension Board considered the following reports: <ul style="list-style-type: none"> • Surrey Pension Fund Statement of Accounts 2014-15 • Surrey Pension Fund Annual Report • Chartered Institute of Public Finance and Accountancy Pension Fund Administration Benchmarking Club Draft Report • Internal Audit Report: Review of Pension Administration
Surrey Local Firefighters' Pension Board	Held its first meeting on 16 October 2015 .
Economic Prosperity, Environment & Highways Board	At its meeting on 21 October 2015 , the Economic Prosperity, Environment & Highways Board considered the following report: <ul style="list-style-type: none"> • Internal Audit Report on the Review of Waste Management and Minimisation
Education and Skills Board	At its meeting on 22 October 2015 , the Education & Skills Board considered the following reports: <ul style="list-style-type: none"> • Special Educational Needs and Disabilities • Internal Audit – Henrietta Parker Trust Funds

Upcoming

The next meeting of the Audit & Governance Committee is on 7 December 2015. The following items are on the agenda:

- Babcock 4S Limited – Director’s Report and Financial Statements for the Year Ended March 2015
- Leadership Risk Register
- External Audit: Update
- External Audit: Proposed 2015/16 KPIs
- External Audit: 2014/15 Audit Findings Report for SE Business Services
- Operation Horizon follow up
- Treasury Management Half Year Report 2015/16
- Internal Audit Half-Year Report
- Half-Year Irregularities Report
- Completed Internal Audit Reports
- Ethical Standards – Annual Review
- Risk Management Half-Year Report
- Governance Update Report

Training on Risk Culture will begin at 2pm.

Committee Contacts

Stuart Selleck - Committee Chairman

Phone: 020 7196 5894

stuart.selleck@surreycc.gov.uk

Cheryl Hardman – Committee Manager

Phone: 020 8541 9075

cherylh@surreycc.gov.uk



Audit & Governance Committee
7 December 2015

**Babcock 4S Limited – Annual Report and Financial
Statements for the Year Ended 31 March 2015**

Purpose of the report:

The Annual Report and Financial Statements of Babcock 4S for the year ended 31 March 2015 are formally presented to the Audit & Governance Committee.

Recommendations:

It is recommended that:

- i. The committee note the attached Annual Report and Statements;
- ii. The committee note the findings at the informal meeting of the Audit & Governance Committee; and,
- iii. The committee consider if it has any further questions.

Background:

1. Audit & Governance Committee has annually reviewed the Annual Report and financial statements of Babcock 4S since 2012. The documents were this year circulated privately to the committee on 21 September 2015 and are attached as Annex 1 to this report.
2. The Chairman (Stuart Selleck) and Vice-Chairman (Denis Fuller) of the committee met with representatives of Babcock 4S at their Head Office on 12 October 2015. The Cabinet Member for Schools and Learning (Linda Kemeny), Cabinet Associate (Mary Lewis), Chairman of Education and Skills Board (Mark Brett-Warburton), Kevin Kilburn (Deputy Chief Finance Officer), Julie Stockdale (Strategic Lead for School Commissioning) and Cheryl Hardman (Regulatory Committee Manager) were also in attendance from Surrey County Council. The following attended from Babcock 4S:

- JJ Bowley, Education Services Director
- Michelle deBeer, Head of Finance
- Murray Scott, Interim Corporate Services Director

Summary of discussion:

3. The discussion of the meeting on 12 October 2015 is summarised below:
- A reduction in revenue due to the ending of the Lewisham contract had resulted in a knock-on impact to profitability. The Lewisham contract had been part of Building Schools for the Future. However, requirements for schools had moved on and both parties had agreed that the contract was not fit for purpose. This was not the same contract as was in place in Surrey.
 - The annual valuation of the Surrey Pension Fund had increased liabilities for employer bodies. A further half-year valuation would take place by the end of October. There was concern about the fall from an actuarial gain of £1,931,000 in 2014 to an actuarial loss of £6,838,000 in 2015. Members queried what had happened to justify this change. Babcock officers agreed to establish how the actuary was chosen and why the change from actuarial gain to actuarial loss was so significant.
 - Babcock officers agreed that there had been a decline in income and profits but actions were being taken to address this. These included: increased staff efficiency; the use of external contractors to deliver certain services in schools; finding synergies across services; additional trading with schools; and the pursuit of larger contracts.

In response to a query about whether Babcock 4S should focus on non-Local Authority income because of ongoing austerity, Babcock officers stressed the company's expertise in school support services. The Education Services Director informed Members that he was new to the business and had been brought in to focus on growth opportunities. He had put in place a series of reviews to feed into the Department's overall strategy. This was looking at issues such as how to be less dependent on local authorities. The reviews would be completed by the end of the year. Key to the business was that it was people-centric and there was a limit as to what support could be provided online. Spreading out from Surrey as a geographic centre point would not dilute services to Surrey schools but help with sustainability and efficiencies. The Education Services Director went on to explain that it was difficult to sell services in different parts of the country without a local authority contract at the centre as otherwise the costs to deliver are too high. Academy groups were also an option as the size made greater business sense than selling services to individual academy schools.

- d) The Education Services Director explained that the nature of work being requested was changing, with less emphasis on school effectiveness and more on school support eg behavioural support. However, the level of profitability across the country was very similar.
- e) The Education Services Director discussed how Babcock 4S was engaging with its competition in the area of school support services.
- f) The Surrey County Council Shareholder Board would be appointing a representative of the Council to the Babcock 4S Board to replace an officer who recently left the Council. The next Babcock 4S Board meeting had been postponed to allow for an appointment to be made. The Board receives a quarterly update of operational and financial performance.
- g) Babcock 4S receives a half-yearly pension revaluation report from the actuaries and movement will potentially allow for an in-year dividend to be paid. It was agreed that a half-year financial accounts, reflecting the pension revaluation, will be shared with Audit & Governance Committee, along with a breakdown of services provided through contracts with other local authority areas.
- h) Audit & Governance Committee had previously recommended that more detail of services provided be included in the Annual Report. However, as part of a bigger group, the accounts template was standardised across the company. The Chairman of the Education & Skills Board confirmed that he would like more detail of services and performance at Scrutiny Board meetings.
- i) At a previous meeting of Audit & Governance Committee, it had been agreed that Babcock 4S would be asked about governing bodies' adoption and awareness of whistleblowing policies. The Education Services Director confirmed that staff were aware of Surrey County Council's whistleblowing policy and made sure that governing bodies were also aware. Members pointed out that governors receive a lot of reading and this can be missed. The Education Services Director offered to review how this was addressed with governors and suggested that the whistleblowing policy could be emphasised through the Better Governor initiative.

Conclusions:

- 4. The Annual Report and Financial Statements of Babcock 4S have been discussed in detail with representatives from Babcock. The original documents and notes of the meeting between members of Audit & Governance Committee and representatives of Babcock 4S are presented here for the information of the committee and for transparency.

5. The following actions were agreed (with subsequent responses from Babcock 4S):

- Babcock officers to establish how the Pension Fund actuary was chosen and why the change from actuarial gain to actuarial loss in the Pension Fund was so significant.

Response: "Towers Watson was appointed as the Pension Fund actuary by Babcock several years ago and has provided the advice and the consequent sums for at least 4 years. The external auditors, PwC, verify annually that they are satisfied with the assumptions and that it is reasonable. The Babcock Group Finance Director set the assumptions based on actuarial advice. The key assumption is the discount rate which is used to calculate the Net Present Value (NPV) of the future liabilities. The discount rate must be the rate available on AA rated corporate bonds and there is little leeway on this yield. The balance sheet worsened in the year to 31 March 2015 almost entirely due to yields on these bonds falling from 4.5% to 3.4%. A lower discount rate means a higher NPV and the value of the liabilities increased accordingly. A way in which to mitigate the interest rate fluctuations is by either investing in similar assets (i.e. corporate bonds) or through interest rates swaps to provide a hedge so that the assets move in line with the liabilities".

- Audit & Governance Committee to receive the half-year financial accounts, along with a breakdown of services provided through contracts with other local authority areas.

Response: "The financial accounts will be updated with the half-yearly pension fund valuation upon release of the report.

A breakdown of the services has been circulated to committee members".

Financial and value for money implications

6. There are no direct financial and value for money implications of this report.

Equalities and Diversity Implications

7. There are no direct equality and diversity implications of this report.

Risk Management Implications

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

Next steps:

Review the Annual Report and financial statements of Babcock 4S for the year ended 31 March 2016 when timely.

Report contact: Cheryl Hardman

Contact details: 020 8541 9075
cherylh@surreycc.gov.uk

Sources/background papers:

- None

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Babcock 4S Limited
Annual report and financial statements

For the year ended 31 March 2015

Company registration number:
04889149

The directors present their strategic report for the year ended 31 March 2015.

Review of the Business

Key performance indicators:

	2015	2014
	£'000	£'000
Turnover	22,111	24,005
Operating profit	1,737	2,799

The company successfully completed its eleventh year of operation. Whilst funding reductions have caused a decline in turnover, the company has invested heavily in new growth opportunities in order to maintain market share and expand into new markets. The additional investment has reduced margins but close resource and cost monitoring have minimised the impact.

Going forward, the company faces a number of operational risks in delivering its main contracts and increased competition from its competitors. As existing contracts decline, the company is strategically placed to move into new markets.

All the major contracts are subject to performance measurement via the use of a large number of key performance indicators and regular meetings are held with our stakeholders to manage this process.

Principal risks and uncertainties

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

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

Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 64 to 71 of the annual report of Babcock International Group PLC, which does not form part of this report.

Financial risk management

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

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

Price risk

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

Credit risk

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

Liquidity risk

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

Interest rate cash flow risk

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

Future developments and strategy

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

To generate and preserve value in the longer term the company is committed to developing its people and sustaining talent. As part of the Babcock Group employees are subject to a comprehensive talent management system co-ordinated across the Group.

Environment

As part of the Babcock Group the company complies with Group policies on managing environmental impact. All of the company's operations have environmental management systems that are ISO 14001 certified. Babcock Group has achieved re-certification to the prestigious Carbon Trust Standard for all its UK operations, which include the operations of the company, and continues to work hard to reduce its carbon footprint.

We believe that all our employees and others working on or visiting our operations should be able to return home safe and well at the end of the working day. Respecting the dignity, rights and safety of the company's employees is a key principal of the Babcock Code of Business Conduct, a Group-wide policy that is applicable to all those who work with or within the company.

The company follows Group-wide guidelines setting out our approach to charitable donations, our commitment to the communities in which we operate and the broader interests of our customers. As well as ensuring financial donations are appropriately targeted, they also encourage active engagement in local community support programmes.

On behalf of the Board 23 July 2015



K J Garvey
Director

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2015.

Principal activities

The principal activities of the company are the provision of school support services and the generation of income from other related services.

Results and dividends

The company's results for the year are set out in the profit and loss account on page 9 showing a profit for the financial year of £2,310,000 (2014: £2,979,000). At 31 March 2015 the company had net assets £1,128,000 (2014: £5,450,000).

An interim dividend was paid in the current year of £1,578,000 and the directors do not recommend a final dividend (2014: interim dividend paid of £1,392,000).

Review of Business

Information on the review of business can be found in the Strategic report.

Principal risks and uncertainties

Information on the principal risks and uncertainties can be found in the Strategic report.

Financial risk management

Information on the financial risk management can be found in the Strategic report.

Directors of the company

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

KJ Garvey	(appointed 06 December 2014)
D O'iney	
SE Kemp	
J McGrath	(resigned 06 December 2014)
M Liang	
KR Thomas	

Employment of disabled persons

Full and fair consideration is afforded to applications from suitably qualified disabled persons and to their subsequent career advancement within the company. If existing employees become disabled, opportunities are sought to re-train them so as to enable them to continue their current work or to undertake other work within the company which is suited to their aptitude and abilities.

Employee investment and involvement

The development of employee involvement in the company's business is kept under regular review and the directors are committed to encouraging greater involvement by all employees. Formal and informal briefing of employees takes place as appropriate.

The company also takes all reasonable steps to ensure employment conditions are equal in all respects for sex, race, colour, ethnic background, religion or disability.

Statement of directors' responsibilities

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

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

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

Directors' protection

Under their respective Articles of Association, the directors of the company are, and were during the year to 31 March 2015, entitled to be indemnified by the company against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

Auditors and the disclosure of information

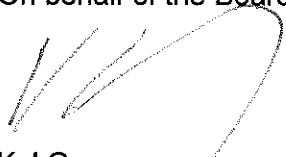
Each of the directors at the date of approval of this report, as shown on Page 4, confirm the following:

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- that they have taken all of the steps that they ought to have taken as a director, in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

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

On behalf of the Board 23 July 2015



K J Garvey
Director

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

Report on the financial statements**Our opinion**

In our opinion, Babcock 4S Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Babcock 4S Limited's financial statements comprise:

- the balance sheet as at 31 March 2015;
- the profit and loss account and statement of total recognised gains and losses for the year then ended;
- the cash flow statement for the year ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception**Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report



Sarah Harrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

23 July 2015

For the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Turnover	2	22,111	24,005
Cost of sales		<u>(16,897)</u>	<u>(17,588)</u>
Gross profit		5,214	6,417
Administrative expenses		<u>(3,477)</u>	<u>(3,618)</u>
Operating profit		1,737	2,799
Interest receivable and similar income	3	1,211	955
Interest payable and similar charges	4	-	-
Profit on ordinary activities before taxation	5	2,948	3,754
Tax on profit on ordinary activities	8	<u>(638)</u>	<u>(775)</u>
Profit for the financial year	18	<u>2,310</u>	<u>2,979</u>

There is no difference between the profit on ordinary activities before taxation (2014: *profit*) and the profit for the financial year (2014: *profit*) stated above and their historical cost equivalents.

The above results all relate to continuing activities.

Statement of total recognised gains and losses

For the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Profit for the financial year		2,310	2,979
Actuarial (loss)/gain recognised in the pension scheme	25	(6,397)	1,996
Movement on deferred tax relating to pension scheme	16	1,343	(459)
Total recognised (losses)/gains relating to the financial year		(2,744)	4,516

	Notes	2015 £'000	2014 £'000
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	-	-
		-	-
Current assets			
Debtors	12	2,155	3,957
Stocks	13	42	52
Cash at bank and in hand	21	11,886	12,713
		14,083	16,722
Creditors – amounts falling due within one year	14	(8,066)	(10,154)
Net current assets		6,017	6,568
Total assets less current liabilities		6,017	6,568
Provisions for liabilities	15	(1,599)	(1,464)
Net assets before pension (liability)/asset		4,418	5,104
Pension (liability)/asset	25	(3,290)	346
Net assets after pension (liability)/asset		1,128	5,450
Capital and reserves			
Called up share capital	17	1	1
Share premium account	18	1,999	1,999
Profit and loss account	18	(872)	3,450
Total shareholders' funds	19	1,128	5,450

The financial statements on pages 9-30 were approved by the board of directors and signed on its behalf by:



K J Garvey
Director
23 July 2015

Cash flow statement for the year ended 31 March 2015.

	<i>Notes</i>	2015 £'000	2014 £'000
Net cash inflow from operating activities	20	706	4,376
Returns on investment and servicing of finance			
Interest received		45	56
Interest paid		-	-
Taxation		-	-
Financing			
Intercompany loan repaid		-	-
Equity dividends paid		(1,578)	(1,392)
(Decrease)/Increase in cash	21	(827)	3,040

1. Accounting policies

Basis of preparation

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

Turnover

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

Rendering of services

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

Long-Term Contracts

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

Tangible fixed assets and depreciation

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

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

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

Intangible fixed assets

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

(i) Goodwill

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

1. Accounting policies (continued)

(ii) Intangible fixed assets and amortisation

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

Taxation

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

Pensions costs and other post retirement benefits

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

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

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

Leases

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

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

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

Provisions

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

Stocks

Stocks are stated at the lower of cost and net realisable value. When stocks are sold and revenue is recognised, the carrying amount of those stocks is recognised as an expense.

2. Turnover

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

3. Interest receivable and similar income

	2015 £'000	2014 £'000
Bank interest	45	56
Net expected return on pension scheme assets (note 25)	1,166	899
	1,211	955

4. Interest payable and similar charges

	2015 £'000	2014 £'000
Bank interest	-	-
	-	-

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2015 £'000	2014 £'000
Depreciation – owned fixed assets	-	-
Auditors' remuneration		
- audit fees	44	43
Operating lease rentals		
- other	778	735

5. Profit on ordinary activities before taxation (continued)

No fees were paid to the company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than statutory audit of the company.

6. Staff costs

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

	2015	2014
	Number	Number
Operations	178	200
Administration and management	35	31
	<u>213</u>	<u>231</u>

Their aggregate remuneration comprised:

	2015	2014
	£'000	£'000
Wages and salaries	8,595	8,952
Social security costs	868	866
Other pension costs	1,006	824
	<u>10,469</u>	<u>10,642</u>

7. Directors' remuneration

No directors received remuneration from the company in the current year (2014: Nil).

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

8. Tax on profit on ordinary activities

	2015 £'000	2014 £'000
Current tax		
UK Corporation tax on profits for the year	230	581
Current tax charge for the year	230	581
Deferred tax:		
Origination and reversal of timing differences	389	282
Adjustment in respect of prior years:	(26)	(117)
Impact of change in UK tax rate	45	29
Total deferred tax charge	408	194
Tax on profit on ordinary activities	638	775

Factors affecting the current year tax charge

The tax assessed for the year is lower (2014: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2015 of 21% (2014: 23%). The differences are explained below:

	2015 £'000	2014 £'000
Profit on ordinary activities before taxation	2,948	3,754
Tax on profit on ordinary activities at standard UK corporation tax rate of 21% (2014: 23%)	619	863
Effects of:		
Timing differences	(389)	(282)
Expenses not deductible for tax purposes	-	-
Current tax charge for the year	230	581

Factors affecting current and future tax charges

On 2 July 2013, Finance Act 2013 was substantively enacted, reducing the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and to 20% from 1 April 2015. Closing deferred tax values have therefore been valued at 20% (2014: 20%).

9. Dividends

	2015 £'000	2014 £'000
Interim dividends paid	<u>1,578</u>	<u>1,392</u>

There are two classes of ordinary shares. A shareholders and B shareholders were paid dividends of £1,379 and £2,379 per share respectively. See note 17 for further details.

10. Intangible fixed assets

	Purchased goodwill £'000	Other intangibles £'000	Total £'000
Cost			
At 1 April 2014 and 31 March 2015	<u>700</u>	<u>298</u>	<u>998</u>
Accumulated amortisation			
At 1 April 2014 and 31 March 2015	<u>700</u>	<u>298</u>	<u>998</u>
Net book value			
At 31 March 2014 and 31 March 2015	<u>-</u>	<u>-</u>	<u>-</u>

11. Tangible fixed assets

	Leasehold improve- ments £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2014 and 31 March 2015	<u>866</u>	<u>1,168</u>	<u>526</u>	<u>2,560</u>
Accumulated Depreciation				
At 1 April 2014	866	1,168	526	2,560
Charge for the year	-	-	-	-
At 31 March 2015	<u>866</u>	<u>1,168</u>	<u>526</u>	<u>2,560</u>
Net book value				
At 31 March 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

12. Debtors

	2015 £'000	2014 £'000
Due within one year:		
Trade debtors	474	625
Amounts owed by group undertakings (note 24)	107	1,303
Amounts owed by other related parties (note 24)	866	1,043
Other debtors	24	29
Deferred tax (note 16)	302	276
Prepayments and accrued income	382	681
	2,155	3,957

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

13. Stocks

	2015 £'000	2014 £'000
Stocks	42	52

14. Creditors - amounts falling due within one year

	2015 £'000	2014 £'000
Trade creditors	298	658
Amounts owed to group undertakings (note 24)	706	1,726
Amounts owed to other related parties (note 24)	1,403	-
Other creditors	192	446
Other taxation and social security	674	815
UK corporation tax payable	1,728	1,498
Accruals and deferred income	3,065	5,011
	8,066	10,154

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

15. Provisions for liabilities

	Contract Provisions £'000	Other Provisions £'000	Total £'000
At 1 April 2014	1,125	339	1,464
Charged to the profit and loss account	138	-	138
Utilised during the year	-	(3)	(3)
At 31 March 2015	1,263	336	1,599

Contract provisions

The closing balance represents a provision for redundancy costs which will crystalize on the expiry of the contracts.

Other provisions

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

16. Deferred taxation

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

	2015 Provided £'000	2014 Provided £'000	2015 Full potential £'000	2014 Full potential £'000
Accelerated capital allowances	39	46	39	46
Other short term timing differences	263	230	263	230
	302	276	302	276

The movement on the deferred tax asset is as follows:

	Deferred tax on pension scheme (note 25) £'000	Other deferred tax £'000	Total £'000
At 1 April 2014	(85)	276	191
(Charged)/credited to the profit and loss account (note 8)	(434)	26	(408)
Recognised in the statement of total recognised gains and losses	1,343	-	1,343
At 31 March 2015	824	302	1,126

17. Called up share capital

	2015 £'000	2014 £'000
Allotted, issued and fully paid		
801 (2014: 801) "A" ordinary shares of £1 each	1	1
199 (2014: 199) "B" ordinary shares of £1 each	-	-
	<u>1</u>	<u>1</u>

Shares classified as equity

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

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

18. Reserves

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2014	1	1,999	3,450	5,450
Profit for the financial year	-	-	2,310	2,310
Dividends paid	-	-	(1,578)	(1,578)
Actuarial loss recognised in the pension scheme	-	-	(6,397)	(6,397)
Deferred tax arising on gain in the pension scheme	-	-	1,343	1,343
At 31 March 2015	<u>1</u>	<u>1,999</u>	<u>(872)</u>	<u>1,128</u>

Impact of pension scheme:

	2015 £'000	2014 £'000
Profit and loss reserve excluding pension liability	4,182	1,913
Pension liability movement	(5,054)	1,537
Profit and loss reserve including pension liability	<u>(872)</u>	<u>3,450</u>

19. Reconciliation of movements in shareholders' funds

	2015 £'000	2014 £'000
Profit for the financial year	2,310	2,979
Dividends paid	(1,578)	(1,392)
Actuarial (loss)/gain recognised on pension scheme (net of taxation)	(5,054)	1,537
Net (decrease)/increase in shareholders' funds	(4,322)	3,124
Opening shareholders' funds	5,450	2,326
Closing shareholders' funds	1,128	5,450

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

	2015 £'000	2014 £'000
Operating profit	1,737	2,799
Depreciation and amortisation	-	-
Decrease in debtors	1,828	2,314
Decrease in stocks	10	8
Decrease in creditors	(2,318)	(256)
Increase/ in provisions	135	163
Difference between pension contributions paid and amount recognised in the profit and loss account	(686)	(652)
Net cash inflow from operating activities	706	4,376

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

	2015 £'000	2014 £'000
(Decrease)/Increase in cash in year	(827)	3,040
Net funds at beginning of year	12,713	9,673
Net funds at end of year	11,886	12,713

22. Analysis of net funds

	At 1 April 2014 £'000	Cash flow £'000	At 31 March 2015 £'000
Cash at bank	12,713	(827)	11,886

23. Guarantees and financial commitments

a) Contingent liabilities and capital commitments

At the year end the company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2014: £620.8 million) provided to certain group companies. In addition, the company at the year end had joint and several liabilities for drawn bank overdraft facilities of other group companies of £15.0 million (2014: £nil).

During the year the company was a member of a wider Babcock VAT Group, and as a result is jointly and severally liable with the other members for the VAT liability of the group. At 31 March 2015 the accrued VAT liability of the group was £1,707,950 (2014: £1,403,712).

As at 31 March 2015 the company had no contracted capital commitments (2014: nil).

b) Operating lease commitments

	2015 Land and buildings £'000	2015 Other £'000	2014 Land and buildings £'000	2014 Other £'000
Annual commitments under non-cancellable operating leases expiring as:				
- within one year	-	50	-	-
- between two and five years	568	117	568	155
	568	167	568	155

24. Related party disclosures

During the year the company entered into transactions with related parties. These consisted of subsidiaries of Babcock International Group PLC and also with Surrey County Council. All transactions were on an arm's length basis. Transactions during the year and the balances outstanding at 31 March 2015 with these related parties are set out below.

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

24. Related party disclosures (continued)

	2015 £'000	2014 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	-	27
Babcock Pension Trust Limited	-	25
Babcock Careers Management Limited	-	-
Babcock Civil Infrastructure Limited	-	23
Babcock Education and Skills Limited	16	24
Babcock Education and Skills (Training) Limited	51	20
Babcock Corporate Services Limited	141	396
Babcock International Group PLC	138	63
Babcock Learning and Development Partnership LLP	15	44
VT (UK) Limited	30	20
Surrey County Council	313	201
Babcock Infrastructure Services Limited	-	-
Babcock Training Limited	184	1,579

In addition to the transactions above, the company paid a fellow Babcock Subsidiary (Babcock Training Limited) £2,782,000 in respect of the companies' 2014/15 VAT Liabilities. (2014: £2,724,000). This amount was paid to the Babcock Training Limited who settled the VAT liability on the companies' behalf.

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

	2015 £'000	2014 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	8	4
Surrey County Council	13,877	16,065
Babcock Civil Infrastructure Limited	55	10
Cavendish Nuclear	-	1
Babcock Education and Skills (Training) Limited	834	1,641
Babcock International Group PLC	1	-
Babcock Land Limited	15	4
Babcock Support Services Limited	115	105
Babcock Aerospace (Flag)	-	1
Babcock Learning & Development Partnership LLP	378	221
Babcock Skills Development & Training Limited	5	-
Babcock Education and Skills Limited	51	-
Babcock Communications Limited	3	-
Babcock Critical Services Limited	3	-
VT Flagship Limited	3	4
Babcock Training Limited	136	928

24. Related party disclosures (continued)

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

	2015	2014
	£'000	£'000
Babcock Careers Management Limited	-	-
Babcock Corporate Services Limited	(15)	(63)
Babcock Education Holdings Limited	(466)	-
Babcock International Group Limited	(95)	(53)
Babcock Education and Skills Limited	(65)	(24)
Babcock Infrastructure Services Limited	-	-
Skills 2 Learn Limited	(8)	-
Babcock Defence Infrastructure Limited	(2)	-
VT (UK) Limited	(7)	(3)
Babcock Careers Guidance Limited	-	-
Surrey County Council	(1,403)	-
Babcock Training Limited	(48)	(1,583)

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

	2015	2014
	£'000	£'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	-	7
Cavendish Nuclear	-	1
Babcock Civil Infrastructure Limited	4	1
Babcock Careers Management Limited	-	61
Babcock Support Services Limited	-	20
Babcock Learning and Development Partnership LLP	33	158
Babcock Land Limited	5	2
Babcock Skills Development and Training Limited	-	4
Babcock Education and Skills (Training) Limited	55	1,048
Babcock Training Limited	-	-
Babcock Skills Development & Training Limited	2	-
Babcock Communications Limited	4	-
Babcock Critical Services Limited	3	-
Surrey County Council	866	1,043
Babcock Aerospace Limited	1	-
VT Flagship Limited	-	1

25. Pension commitments

Teachers' Pension Scheme

The company participates in TPS (a national teachers pension scheme providing benefits based on final pensionable pay). The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. As permitted by FRS 17 'Retirement Benefits' the scheme is accounted for by the company as if the scheme was a defined contribution scheme. The total cost of pension contributions for employees of the company during the year was £67,000 (2014: £74,000) and there was a creditor of £9,000 (2014: £15,000) in the balance sheet.

Babcock Defined Contribution scheme (formerly Shipbuilding Industries Pension Scheme)

The company also participates in the Babcock Defined Contribution scheme, which was formerly known as the Shipbuilding Industries Pension Scheme (SIPS). The pension cost charge for the year includes contributions made by the company to that fund amounting to £267,000 (2014: £285,000) and there was a creditor of £nil (2014: £nil) in the balance sheet.

Group wide pension schemes

The company, as at 1 April 2008, became a member of two pension schemes providing benefits based on final pensionable pay. These schemes were subsequently merged into the main Babcock International Group Defined Benefit Scheme. The latest full actuarial valuation for the BIG scheme was carried out as at 1 April 2010 (pre transfer) by a qualified independent actuary. This valuation showed a funding shortfall of £43.7million. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company. The pension charge for the year was £19,000 (2014: £28,000) and there was a creditor of Nil (2014: £3,000) in the balance sheet. As at 31st December 2014 all final members of the scheme had left the business.

Local Government Pension Scheme – Surrey Pension Fund

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

The last formal valuation was carried out at 31 March 2013 and was updated for accounting purposes to 2015 by a qualified independent actuary, using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The market value of the entire LGPS scheme's assets (not just the Surrey Pension Fund section) was £1.94 billion and the actuarial value of those assets represented 72% of the liability for benefits after allowing for expected future increases in earnings.

25. Pension commitments (continued)

The latest LGPS scheme valuations have been updated by the actuaries on an FRS 17 basis as at 31 March 2015.

The movement in the defined benefit obligation over the year is as follows:

	2015	2014
	£'000	£'000
Opening present value of the funded defined benefit obligations	34,760	35,295
Current service cost	653	437
Interest cost	1,566	1,551
Employee contributions	223	219
Actuarial loss/(gain) on assumptions	6,838	(1,931)
Benefits paid	(868)	(811)
Closing present value of the defined benefit obligation	43,172	34,760

The movement in the fair value of funded plan assets of the year is as follows:

	2015	2014
	£'000	£'000
Opening fair value of assets	35,327	32,325
Expected return on assets	2,732	2,450
Actuarial gains	454	55
Employer contributions	1,339	1,089
Employee contributions	223	219
Benefits paid	(868)	(811)
Closing fair value of assets	39,207	35,327

The major assumptions used in these valuations were:

	2015	2014
Rate of increase in salaries	2.20%	2.40%
Rate of increase in pension payments	2.06%	2.23%
Discount rate	3.60%	4.50%
Inflation assumption	1.90%	2.10%
Long term return on equities	8.40%	8.40%
Long term return on corporate bonds	4.50%	4.50%
Life expectancy from age 65 (male aged 65)	21.90 years	21.90 years
Life expectancy from age 65 (male aged 45)	23.90 years	23.90 years

25. Pension commitments (continued)

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Present value of funded obligations	43,172	34,760	35,295	29,700	28,611
Fair value of employer assets	(39,207)	(35,327)	(32,325)	(27,600)	(27,194)
Net underfunding in funded plans	3,965	(567)	2,970	2,100	1,417
Present value of unfunded obligations	149	136	146	100	200
Deficit/(surplus) in the scheme	4,114	(431)	3,116	2,200	1,617
Related deferred tax liability/(asset) (note 16)	(824)	85	(716)	(528)	(421)
Net pension liability/(asset)	3,290	(346)	2,400	1,672	1,196

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

	2015	2014
	£'000	£'000
Current service cost	653	437
	653	437

An analysis of the amount credited to other financing cost is as follows:

	2015	2014
	£'000	£'000
Expected return on pension scheme assets	2,732	2,450
Interest on pension scheme liabilities	(1,566)	(1,551)
Net return	1,166	899

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

	2015	2014
	£'000	£'000
Actuarial (loss)/gain recognised in STRGL	(6,397)	1,996

25. Pension commitments (continued)

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

	2015 £'000	2014 £'000
Surplus/(Deficit) in scheme at beginning of year	431	(3,116)
Current service cost	(653)	(437)
Employer contributions	1,339	1,089
Net return on assets	1,166	899
Actuarial (loss)/gain (funded plans)	(6,384)	1,986
Actuarial (loss)/gain (unfunded obligations)	(13)	10
(Deficit)/surplus in scheme at end of the year	(4,114)	431

A history of experience gains and losses at 31 March 2015 is as follows:

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Difference between the expected and actual return on scheme assets	1,585	55	1,931	(2,760)	(3,061)
Value of assets	39,207	35,327	32,325	27,600	27,194
Percentage of scheme assets	4%	0%	6%	-10%	-11.3%
Experience gains on scheme liabilities	-	-	-	-	1
Total present value of liabilities (funded)	43,172	34,760	35,295	29,600	28,611
Percentage of present value of scheme liabilities	0.0%	0.0%	0.0%	0.0%	0.0%
Actuarial (losses)/gains recognised in STRGL	(6,397)	1,996	(2,448)	(2,049)	8,005
Total present value of liabilities (funded)	43,172	34,760	35,295	29,600	28,611
Percentage of present value of scheme liabilities	15%	6%	7%	7%	28.0%

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

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

	2015 £'000	% of total assets	2014 £'000	% of total assets
Equities	29,891	76%	27,072	77%
Property	2,334	6%	2,015	6%
Corporate and Government Bonds	6,367	16%	5,726	16%
Other assets	615	2%	514	1%
Fair value of assets	39,207		35,327	

25. Pension commitments (continued)

The actual return on scheme assets in the year was a gain of £3,186,000. (2014: £2,505,000).

History of plans

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

Balance sheet

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Present value of scheme liabilities	(43,321)	(35,758)	(35,441)	(29,800)	(28,811)
Fair value of scheme assets	39,207	35,327	32,325	27,600	27,194
(Deficit)/Surplus in the scheme	(4,114)	431	(3,116)	(2,200)	(1,617)
Experience (losses)/gains on assets	(6,397)	1,996	(2,448)	(2,760)	(3,061)
Experience gains on liabilities	-	-	-	-	1

The company expects to contribute approximately £1,250,000 to its defined benefit plans in the next financial year.

26. Ultimate parent undertaking

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

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

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

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



Audit & Governance Committee
7 December 2015

Grant Thornton: Audit & Governance Committee Update

Purpose of the report:

This paper provides the Committee with a report on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors. The paper also includes a summary of emerging national issues and developments.

Recommendations:

It is recommended that the Audit & Governance Committee note the external auditor's progress report.

Introduction:

1. International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which the external auditor is required to communicate with those charged with governance (the Audit & Governance Committee).
2. The attached report details Grant Thornton's progress on delivering their responsibilities as the Council's external auditor.

Financial and value for money implications

None

Equalities and Diversity Implications

None

Risk Management Implications

None

Next steps:

Detailed audit plans for the Council and Surrey Pension Fund will be provided to the committee at its February meeting.

Report contact: Thomas Ball, Audit Manager, Grant Thornton

Contact details: thomas.ball@uk.gt.com

Sources/background papers: None

Audit and Governance Committee Update

Year ended 31 March 2016

7 December 2015

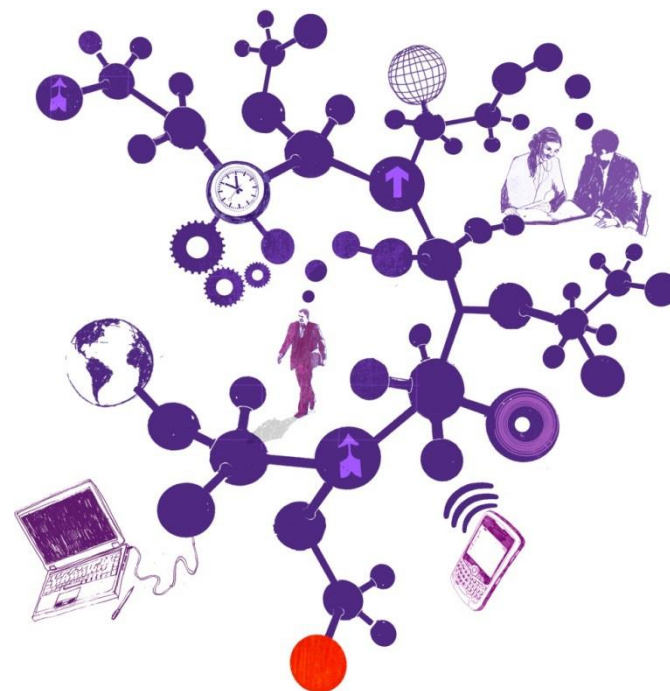
Page 09

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Contents

Section	Page
Introduction	3
Progress at 7 December 2015	4
Emerging issues and developments	
Grant Thornton	6
Local government issues	9

Page 70

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 your business 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.

Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Andy Mack Engagement Lead T 0207 728 3299 M 07880 456187 andy.l.mack@uk.gt.com

Tom Ball Audit Manager T 0207 728 3009 M 07796 515959 thomas.ball@uk.gt.com

Progress at 7 December 2015

Work	Planned date	Complete?	Comments
<p>2015-16 Audit Plan We are required to issue a detailed accounts audit plan to the local authority setting out our proposed approach in order to give an opinion on the local authority's 2015-16 financial statements.</p>	February 2016	No	We will present our 2015-16 Audit Plan to the Audit & Governance Committee on 22 February 2016.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the local authority's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	December 2015 and February/March 2016	No	
<p>2015-16 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the local authority's accounts • proposed Value for Money conclusion. 	June – July 2016	No	

Progress at 7 December 2015

Work	Planned date	Complete?	Comments
<p>2015-16 Value for Money conclusion</p> <p>The consultation by the National Audit Office on the new approach to Value for Money work has now been finalised. In due course we will discuss with the Director of Finance and communicate to Members any areas of significant risk that we identify.</p>	December 2015 – July 2016	Yes	We will present our 2015-16 Audit Plan to the Audit & Governance Committee on 22 February 2016, which will include description of the planned areas of focus of our Value for Money work this year.
<p>Other areas of work</p> <p>We have issued a reasonable assurance report on the Council's Teachers' Pensions return.</p> <p>We have completed our review of the Pension Fund Annual Report and this has enabled us to issue our 2014/15 audit certificate.</p> <p>We have completed our audit of S. E. Business Services Limited and our Audit Findings Report is presented to this meeting as a separate item.</p>	December 2015	Yes	We will present to the Committee our Audit Findings Report in respect of Surrey Choices Limited in February 2016.

Emerging issues and developments – Grant Thornton

Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

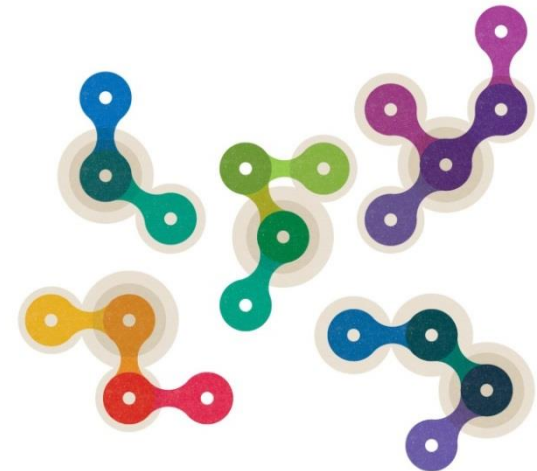
In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

Hard copies of our report are available from your Engagement Lead and Audit Manager



Emerging issues and developments – Grant Thornton

Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton

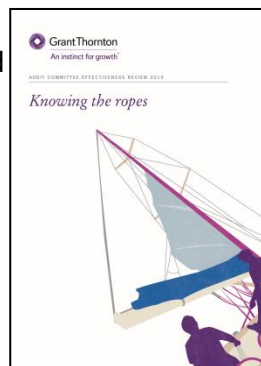
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



Emerging issues and developments – Grant Thornton

Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager



Emerging issues and developments – Local government issues

Code of Audit Practice

National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which is due to be finalised in November 2015. The draft guidance includes the following.

- Definition of the nature of the opinion to be given – i.e. a "reasonable assurance" opinion as defined by ISAE 300 (revised)
- Definitions of what could constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

Grant Thornton submitted a response to the consultation which closed on 30 September 2015.



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Audit & Governance Committee
7 December 2015

2014/15 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 2014/15 financial statements of S. E. Business Services Ltd.

Recommendations:

1. That the Committee consider the contents of the 2014/15 Audit Findings Report for S. E. Business Services Ltd.

Introduction:

2. The Directors of the company approved the 2014/15 financial statements as presenting a true and fair view of the company's financial position as at the 31 March 2015 and its profit for the year then ended.
3. The attached Audit Findings Report provides a commentary on the financial statements.
4. An unmodified opinion on the financial statements is due to be issued in late November 2015 and the audited financial statements and directors report will be submitted to Companies House ahead of the 31st December deadline.

2014/15 Financial Statements

5. The audit process identified one individually significant adjustment to the draft financial statements, which has been corrected by management. This adjustment had the effect of decreasing the company's profit per the draft financial statements by £4,064.
 - Corporation tax had been calculated correctly, however the rate of 20% had been incorrectly used, rather than 21%.

- In addition, £5,139 pension costs was incorrectly included within cost of sales in note 2. This has no impact on the financial statements and is a disclosure error only. This has been corrected by management.

2014/15 Audit Findings

6. The Audit Findings Report summarises the findings of the 2014/15 audit, which was completed in November 2015. 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 was 1 recommendation arising from the 2014/15 audit. This relates to the contract the Company holds with First Community Health and Care CIC (FCHC), which commenced in November 2014. This contract is currently unsigned and is being invoiced based on the unsigned version. The delay is predominantly due to FCHC not being clear on their requirements. Company management have committed to ensuring the contract is signed in December 2015.

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

The audit process identified one individually significant adjustment to the draft financial statements, which has been corrected by management.

Equalities and Diversity Implications

None.

Risk Management Implications

None.

Next steps:

None.

Report contact: Thomas Ball, Manager, Grant Thornton

Contact details: Thomas.Ball@uk.gt.com

Sources/background papers: None.

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The Audit Findings for S. E. Business Services Limited

Year ended 31 March 2015

November 2015

Page 83

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Board of Directors
S. E. Business Services Limited
County Hall
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Kingston Upon Thames
Surrey
KT1 2DN

November 2015

Dear Sirs

Audit Findings for S. E. Business Services Limited for the year ended 31 March 2015

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

Richard Hagley

Grant Thornton UK LLP
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London NW1 2EP

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Page 84

Chartered Accountants

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Contents

Section	Page
1. Status of the audit and audit opinion	4
2. Overview of audit findings	5
3. Significant findings	6
4. Other findings	7
5. Other communication requirements	8
6. Internal controls	9
7. Misstatements	10
8. Non-audit fees and independence	11
9. Communication of audit matters with those charged with governance	12

Status of the audit and 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?
Trade debtors	Reasonably Possible	Recorded revenues and debtors not valid	No	●	None
Cash	Remote	-	No	●	None
Trade creditors	Reasonably Possible	Creditors understated or not recorded in correct period	No	●	None
Accruals and deferred income	Reasonably Possible	Recorded revenues and debtors not valid	No	●	None
Equity	-	-	-	●	-
Reserves	Remote	-	No	●	None

Changes to Audit Plan

- We have not had to alter or change our Audit Plan as previously communicated to you on 6 August 2015.

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	●	None
Payroll	Reasonably Possible	Employee remuneration and benefit obligations and expenses understated	No	●	None
Other operating expenses	Reasonably Possible	Creditors understated or not recorded in correct period	No	●	None
Administrative expenses	Reasonably Possible	Creditors understated or not recorded in correct period	No	●	None
Interest payable and similar	-	-	-	●	-
Taxation	Remote	-	No	●	None

Controls

For further details see Internal controls

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

Our audit has identified one non-trivial amendment to payroll expenditure and operating expenditure, as well as one non-trivial amendment to corporation tax. Of these amendments, only the latter has a net impact on profit after taxation, leading to a reduction in this figure by £4,064. Management have corrected all identified misstatements. Further details are provided on page 10.

Significant findings

	Risks identified in our audit plan	Commentary	Communicated in Audit Plan?
1.	<p>Improper revenue recognition</p> <ul style="list-style-type: none"> Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue 	<ul style="list-style-type: none"> We undertook the following procedures in response to this risk: <ul style="list-style-type: none"> documentation of our understanding of management's controls over revenue recognition review and testing of revenue recognition policies testing of material revenue streams including significant income contracts <p>As part of our review of your accounting policies, we agreed on the inclusion of more detailed policies regarding recognition of your key revenue and expenditure streams in your revised financial statements. Our audit work has identified no other issues in respect of revenue recognition.</p>	Yes
2.	<p>Management override of controls</p> <ul style="list-style-type: none"> Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities 	<ul style="list-style-type: none"> We undertook the following procedures in response to this risk: <ul style="list-style-type: none"> review of accounting estimates, judgements and decisions made by management review of unusual significant transactions <p>Our audit work has not identified any evidence of management override of controls.</p>	Yes

Page 88

Other findings

	Risks identified in our audit plan	Work completed	Issues arising
1.	Revenue and debtors <ul style="list-style-type: none"> Recorded revenues and debtors not valid 	<ul style="list-style-type: none"> Walkthrough of arrangements for accounting for contract arrangements Review of significant income contracts Agreement of significant income to contracts Review of significant contract arrangements to ensure they were accounted for correctly at year end Review and testing of other income where significant to ensure in line with terms 	<p>We have identified no issues in relation to this risk we are required to report to you.</p>
2.	Operating expenses and trade creditors <ul style="list-style-type: none"> Creditors understated or not recorded in correct period 	<ul style="list-style-type: none"> Walkthrough the operating expenses system Sample testing of expenditure, including outsourced staff Completeness testing of expenditure and year end payables 	<p>Our audit work has identified one non-trivial amendment within cost of sales. This has no impact on the face of the financial statements and has only a disclosure effect within note 2. We have tested 100% of payroll expenditure and as such have been able to confirm that this error is isolated. Further details are provided on page 10.</p> <p>There are no other issues in relation to this risk we are required to report to you.</p>
3.	Payroll <ul style="list-style-type: none"> Employee remuneration and benefit obligations and expenses understated 	<ul style="list-style-type: none"> Walkthrough of payroll arrangements Review of work performed over the payroll system by the Surrey County Council audit team Completeness testing of payroll records Testing of payroll transactions to supporting records Reconciliation of payroll records 	<p>Our audit work has identified one non-trivial amendment to payroll expenditure. This has no impact on the face of the financial statements and has only a disclosure effect within note 2. We have tested 100% of payroll expenditure and as such have been able to confirm that this error is isolated. Further details are provided on page 10.</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.	Matters in relation to fraud	<ul style="list-style-type: none"> 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
2.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Company
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation request to the Company's bank. This permission was granted and the requests were sent. This was returned with positive confirmation
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements

Internal controls

- The purpose of an audit is to express an opinion on the financial statements.
- Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control
- The matters being reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with ISA 265
- If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported

Page 91

	Assessment	Issue and risk	Recommendations
1.	 Deficiency – risk of inconsequential misstatement	<ul style="list-style-type: none"> • As at November 2015, there is no signed contract in place between the Company and First Community Health and Care CIC (FCHC). The contract commenced on 17/11/14 and is being invoiced based on the draft, unsigned version. There is a risk that FCHC may withhold future payments in the absence of formal agreement. 	<ul style="list-style-type: none"> • The contract with FCHC should be signed by both parties as soon as possible. <p>Management response:</p> <p>The Directors have been working with FCHC for a number of months with a view to bringing the contractual arrangements to a satisfactory conclusion. The issues have in part been created as a result of the client being unable to clarify their requirements. The company expects that signed contracts will be in place by the end of December 2015. In the interim, the client is satisfied with the service being provided with all payments due paid to date.</p>

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement



Misstatements

Adjusted

Detail	Profit and loss account (£)		Balance sheet (£)		Profit effect (£)
	Debit	Credit	Debit	Credit	
Profit per draft accounts					325,128
Cost of sales		5,139			5,139
Pension costs	5,139				(5,139)
Included in non-payroll expenditure was £5,139 relating to pension costs. This is a classification error within note 2 only.					
Tax on profit on ordinary activities	4,064				(4,064)
Creditors				4,064	-
Corporation tax had been calculated correctly, however the incorrect rate of 20% had been used rather than 21%.					
Profit per final accounts					321,064

Unadjusted

There were no unadjusted misstatements.

Page 92

Non-audit fees and independence

	Fees	Threat Y/N	Safeguard
Audit	15,000	N	n/a
Other	None	n/a	n/a
Total non-audit services	15,000		

Independence and ethics:

- Ethical standards and ISA UK 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

Page 93

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

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 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		✓

Page 94

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
7 December 2015

Grant Thornton: 2015/16 Key Performance Indicators

Purpose of the report:

This report provides the Audit & Governance Committee with details of our proposed Key Performance Indicators (KPIs) for the 2015/16 year.

Recommendations:

That the Committee approves the proposed Key Performance Indicators for 2015/16.

Introduction:

1. The report details our proposed indicators covering the following areas:
 - response time
 - achievement of planned input
 - reporting arrangements
 - quality assurance.

Proposed Key Performance Indicators

2. The report confirms that:
 - There are 10 indicators proposed for 2015/16
 - We have kept all the indicators from 2014/15
 - We have added 3 indicators, which build on feedback from the Council on the 14/15 audit and reflect changes in the approach to undertaking work on your Value for Money conclusion

3. The new indicators relate to:
- Timeliness of audit information requests from third parties
 - Agreeing areas of focus of our 2015/16 Value for Money work
 - Communication of audit progress throughout the year through monthly updates, in addition to the existing weekly meetings in June and July

Conclusions:

Financial and value for money implications

None.

Equalities and Diversity Implications

None.

Risk Management Implications

The Key Performance Indicators will help manage areas of risk regarding external auditing processes.

Next steps:

The Committee should consider if it agrees with the proposed KPIs for the next 12 months and whether it has any suggestions for changes.

Report contact: Thomas Ball, Manager, Grant Thornton

Contact details: Thomas.Ball@uk.gt.com

Sources/background papers: None.

2015/16 Performance Management Framework

Surrey County Council

December 2015

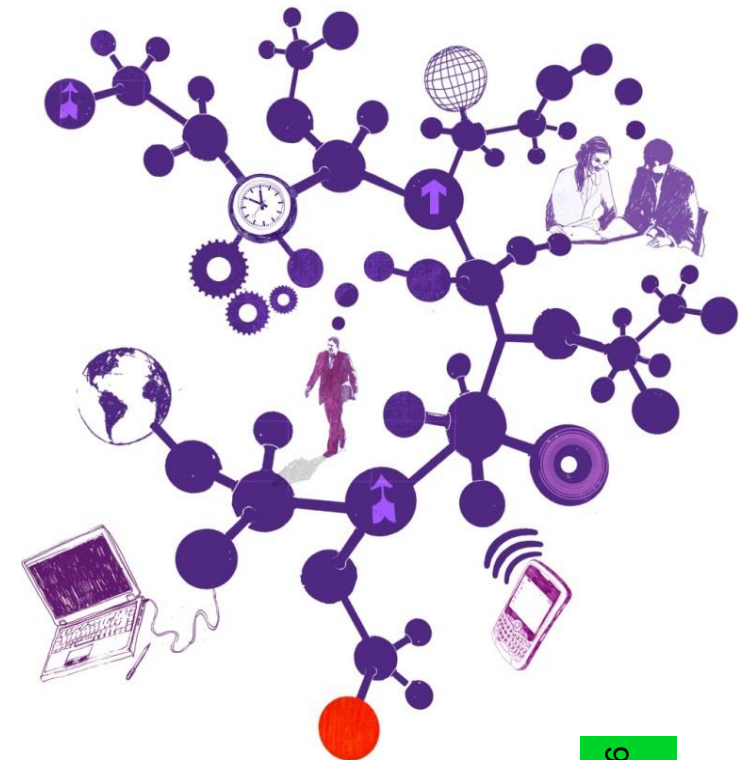
Page 99

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Performance management framework

Proposed Key Performance Indicators (KPIs)

We set out below our key performance indicators for 2015/16. We propose agreeing the set of indicators with the Audit & Governance Committee, monitoring them throughout the year (discussing any areas of concern with management immediately) and then formally reporting on performance in September 2016. We have taken the previous set of KPIs for 2014-15 and taken on board feedback from officers in adding some new indicators, as well as an indicator which reflects the new approach regarding work required on your Value for Money conclusion.

Area	Proposed service level and indicator	Target
Response time	<ul style="list-style-type: none"> We will provide an initial response to all major enquires or requests for assistance within 5 working days, with full responses within 15 working days We will ensure all requests for information from third parties are made as early as possible, with 80% by the end of May and the remainder by the end of June 	100% 100%
Achievement of planned input	<ul style="list-style-type: none"> The total approved audit fee will not be exceeded, except by prior approval by the Director of Finance In light of the National Audit Office's new approach to Value for Money, we will agree in advance the areas of focus in 2015/16 with the Director of Finance We will provide monthly updates on audit progress to the Deputy Chief Finance Officer and principal accountant and, during the final accounts process, meet weekly to discuss emerging issues and agree our approach to tackling them 	100% 100% 100%
Reporting arrangements	<ul style="list-style-type: none"> We will ensure that reports are made available to Audit and Governance Committee members 7 working days before the Audit and Governance Committee meeting We will provide a final list of any proposed amendments to the financial statements 7 working days before the relevant Audit and Governance Committee meeting We will report progress against recommendations previously raised to each Audit and Governance Committee, and by exception, the effectiveness of any remedial action taken 	100% 100% 100%
Quality assurance	<ul style="list-style-type: none"> We will report to the Audit and Governance Committee the results of any internal or external quality reviews of Grant Thornton Client satisfaction score (people indicating how satisfied they are with their audit service on a scale of 0 – 10 where 10 is very satisfied) 	100% 9



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Audit & Governance Committee
7 December 2015

Treasury Management Half Year Report 2015/16

Purpose of the report:

This report summarises the council's treasury management activity during the first half of 2015/16, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential and Performance Indicators for the first half of 2015/16, in accordance with the requirements of the CIPFA Prudential Code.

RECOMMENDATIONS:

It is recommended that the Committee note the content of the Treasury Management Half Year Report for 2015/16.

BACKGROUND:

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

TREASURY MANAGEMENT HALF YEAR REPORT 2015/16:

Key Prudential Indicators and Compliance Issues

2. Under CIPFA's Prudential Code, the council is required to report on its actual Prudential Indicators after the year end. Annex 1 Table 11 provides a schedule of all of the council's mandatory Prudential Indicators relating to treasury management, as agreed at the budget meeting of 10 February 2015. Key indicators that provide either an overview or a limit on treasury activity are summarised in the following paragraphs.

3. The Capital Financing Requirement (CFR) shows the council's underlying need to borrow for capital purposes. To ensure that, over the medium term, borrowing net of investments will only be for a capital purpose, net borrowing should not, except in the short-term, exceed the CFR for 2015/16. The council has complied with this requirement as shown in Table 1:

Table 1: Borrowing Position Against CFR

	£m
Total Borrowing at 30 September 2015	397
Investments at 30 September 2015	184
Net borrowing position at 30 September 2015	213
CFR 2015/16	828
CFR 2016/17	852

4. The Authorised Limit is the council's "affordable borrowing limit" required by section 3(1) of the Local Government Act 2003. This represents the limit beyond which borrowing/ external debt is prohibited. The limit reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. Table 2 demonstrates that during 2015/16, the council has maintained gross borrowing within its Authorised Limit.
5. The Operational Boundary is the level of borrowing that the council could reach during the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an indicator to ensure that the council's Authorised Limit is not breached.

Table 2: Borrowing Against Authorised Limit and Operational Boundary

	£m
Authorised Limit	668
Operational Boundary	599
Highest gross borrowing position during 2015/16	397

6. Capital financing costs (the MRP and interest payments on borrowing) incurred by the council during 2015/16 are detailed as follows:

Table 3: Capital Financing Costs 2015/16

	Original Estimate £000	Year End Projection £000
Minimum Revenue Provision (MRP)	25,251	24,906
Interest on long-term borrowing	16,943	16,376
Net Interest on short-term cashflow	(403)	(403)
Total	41,791	40,879

7. Original estimates remain largely on target with year end projections.

Treasury Management Activity during 2015/16

8. The treasury position at 30 September 2015 compared with the last financial year is shown in Table 4. The council's credit rating criteria for short term cash deposits effective at 30 September 2015 are shown at Annex 2 Table 12.

Table 4: Investment and Borrowing Position

	2014 / 2015		2015 / 2016	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Rate Debt*	397	4.53%	397	4.12%
Total Debt	397	4.53%	397	4.12%
Fixed Interest Investments	152	0.42%	184	0.50%
NET BORROWING	245		213	

*Excludes Office of the Police and Crime Commissioner for Surrey debt

Borrowing Position

9. The weighted average interest rate on long term debt is shown in Table 5.

Table 5: Interest on Long Term Debt

Financial Year	% Interest on Debt
2010/11	4.20
2011/12	4.20
2012/13	4.20
2013/14	4.42
2014/15	4.53
2015/16*	4.12

* half year to 30 September 2015

12. All of the council's current long-term borrowing has been taken from the Public Works Loan Board (PWLB), whose purpose is to provide loans to local authorities in order to finance capital spend, apart from a £10m market loan taken from Barclays. A summary showing the movement of long-term borrowing during 2014/15 and 2015/16 is as follows:

Table 6: Long-Term Borrowing Position

Long-term Borrowing	1 April 2014 to 31 March 2015 £000	1 April 2015 to 30 September 2016 £000
Total debt outstanding at 1 April	237,247	397,247
Loans raised	160,000	0
Loans repaid		0
Total debt at period end	397,247	397,247

13. The council is able to undertake temporary borrowing for cash flow purposes. The council also manages cash on behalf of the Office of the Police and Crime Commissioner for Surrey, which is classified as temporary borrowing. The balances outstanding at 30 September 2015 are detailed in Table 7.

Table 7: Temporary Borrowing Position

Temporary Borrowing at 30 September 2015	£m
Short-term borrowing for cash flow purposes	-
Office of the Police and Crime Commissioner for Surrey	38.0
Total Temporary Borrowing	38.0

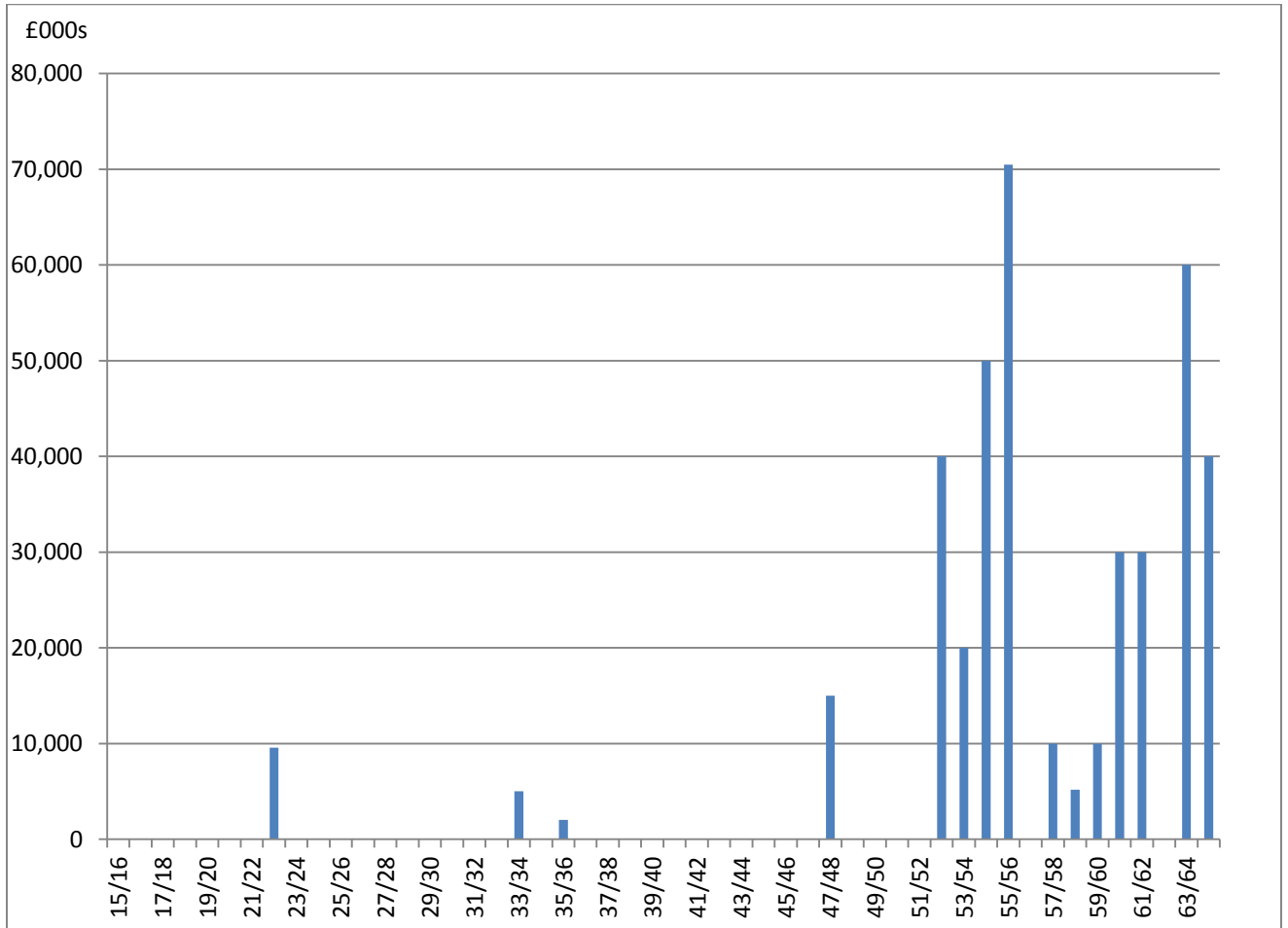
14. The council has limited its exposure to large fixed rate loans maturing in any one year by setting gross limits for its maturity structure of borrowing in accordance with the Prudential Code.

Table 8: Debt Maturity Profile as at 30 September 2015

Maturity Profile	Upper Limit	Lower Limit	Actual
Under 12 months*	50%	0%	8.73%
1 year and within 2 years	50%	0%	0.00%
2 years and within 5 years	50%	0%	0.00%
5 years and within 10 years	75%	0%	2.20%
10 years and above	100%	25%	89.07%

* Includes balances held on behalf of the Office of the Police and Crime Commissioner for Surrey.

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



Investment Position

16. Average investment returns from 2006/2007 onwards are shown in Table 9.

Table 9: Return on Investments

Financial Year	% Return on Investments
2006/2007	4.90
2007/2008	5.78
2008/2009	4.38
2009/2010	1.01
2010/2011	0.75
2011/2012	0.70
2012/2013	0.55
2013/2014	0.41
2014/2015	0.43
2015/2016*	0.50

* half year to 30 September 2015

17. Accommodative monetary policy combined with reduced market inflation expectations and fears surrounding economic and geo political events have resulted in sustained low short term deposit rates.
18. All cash held by the council is aggregated for the purpose of treasury management and daily surpluses are invested temporarily until required to meet daily outgoings. Such monies include funds held on behalf of schools and the Office of the Police and Crime Commissioner for Surrey. Pension Fund balances are held in a separate bank account.
19. A total of 292 schools have their cash balances incorporated within the council's balances, earning interest on an agreed basis. Under this arrangement, these schools receive interest on their balances at a rate of 0.50% below base rate.
20. The council applies the average return of its whole investment portfolio to all of the funds that were held on behalf of the Office of the Police and Crime Commissioner for Surrey (as per the current service level agreement).
21. Money brokers can be used to facilitate investment dealing and loans are only made to institutions that meet the council's approved counterparty criteria. In addition to dealing through brokers, short-term investments are also made by dealing direct with some approved institutions, including banks, building societies and money market funds.
22. Due to frequent action on the part of credit ratings agencies, the council's credit rating criteria, investment limits and resultant counterparty list have been under continual scrutiny. The counterparty criteria set for the period 1 April 2015 to 31 March 2016 was affirmed at the County Council meeting of 10 February 2015. The credit rating criteria and investment limits effective at 30 September 2015 are shown in annex 2.
23. In the first half of 2015/16, the council maintained an investment portfolio with a daily average balance of £189m (£193m in 2014/15) and received an average return of 0.50%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.36% for the period. The council therefore outperformed its benchmark by 0.14%.

Member and Officer Training

24. Officers and members involved in the governance of the council's treasury management function are required to participate in training. Officers are also expected to keep up to date with matters of relevance to the operation of the council's treasury function. Officers continue to keep abreast of developments via the CIPFA Treasury Management Forum as well as through two local authority networks. Capita provides daily, weekly and quarterly newsletters and update meetings are held with Capita twice a year.

Treasury Management Advisors

25. The Council uses Capita as its treasury management advisor. The company provides a range of services including:
- technical support on treasury matters, capital finance issues and reports;
 - treasury management training;
 - economic and interest rate analysis;
 - debt services, which includes advice on the timing of borrowing;
 - debt rescheduling advice surrounding the existing portfolio;
 - generic investment advice on interest rates, timing, and investment instruments;
 - credit ratings/market information service comprising the three credit rating agencies.

Risk

26. A development in the revised CIPFA Code on Treasury Management, which is intended to improve the reporting of treasury management activities, is the consideration, approval and reporting on security and liquidity benchmarks. Yield benchmarks are already widely used to assess investment performance, while discrete security and liquidity benchmarks are new reporting requirements.
27. **Security:** The Council analyses the investment portfolio at year end against historic default rates to estimate the maximum exposure to default as shown in Table 10 below:

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

Yield: The Council currently reports the overall return in interest against the 7-Day LIBID rate. The overall return in the first six months of 2015/16 on deposits was 0.50%, compared with the benchmark of 0.36%, a margin of 0.14%.

Table 10: Benchmarking Deposits against Default Rates at 30 September 2015

Deposits with banks and financial institutions	Amount	Historical experience of default	Estimated exposure to default
	£000	%	£000
	(a)	(b)	(a x b)
AAA rated counterparties	63,600	0.00%	0
AA rated counterparties		0.02%	0
A rated counterparties	95,000	0.09%	86
Other counterparties*	25,000	-	
Total	183,600		86

*includes £25m with other Local Authorities that do not have credit ratings

Regulatory Framework, Risk and Performance

28. The council's treasury management activities are regulated by statute. The DCLG has also issued investment guidance to regulate the Council's investment activities.
- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Act permits the Secretary of State to set limits either on the council or nationally on all local authorities, restricting the amount of borrowing which may be undertaken.
 - Statutory Instrument (SI) 3146 2003, as amended, specifies the controls and powers within the Act. The SI requires the council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The SI also requires the council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
 - Under section 238(2) Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices.
29. The council has complied with all of the above relevant statutory and regulatory requirements, which require the council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management ensures that capital expenditure is prudent, affordable and sustainable, and treasury practices demonstrate a low risk approach.

- 30. The council is aware of the risks of inactive management of the treasury portfolio and, with the support of the council’s advisors, has proactively managed the debt and investments over the year so far. The council has utilised historically low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio, as it consists of predominantly fixed long-term loans, with the capacity for repayment of any shorter dated debt. Shorter term interest rates and likely future movements in these rates predominantly determine the council’s investment return. These returns can be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.
- 31. The key risks and mitigation actions associated with the management of the organisations debt and investment operations is set out in annex 3.

IMPLICATIONS:

- A) Financial
There are no direct financial implications.
- B) Equalities
There are no direct equality implications.
- C) Risk management and value for money
See paragraphs 26 to 31.

WHAT HAPPENS NEXT:

- i. The Pension Fund & Treasury Team will monitor the UK and overseas banking sector and will continue to update this Committee as appropriate.
- ii. In line with the requirements of CIPFA’s Code of Practice for Treasury Management, the team will prepare an outturn report for 2015/16 at the meeting in July 2016.
- iii. The Pension Fund & Treasury Team will prepare the annual Treasury Management Strategy, which will be presented as part of the MTFP presented to Council in February 2016.

REPORT AUTHOR:

Phil Triggs, Strategic Finance Finance (Pension Fund & Treasury)

CONTACT DETAILS:

Phil Triggs 020 8541 9894

phil.triggs@surreycc.gov.uk

Sources/background papers:

Capital Budget and Treasury Management Strategy 2015/16

Prudential Indicators and Treasury Management Strategy 2015/16

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

Table 11: Summary of Prudential Indicators for 2015/16

Prudential Indicator	Position as at 30 September 2015 £000	Limit 2015/16 £000
Maximum net borrowing incurred against the Capital Financing Requirement (CFR)	312,750	828,000
Maximum gross borrowing incurred against the Authorised Limit	397,247	688,000
Maximum gross borrowing incurred against the Operational Boundary	397,247	599,000
<i>Maturity structure of borrowing (maximum position during the year)</i>		
Under 12 months	11.7%	0% - 50%
12 months to 2 years	0%	0% - 50%
2 years to 5 years	0%	0% - 50%
5 years to 10 years	2.1%	0% - 75%
10 years and above	86.2%	25% - 100%
Maximum principal funds invested for more than 365 days	0%	35% of value of investments held

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

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

Table 12: Effective counterparty limits

Type	Fitch				Moody's			S&P		Maximum Value
	ST	LT	Via	Sup	ST	LT	FSR	ST	LT	
Bank / BS	F1	A	bbb	1	P-2	Baa 1	D+	A-2	A-	£60m
Bank / BS	F1	A	a-	1	P-1	A1	C-	A-1	A	£60m
MMF	AAA				AAA			AAA		£25m
DMADF	-				-			-		Unlimited
Supranational	-				-			-		£10m
Local Authority	-				-			-		£20m

- i) Deposits are permitted with UK banks that do not comply with the council's credit rating criteria subject to the following:
- a) That they have been nationalised or part nationalised by the UK government;
and/or
 - b) That they have signed up to the UK government financial support package.
- ii) The use of Money Market Funds is restricted to Funds with two AAA ratings up to a maximum of £175m (with a maximum of £25m per Money Market Fund).
- iii) A total of £120m is made available to invest in high interest call accounts with both RBS and Lloyds (making a total of £60m limit with each). This will be maintained while they remain part nationalised.
- iv) Deposits with foreign banks are permitted, on the condition that they meet our minimum criteria, and that the country in which the bank is domiciled is "AAA" rated with all three ratings agencies (Fitch, Moody's and Standard and Poor's).

GLOSSARY

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

- F1 Indicates the strongest capacity for timely payment of financial commitments; an added "+" denotes any exceptionally strong credit feature.
- P-1 Indicates superior credit quality and a very strong capacity for timely payment of short-term deposit obligations. No enhanced rating available.
- A-1 Indicates a strong capacity to meet financial commitments; an added "+" denotes a capacity to meet financial commitments as extremely strong

Risk Group	Risk Ref.	Risk Description	Impact			Likelihood	Total risk score	Mitigation actions
			Financial	Reputation	Total			
Financial	1	Interest Rate Risk (Borrowing) The risk that fluctuations in the levels of interest rates (gilt yield) create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	4	1	5	3	15	As part of the Treasury Management Strategy, the TM function will continually monitor interest rates available to ensure any borrowing is prudent, and at an affordable level.
Financial	2	Too Conservative Strategy The overall treasury management strategy is judged as too prudent and unnecessarily stringent, resulting in investment returns being lower than might have been with a more risky, but ultimately safe, approach.	3	2	5	2	10	Treasury strategies, outturn reports and monitoring reports and scrutinised on a regular basis by the Audit and Governance Committee with recommendations and opinions minuted and actioned.
Operational	3	Financial failure of SCC's main bankers The collapse of the council's main bankers, leading to a total shutdown of services.	4	4	8	1	8	The UK Government has implied by its takeover of both Lloyds TSB and RBS that it will not allow a UK financial institution to fail. The suitability of the council's banker (HSBC) in terms of its security and stability is assessed on a regular basis.
Financial	4	Credit and counterparty risk The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or revenue resources.	3	4	7	1	7	As part of the Treasury Management Strategy, counterparty criteria has been set at a level to allow only the most financially secure banks and other counterparties within the lending list. Such lists are regularly monitored against updates and advice provided by our Treasury consultant.
Operational	5	Fraud, Error and Corruption This is defined as the risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends.	3	4	7	1	7	Ongoing internal audit advice will ensure that the Council identifies the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Advice is also supplied with regard to the use of internal controls and compliance testing as to their effectiveness. Managers will maintain a constant watch over the suitability of its systems and procedures.
Financial	6	Interest Rate Risk (Investments) The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	2	1	3	2	6	As part of the Treasury Strategy, all investments will be kept with counterparties with a high rating, on a short term basis of one year or less, minimising any interest rate risks.
Operational	7	Legal and Regulatory Risk Defined as the risk that the organisation itself, or a third party with which it is dealing, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.	1	4	5	1	5	The Treasury Management function will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements, by receiving relevant updates from CIPFA and from the treasury advisors.
Operational	8	Unauthorised access to offices leads to theft of intellectual property and confidential information.	1	4	5	1	5	Ensure all sensitive data is locked away. Challenge any unknown visitors. Use of secure passwords to protect against unauthorised access.
Operational	9	Liquidity Risk The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.	2	3	5	1	5	As part of the Treasury Management Strategy, a minimum cash balance of £15m will be maintained. In the event of unforeseen circumstances leading to a negative balance, short term borrowing is widely available from both the money markets and from other local authorities.
Operational	10	HSBC System Failure The partial or complete failure of HSBC's online banking system disallowing access or usage of online payment and bank account information.	2	3	5	1	5	In the event of an online systems failure officers are able to request information or payments to be made through the Council's relationship manager and HSBC corporate team.
Financial	11	Market Risk The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.	1	1	2	2	4	The Treasury Management Strategy prevents exposure to instruments which can be subject to significant adverse market fluctuations in the capital sum invested.
Financial	12	Refinancing Risk The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.	2	2	4	1	4	As part of the Treasury Management Strategy, restrictions have been set on the proportion of borrowing that is due for refinancing in the short term..

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Audit & Governance Committee
7 December 2015

Internal Audit Half Year Report 2015/16

Purpose of the report:

This interim report summarises the work of Internal Audit during the first six months of 2015/16. The purpose of this report is to enable the Committee to consider the activities of Internal Audit during the six month period to 30 September 2015 and determine whether there are any matters that they wish to draw to the attention of the Cabinet and/or the County Council. A list of all Internal Audit reports issued in the period April – September 2015 is attached at Annex A for information.

The Chief Internal Auditor reports key findings and recommendations arising from audits undertaken as part of regular reporting to this Committee on completed audits. As such this report focuses on activity undertaken rather than detailing audit findings previously identified. However in response to member interest in management action taken to implement Internal Audit recommendations this report also provides, at Annex B, an update on progress made to date for those audit reports issued since January 2015. In addition, at Annex C is an update on earlier audit reports where management action plan progress for High Priority audit recommendations had not previously been rated as “Green”.

RECOMMENDATIONS:

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

INTRODUCTION:

1. The Accounts and Audit Regulations require every local authority to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. Within Surrey County Council the Internal Audit function, which sits within the Policy and Performance Service, carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

2. The terms of reference of the Audit and Governance Committee include the requirement to consider the reports of the internal and external auditor, consider the effectiveness of the internal audit function, and make recommendations to the County Council or Cabinet, as appropriate, on any matters that it feels should be drawn to their attention.

PERFORMANCE SUMMARY:

3. The audit plan for 2015/16 was approved by this Committee on 9 April 2015. The table below shows actual performance against the original plan for the first half year.

Audit Area	Plan Days (whole year)	Actual Days (half year)	% Actual to planned
Corporate Governance Arrangements	85	32	37%
Key Financial Systems	185	62	34%
Grants	61	15	24%
Contract reviews	125	54	44%
Service reviews (systems and projects)	845	438	52%
Follow-up Audits	50	23	47%
Client Support/ Service Liaison/Innovation Support	153	82	54%
Irregularity and Special Investigations including Fraud Prevention	280	115	41%
Internal Audit Management, Corporate Support and Organisational Learning	285	138	49%
Total days	2069	959	46%
Figures as shown in 2014/15 half year report (for comparison)	2180	768	35%

4. The above table shows that 959 days were spent delivering the audit plan in the first half of the year, this represents 46% of the total number of days planned for the year.
5. The following table shows progress as at 30 September against the annual audit plan with 2014/15 and 2013/14 half year comparative figures also shown:

	2015/16		2014/15		2013/14	
	No	%	No	%	No	%
Audits in planning stage:	35	30	36	37	41	33
Audits in progress	37	31	20	20	39	31
Audits completed	46	39	42	43	44	36

6. The Internal Audit team has had a productive first six months with some 46 audits, projects or investigations completed since April, including 31 final audit reports issued (as detailed at Annex A), 1 grant certificate produced, 1 special ad hoc review, and 13 investigations closed.
7. The following table shows the spread of audit opinions for the 31 reports issued in the period with comparative information for 2014/15 full year:

Audit Opinion	2015/16 (half year)		2014/15 (full year)	
	No of Audit Reports	%	No of Audit Reports	%
Effective	9	29	16	26
Some Improvement Needed	13	42	33	53
Significant Improvement Needed	7	23	5	8
Unsatisfactory	1	3	1	2
n/a	1	3	7	11
Total	31	100	62	100

Customer Satisfaction Survey (CSQ)

8. The Internal Audit team is continually aiming to improve the service it provides and as such, on completion of each review the auditee is asked to complete a Customer Satisfaction Survey (CSQ) to provide feedback on a number of aspects of the audit – from planning through to reporting. The CSQ also asks for an overall rating on the added value of the audit on a scale of 1 to 4, where 1 is **not very** useful and 4 is **very** useful.
9. The following table shows the breakdown of CSQ scores received during the six month period to September 2015:

CSQ Overall Rating	No of CSQs	%
4 – very useful	4	36
3	4	36
2	3	28
1 – not very useful	0	0
Total	11	100

MANAGEMENT ACTION PLAN PROGRESS

10. A summary of progress made on implementing audit recommendations for all audits completed in the period January – June 2015 is attached at Annex B.

11. The status of all high priority audit recommendations, not previously reported as “Green” to this Committee is set out at Annex C.
12. These progress updates show evidence of improvements being made across the council. There are some areas however which have been (or continue to be) assessed as Red/Amber and Internal Audit will closely monitor these management action plans going forward.

AUDIT ACTIVITY – 2015/16 ANNUAL PLAN

Corporate Governance Arrangements

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

Key Financial Systems

14. Key Financial Systems audit reports issued in 2015/16 and presented to this Committee include:
 Accounts Payable; Accounts Receivable; Capital Monitoring; Revenue Budget Control; and, Pensions Administration.

Grants

15. One grant audit was completed in the period, as follows:
 The sixth and final certification audit of RESTORE project grant funding, received from the European Union for the restoration of quarry and mineral excavation sites

Contract Reviews

16. Contract review audit reports issued in 2015/16 and presented to this Committee include:
 Surrey Choices
17. The following contract audits were in progress at the 30 September:
 ASC Strategic Contracts; Babcock4S Contract; Highways Contract

Service Reviews

18. Service review audit reports issued in 2015/16 to date include:
 Adult Social Care: AIS Care Assessments; Care Act Preparedness; and, Telecare.
 Business Services: Data Analytics; Risk Management; Managed Print Services; Review of PSO Waivers; and, Consultants.

Children Schools and Families: Children's Safeguarding Quality Assurance Process; and, School Places.

Chief Executive's Office: Henrietta Parker Trust; Community Learning and Skills; Fire Transformation Grant; and, Information Governance.

Environment and Infrastructure: Waste Management and Minimisation; Highways Safety Inspection; Highways Integrated Transport Schemes; Energy Management; and, Streetworks Permit Scheme.

Follow-up Audits

19. The following follow-up audit reports were issued in the period:
- Surrey Arts
 - Absence Management
 - Trust Funds
 - Agency Staffing
 - Fuel Cards
 - Social Care Debt – Credit balances

Client Support and Service Liaison

20. Each member of the team is responsible for a number of service areas and liaising with those services on a regular basis throughout the year. These meetings allow the auditor to become more familiar with the requirements of each service and to develop a more positive working relationship in which the services may themselves approach Internal Audit for independent support and advice.
21. Some examples of client support provided during the first six months of the year have included:
- Advice/assistance to services involved in disciplinary investigation;
 - Advice to Finance following an instance of Mandate Fraud;
 - Advice to schools on matters ranging from setting up asset registers, dealing with spam and phishing emails, and unofficial fund examination;
 - Working with ASC on the Adult Data System Project (Liquid Logic implementation task group);
 - Providing advice to services for improvements in financial control and matters of governance;
 - Continuing to advise and support the Flood Grant application process, refining the evaluation criteria and assisting in the passing of suspicious looking applications through to Trading Standards;
 - Resolution of both grievance and complaint cases for Human Resources;
 - Ongoing Fighting Fraud presentations across the council, with 270 more officers attending in the first half of 2015/16.

Irregularity and Special investigations

22. A separate report will be presented to this Committee providing a full explanation of time spent on irregularity investigations in the six months to 30 September 2015.
23. Special investigations usually take place as a result of concerns being raised directly with Internal Audit by members or officers.

Corporate Support and Internal Management

24. During the six month period to 30 September 2015 Internal Audit has participated in a number of activities which are categorised for planning purposes as corporate support and internal management. This activity has included:
 - member support including attendance at meetings of this Committee and various Scrutiny Boards and sub-groups.
 - attendance at various Leadership meetings including regular participation in the Statutory Responsibilities Network and Continuous Improvement and Productivity Network
 - attendance at meetings of the Governance Panel; Strategic Risk Forum; Investment Panel; and, Information Risk Governance Board.
 - Attendance at Information Access Officers' meetings and dealing with Freedom of Information requests on behalf of the wider Policy and Performance Service
25. Internal Audit has also been actively involved in the development of Orbis, the business services partnership between East Sussex and Surrey County Councils. More than 1,400 staff from the two councils make up the Orbis workforce, providing a range of business support services, including Internal Audit, finance, human resources, IT and digital services, property, procurement and business operations.
26. At the heart of the business plan is a new operating model, based on collaboration between the two councils. This aims to take the best from each authority to exploit economies of scale and integrate management structures and business processes for more effective working. Through the effective integration of resources, Orbis aims to provide excellent customer service and deliver public value by building on its expertise, innovation and passion. Orbis aspires to be the compelling alternative for other public service partners and customers

TRAINING AND DEVELOPMENT:

27. The Public Sector Internal Audit Standards place a personal responsibility on each Internal Auditor to undertake a programme of continuing professional development. In practice training/development plans are discussed on an on-going basis as part of 1-2-1s with management and will be formally discussed/reviewed as part of mid year and year end appraisals.

28. Development/training may take many forms. Examples undertaken in the period include:
- Attendance at events organised by:
 - The London Audit Group
 - Counties Chief Auditors Network
 - Home Counties Chief Internal Auditors Network (HCCIAG)
 - SAP Specialist Interest Groups

CONCLUSION:

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

IMPLICATIONS:

30. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the audit work referred to in this report, would be progressed through the agreed audit reporting policy.
31. Terms of Reference for all audit reviews include the requirement to specifically consider value for money; risk management; and, equalities and diversity.

WHAT HAPPENS NEXT:

32. A report will be presented on completed audits at future meetings of this Committee and the Chief Internal Auditor's Annual Report for 2015/16 will be presented to this Committee at the meeting planned for May 2016.

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Sources/background papers: 2015/16 Internal Audit plan

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2015/16

	Month Final Report issued	Audit	No of High Priority Recs	Audit Opinion	Relevant * Directorate
1	Apr-15	Social Care Debt - Credit Balances - follow-up review	0	Significant Improvement Needed	BS
2	Apr-15	Care Act Preparedness	0	Effective	ASC
3	Apr-15	Accounts Payable	0	Effective	BS
4	May-15	Waste Management & Minimisation	1	Some Improvement Needed	E&I
5	May-15	Revenue Budget Control	0	Effective	BS
6	May-15	Telecare	1	Some Improvement Needed	ASC
7	May-15	Accounts Receivable	0	Effective	BS
8	May-15	Henrietta Parker Trust Fund	3	Unsatisfactory	CEO
9	Jun-15	Fuel Cards - Follow-up	0	Some Improvement Needed	BS
10	Jun-15	Community Learning and Skills	1	Some Improvement Needed	CEO
11	Jun-15	Data Analytics	0	Effective	BS
12	Jun-15	Highways Safety Inspection	0	Effective	E&I
13	Jun-15	Children's Safeguarding Quality Assurance Process	1	Significant Improvement Needed	CSF
14	Jun-15	Managed Print Services	0	n/a	BS
15	Jun-15	Risk Management	0	Some Improvement Needed	BS
16	Jun-15	AIS Care Assessments	1	Significant Improvement Needed	ASC
17	Jul-15	Agency Staffing Follow-up	0	Some Improvement Needed	BS
18	Jul-15	School Places	0	Effective	CSF
19	Jul-15	Review of PSO Waivers	0	Some Improvement Needed	BS
20	Jul-15	Consultants	1	Some Improvement Needed	BS
21	Jul-15	Fire Transformation Grant	3	Significant Improvement Needed	CEO
22	Aug-15	Capital Expenditure Monitoring	0	Some Improvement Needed	BS
23	Aug-15	Trust Funds Follow-up	4	Significant Improvement Needed	BS
24	Aug-15	Highways Schemes (ITS)	0	Some Improvement Needed	E&I
25	Aug-15	Surrey Choices	2	Significant Improvement Needed	ASC
26	Sep-15	Energy Management	0	Some Improvement Needed	E&I
27	Sep-15	Surrey Arts	1	Significant Improvement Needed	CEO
28	Sep-15	Absence Management Follow-up	1	Some Improvement Needed	BS
29	Sep-15	Pensions Administration	0	Effective	BS
30	Sep-15	Streetworks Permit Scheme	0	Effective	E&I
31	Sep-15	Information Governance	3	Some Improvement Needed	CEO






* Directorate Key

- BS - Business Services
- CEO - Chief Executive's Office
- ASC - Adult Social Care
- E&I - Environment and Infrastructure
- CSF - Children Schools and Families

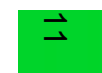
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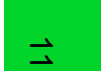
Management Action Plan (January - June 2015) – Progress update

Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Financial Assessments and Benefits (Jan 2015)	Some Improvement Needed	<p>The service should consider monthly reporting to committees and management teams on the number of clients that have been referred to the service but are waiting for a financial assessment. (M)</p> <p>The service should consider developing simple actionable metrics including targets to be achieved or reference to upper and lower ranges of acceptable performance. (M)</p> <p>Management should conduct close monitoring of the financial assessment processes and resources to identify improvements in the timeliness of assessments. (M)</p> <p>The service should consider an aged report on clients waiting for a financial assessment in order to concentrate resources on high risk clients. (M)</p> <p>The service conducts periodic reviews to obtain client feedback. (L)</p>	<p>The service is currently unable to report on the total number of outstanding assessments; they feel it would be resource intensive. Introduction of the new ASC system 2016 will be able to monitor new assessments.</p> <p>Introduced new targets for FAB officers. Performance is monitored in regular supervision</p> <p>Introduced light touch financial assessments for people who likely to receive a free service.</p> <p>Prioritise clients who have authorised provision but no financial assessment to mitigate risk of backdated charges.</p> <p>Proposal to include a client feedback form with the annual review in March 2016.</p>	<p></p> <p></p> <p></p> <p></p> <p></p>






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





Management Action Plan (January - June 2015) – Progress update



Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Pension Fund Investments (Jan 2015)	Some Improvement needed	<p>Quarterly reconciliations to the Northern Trust account should be completed in a timely manner. (H)</p> <p>Fund drawdown requests should be accurately actioned. (L)</p> <p>The Pension Fund Board should ensure that any potential conflict of interest is managed appropriately in relation to the use of independent advisers. (L)</p> <p>The Pension Fund Board could consider the Pension Funds exposure to additional risks highlighted by the auditor. (L)</p> <p>Fund manager payments should be accounted for in the correct financial period. (L)</p>	<p>Quarterly reconciliations are now completed and updated within one month of data provision by the global custodian.</p> <p>Internal checks have been stepped up to ensure that requests are accurately processed.</p> <p>The letter of engagement with the independent adviser was redrafted (with advice from the Monitoring Officer) to refer to this potential conflict of interest and ensure that the independent adviser would not be involved in decisions where there is a conflict with outside interests. The original scenario that gave rise to the conflict of interest has now resolved itself with the resignation in October 2015 of the pension fund’s independent advisor from the investment firm in question. Future possible conflicts of interest will be monitored.</p> <p>The risk surrounding failure to hold data securely was re-entered into the risk register for consideration by the Pension Fund Committee.</p> <p>Year end procedures have now been tightened with regard to correct accrual treatment of invoice payments that cross between financial accounting periods.</p>	    

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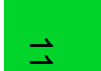
Management Action Plan (January - June 2015) – Progress update

Annex B

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PSN – Public Services Network (Jan 2015)	Effective	None	n/a	
Fuel Card Analytics (Jan 2015)	Significant Improvement needed	<p>Draft a policy that explicitly forbids the sharing of fuel cards between cars unless the card is allocated to a named individual. (H)</p> <p>Managers should consider multiple instances of card use in a day, particularly those transactions for the same fuel and determine if they are reasonable. (H)</p> <p>A policy should require odometer readings to have some degree of accuracy (eg to closest 10 miles) (H)</p> <p>Cost centre owners/managers to regularly review transactions on the Allstar system for reasonableness. To include looking at the time, date and location of the transaction. (H)</p> <p>A lease car policy or policy statement within the fuel card policy should consider the possibly of aligning lease car commuter fuel usage to the employee expenditure claimable mileage policy statement. (H)</p>	A follow-up audit conducted in June 2015, confirmed that all five High Priority recommendations had been implemented.	




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Management Action Plan (January - June 2015) – Progress update




Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
ASC Provider Portal (Feb 2015)	n/a – position statement issued	No recommendations made.	n/a	
Surrey Choices (Feb 2015)	Some Improvement Needed	No recommendations requiring action by Surrey County Council.		
Members' Interests (Feb 2015)	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. (M)	The Chairman of the Constitution Review Group has agreed to include this recommendation within their forward work plan.	

Notes: (1) Audit opinion is as stated in the relevant Internal Audit Report
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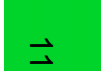
Management Action Plan (January - June 2015) – Progress update

Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Control Risk Self Assessment (CRSA) (Feb 2015)	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. (M)</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. (M)</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. (M)</p>	<p>The Governance Panel considered and agreed the governance documents to be included within the Code of Corporate Governance at the meeting on 30 April 2015. Further discussions on the governance documents are held throughout the year as appropriate</p> <p>The Service Contact List is up to date on SNet. Raising awareness of complaints is being incorporated into the overall customer service training strategy and an existing complaint handling course will be highlighted as part of the customer service training journey. These issues were also raised with colleagues in Children's Rights Services and Adults Social Care Customer Relations, who manage complaints in their respective areas to ensure they promote the relevant escalation and contact points in their training.</p> <p>The Compact will no longer receive funding from April 2016. Going forward, whilst there will not be a dedicated paid post to Surrey Compact, a Surrey Compact Custodian Group (SCCG) made up of key stakeholders, will share the responsibility for ensuring the best practice principles of the Compact are adhered to. Surrey County Council remains committed to the Surrey Compact and will be members of the SCCG, with Cllr Colin Kemp being an ex-officio member of the group.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>




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Management Action Plan (January - June 2015) – Progress update


Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Absence Management (Feb 2015)	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. (M)</p> <p>Management should seek to minimise the level of Z1 coding of sickness. (M)</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. (M)</p>	<p>A follow-up Internal Audit report of this area issued in September 2015 concluded that efforts had been made to reduce the level of non reporting. In particular a suite of management reports has been commissioned to identify exceptions and help mitigate this risk.</p> <p>Use of the Z1 reason code (awaiting management recording) has been eliminated.</p> <p>From April 2015, HR advisors commenced a programme of quarterly meetings with all senior managers to encourage more proactive use of the HR sickness dashboard.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>

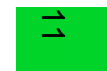
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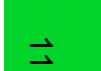
Management Action Plan (January - June 2015) – Progress update

Annex B

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Fire Station Capital Project Management (Feb 2015)	Some Improvement Needed	<p>SFRS and Property Services should consider ensuring that project updates and risk assessments present a consistent representation of uncertainty. (M)</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. (M)</p>	We are currently awaiting a response from the service	
Schools Financial Value Standard (SFVS) - self assessment (Feb 2015)	Some Improvement Needed	<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>	n/a	





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Management Action Plan (January - June 2015) – Progress update



Annex B

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Corporate Parenting Board (Mar 2015)	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. (L)</p> <p>Terms of Reference are reviewed to clarify how the Council and Cabinet are kept apprised of CPB related matters. (L)</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. (L)</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. (M)</p>	<p>Revised CPB Terms of Reference were approved in July 2015 and reference the key legislation; as well showing the approval date and next review date.</p> <p>The Terms of Reference sets out the membership of the Board which includes two Cabinet Members and one Cabinet Associate Member. The Terms of Reference also set out the Reporting Mechanism which includes reporting to the Social Services Board annually and its advisory role to full Council.</p> <p>There are plans in place for further training with members.</p> <p>The need for Police representation has been emphasised and the Assistant Chief Constable has been attending.</p>	<p></p> <p></p> <p></p> <p></p>

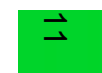
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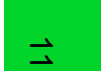
Management Action Plan (January - June 2015) – Progress update

Annex B

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Health and Wellbeing Board (Mar 2015)	Effective	<p>The HWB should establish a list of substitutes and consider whether individual meetings have sufficient representation of interests. (L)</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. (L)</p>	All actions have been completed as planned, although the terms of reference were deferred for approval by the HWB at its September meeting, rather than June as originally scheduled.	
Appraisals – follow-up audit (Mar 2015)	Effective	No recommendations made.	n/a	




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Management Action Plan (January - June 2015) – Progress update

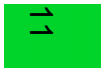
Annex B

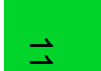
Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
General Ledger (Mar 2015)	Effective	<p>Further staff should be trained in the processes around the SIMS/SAP interface and systems notes should be enhanced. (M)</p> <p>Reconciliation of the Adult Community Learning (ACL) income should involve the use of information from PDQ card payment machines. (M)</p> <p>B4S should be reminded of the need to provide adequate assurance on the reconciliation of specific Schools balances within the appropriate timeframes. (M)</p>	<p>Procedures have been updated and are more detailed. Back-up staff have been briefed about the routines and know how to access the procedures which are on the local drive. A calendar showing interface run dates are on display.</p> <p>A process note was prepared to facilitate the reconciliations. Using the guidance, the Senior Finance Officer for Adults and Community Learning has been able to reconcile data each month up to September 2015. Now that it has been established that the reconciliation routine is effective, the General Ledger team will be undertaking these reconciliations going forward.</p> <p>The 2014-15 year-end certification of balances was issued to B4S and returned on time. For 2015/16, the first Certification of Balances was issued for P6 and sent to 4S. At the time of writing, the return was overdue, but only by two days. It has been expedited and no issues are anticipated.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>

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Organisational Ethics (Mar 2015)	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. (L)</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. (M)</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 (L)</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 (ELT). (L)</p>	<p>The 7 standards of public life have now been incorporated into the Code of Conduct for Officers. An email highlighting this was sent by the Chief Executive to the Extended Leadership Team in July 2015 and a laminated poster setting out the 7 standards was provided to each senior manager to further promote them.</p> <p>The Chairman of the Constitution Review Group has agreed to include this recommendation within their forward work plan.</p> <p>This was considered by both the Chief Executive and the Leader and it was decided to leave reporting at the £500 threshold. It was felt that going any lower than this would increase the volume of data to be published so much that this was more likely to be detrimental to transparency rather than helpful.</p> <p>A presentation was drafted but not delivered as the format/focus of ELT meetings has changed. Fraud awareness presentations have however continued to be provided at Service team level throughout the year.</p>	   




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Management Action Plan (January - June 2015) – Progress update



Annex B

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Payroll (Mar 2015)	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. (M)</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. (M)</p> <p>HR&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. (M)</p>	<p>There may be some under recording of sickness – but this is unlikely to result in overpayments. Previous audits on this had suggested that any under recording was relatively low across the authority. Employee Services & Payroll will continue to run absence reports periodically and investigate further any areas where absence levels look to be significantly lower than elsewhere, which will only be noticeable in larger teams. A small team of 3 or 4 with no absence in a year, for example, is not likely to show up as an issue to investigate.</p> <p>There is a new leavers “Offboarding process” which means that Employee Services calculate the o/s leave. If it’s in excess of 5 days then the manager is notified to confirm this is correct. This closes this concern off.</p> <p>New version of Surrey Pay – aligned with “Job Families” w/e/f April 2016 is expected to change the approach to additional payments. Not practicable to attempt to overhaul this now – in advance of April 2016 change.</p>	  

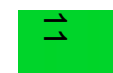
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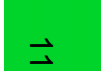
Management Action Plan (January - June 2015) – Progress update

Annex B

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Review of Business Continuity Planning (Mar 2015)	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 (M).</p> <p>The Heads of EMT and Procurement and Commissioning should ensure that arrangements agreed are in place and the SRN should monitor them (M).</p>	<p>A report was taken to the Statutory Responsibilities Network (SRN) in October 2015 via the Director of Public Health showing the status of services' BCPs. The Chief Executive sent out an email asking for all plans to be updated and the majority of services have done this however it is an ongoing process.</p> <p>In consultation with the Emergency Management Team (EMT) and the Corporate Risk and Resilience Forum (CRRF) representatives from the services, suppliers have been categorised into three priorities - service recovery required within 24 hours, within 72 hours and in more than 72 hours.</p> <p><u>Priority 1:</u> All Priority 1 suppliers (110) have been contacted and requested to complete a checklist which assesses their Business Continuity Plans against the appropriate ISO standard. A deadline of 31st October 2015 was set. To date, 10 replies have been received and several suppliers have requested an extension of time, which has been granted. A revised deadline of November 30th has been set.</p> <p><u>Priority 2:</u> The email addresses of the 90 Priority 2 suppliers are being collated and the data should be complete by early November 2015. Communication will then be sent to them with an amended checklist to reflect the agreed Business Continuity requirements.</p>	 




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Management Action Plan (January - June 2015) – Progress update




Annex B

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		Continuous Improvement and Productivity Network to decide on the arrangements going forward in place of the costly ISO 22301 certification (L) .	<p><u>Priority 3:</u> The email addresses of the 180 Priority 3 suppliers will be collected by end of December 2015 and a communication will then be sent to them in early January 2016 with an amended checklist to reflect the agreed Business Continuity requirements.</p> <p>The Emergency Management Team has agreed not to go for the ISO 22301 accreditation. Instead a self assessment/audit against the requirements of ISO 22301 as at the end of 2015/16 is proposed.</p>	N/A
Review of Emergency Management (Mar 2015)	Some Improvement Needed	<p>The Head of Emergency Management should ensure that the Corporate Resilience Policy (CRP) is included in the Constitution of the Council (H).</p> <p>The recommendations of the Flooding Task Group should be regularly tracked for implementation and updated as required. (L).</p> <p>The Head of Emergency Management should address the budget requirements for the team as a priority (M).</p>	<p>The CRP was included in the Constitution of the Council by the Head of Emergency Management soon after the audit was completed.</p> <p>The Task Group’s recommendations are being tracked against the EMT’s actions only by the EMT who will undertake assurance work by 30 November 2015 to ensure that suitable arrangements are in place for Christmas 2015. Wider recommendations of the Flood Task Group are not tracked by EMT.</p> <p>The budget for EMT has been maintained as per 2013/14, which given the austerity measures is seen as the best position possible.</p>	  

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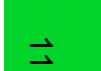
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Annex B

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Domestic Abuse (DA) (Mar 2015)	Effective	No recommendations made.	n/a	
Direct Payments (Children) (Mar 2015)	Some Improvement Needed	Management should take action to improve the data quality regarding recording of reviews on ICS. This could include a message to team managers letting them know that this has become an issue, training where required to ensure staff know how to properly record reviews and management should regularly check the report of 'last review dates' following up any which are falling behind. (M)	<p>The East and West Children with Disability Teams have each undertaken an analysis of their outstanding reviews and reasons for the backlog. Action plans are in place for both teams and work is underway to address the issues identified. These include LCS [formerly ICS] recording difficulties, as well as staff sickness/performance; workload pressures; and staff vacancies.</p> <p>Action Plans have been followed up in monthly accountability meetings with Caroline Budden. Staff vacancies have reduced, Team Managers and ATMs are addressing individual employee issues in supervision and TIOs have been supporting LCS recording difficulties.</p> <p>As a result the number of overdue reviews has significantly decreased although there remains work to do.</p>	
Public Health (Mar 2015)	Some Improvement Needed	Public Health and the CCGs should ensure that on-going development of prevention plans include the related risks, funding requirements and the updated targets (M)	A performance dashboard has been developed which will be available by end of November. Qualitative reporting on progress provided through the quarterly Delivery Unit reporting mechanism.	





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Management Action Plan (January - June 2015) – Progress update




Annex B

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Treasury Management (Mar 2015)	Effective	<p>The Strategic Manager for Pensions and Treasury should not be able to use SunGard to affect the transfer of deposits. (M)</p> <p>Treasury Management should consider the arrangements for holding two devices off-site to ensure that business continuity can be enabled if required. (L)</p> <p>Seek to minimise instances of bank accounts becoming overdrawn. Where issues occur, a clear account of the reason for the instance should be recorded. (L)</p> <p>Two further low priority recommendations were agreed.</p>	<p>Agreed. Implemented.</p> <p>Agreed. Staff always carry devices with them and remove them offsite at the end of working day.</p> <p>Agreed. Clear reasons to be recorded.</p>	  
Better Care Fund (Mar 2015)	Effective	There were no recommendations arising from this review.	n/a	

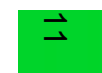
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Annex B

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Social Care Debt – Credit Balances – follow-up review (Apr 2015)	Significant Improvement Needed	<p>No new recommendations were made.</p> <p>Recommendation outstanding from previous (November 2013) audit:</p> <p>A systematic approach should be adopted to manage deceased client credit balances. All balances including those in the suspense account must be investigated (H).</p>	<p>Deceased client credit balances from the suspense account have been sent to Finders UK; the beneficiary finders service that the service is currently trailing.</p> <p>Monthly credit statements are sent to the estate or executor. The statements have recently been enhanced to emphasise that the account is in credit.</p> <p>Gov UK have introduced an online probate search facility which produces instant results rather than awaiting the outcome of a postal search request.</p>	
Care Act Preparedness (Apr 2015)	Effective	No recommendations made.	n/a	
Accounts Payable (Apr 2015)	Effective	A greater number of the potential duplicate payments flagged up should be reviewed in detail. The results of this testing should be tabulated at different sample sizes over a period of 3 weeks and then be considered further. (M)	An exercise was completed and from a significantly expanded sample, Internal Audit detected an additional duplicate payment. The AP Manager believes that the current level of testing is adequate.	





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Management Action Plan (January - June 2015) – Progress update



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Waste Management and Minimisation (May 2015)	Some Improvement Needed	<p>The Leadership within each SWP member authority should agree to delegate sufficient authority for SWP to operate effectively, meet the targets set and realise the benefits. (M)</p> <p>The above recommendation should also enable an integrated waste management system to operate across the SWP.</p> <p>Risk registers should be established to monitor progress against work streams in the Action Plan. (M)</p> <p>The amount of additional costs should be determined in order for SCC to budget for the construction of the Eco Park. (H)</p>	<p>Surrey Chief Executives have tasked the SWP with developing new approaches to delivering waste services in the county, in order to reduce the cost to the Surrey taxpayer and includes the review of governance arrangements, delivery of services and the resulting financial transactions between organisations. This work is continuing i.e. develop and discuss new models of delivering services and a report will be considered by Surrey Chief Executives on 11 December 2015.</p> <p>A risk register to sit alongside the JMWMS Action Plan is currently being developed to be approved within the SWP.</p> <p>This action has been completed.</p>	<p></p> <p></p> <p></p>
Revenue Budgetary Control (May 2015)	Effective	There were just four low priority recommendations.		<p></p>

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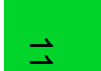
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Annex B

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Telecare (May 2015)	Some Improvement Needed	<p>All signed SLAs should be captured centrally, preferably in a contract register such as the Contract Management System. (M)</p> <p>Consider the feasibility of incorporating metrics within the SLA that support qualitative outcomes assessments. In particular the auditor would suggest considering the number and type of sensor activations that resulted in a provider action and the outcome thereof. (H)</p>	We are currently awaiting a response from the service	
Accounts Receivable (May 2015)	Effective	<p>Review the access levels for all officers with a view to customising their access and undertake a house-keeping task to remove access from officers who have left their teams. (M)</p> <p>The service should change the overpaid salaries invoicing process with a view to separating the customer information upload from the invoice upload. (M)</p>	<p>Income and Credit Control Teams : Required SAP access has been reviewed for each member of the team at transaction level. Roles have been reviewed and removed wherever possible only retained where needed.</p> <p>Proposal to for completed payroll template spreadsheet to be sent to Data Management Team rather than the Income Team be discussed with Employee Services and Payroll Manager mid November.</p>	<p></p> <p></p>






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Management Action Plan (January - June 2015) – Progress update





Annex B

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Henrietta Parker Trust (May 2015)	Unsatisfactory	<p>SCC to clarify its status as either a “charity trustee” or a “custodian trustee” and put in place an appropriate structure to manage the HPT funds. (H)</p> <p>Articles of association and other fundamental bases for governance that are required to manage HPT effectively should be established. (H)</p> <p>Establish a formal strategy for using the HPT money and ensure that it is implemented and followed. (H)</p> <p>Adopt appropriate accounting policies to ensure compliance with the annual reporting requirements for this size of fund. Create and submit annual accounts for the HPT. (M)</p> <p>Appoint an independent audit examiner for the HPT. (M)</p> <p>Ensure all interest due to the HPT is accounted for completely, calculating and paying into the fund any amounts due. (M)</p>	<p>The service has consulted with Legal Services to establish formally the correct trustee status and to establish governance processes to underpin the use of the Fund.</p> <p>The strategy is being developed and will be ready in early 2016.</p> <p>This is also a work in progress but will be completed by early 2016.</p> <p>An independent examiner has been appointed.</p> <p>This action has now been completed by Finance</p>	<p></p> <p></p> <p></p> <p></p> <p></p>

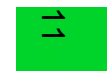
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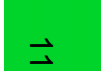
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Annex B

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Fuel Cards – follow-up audit (Jun 2015)	Some Improvement Needed	<p>Phase out “named driver” cards where possible (M)</p> <p>Redraft guidance to include details of potentially fraudulent transactions such as mixed fuel purchases; non-fuel purchases; and, repeated non-capture of odometer readings and registration. (M)</p> <p>Remind line managers of their responsibilities to monitor fuel card transactions and/or consider transferring this responsibility to the payments team. (M)</p> <p>Cancel cards that have been lost or are no longer required. (L)</p>	<p>The process ensures cards are only issued to named drivers in exceptional circumstances, and reviews of these are in place.</p> <p>Internal Audit has been advised that this has now been actioned.</p> <p>Internal Audit has been advised that this has now been actioned.</p> <p>Internal Audit has been advised that this has now been actioned.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>






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Annex B

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Community Learning and Skills (Jun 2015)	Some Improvement Needed	<p>Implement appropriate monthly bank reconciliation procedures for cheques or cash received from all sources. The process should be reflected in a written procedure including clear segregation of duties. (H)</p> <p>Ensure that local cash handling practices and the amounts kept in the local safes are in accordance with SCC policies and procedures. (M)</p> <p>Review the methodology to capture annual learner numbers with a focus on what data would best meet service performance information needs. (L)</p> <p>CLS management to continue the liaison with IMT service and urge the implementation of an online enrolment application. The online facility needs to ensure compliance with SCC data protection policies and procedures. (L)</p> <p>The Auditor recommends a review of the processes within CLS for raising the awareness of fraud and whistle blowing policies. (L)</p>	<p>Agreeing process has been delayed. At 3 November 2015 C&C and CEO Finance Team and General Ledger provided final draft of Banking Reconciliation Policy. The Service has agreed this and will circulate to appropriate staff by end of November 2015.</p> <p>Service agreed to provide make & model of each safe to Insurance to get accurate maximum values of cash allowable to be held. Cash Handling Policy will be developed following the Financial Management Toolkit.</p> <p>A review of the methodology of capturing annual learner numbers was undertaken to ensure that it meets all the stakeholder expectations.</p> <p>The online enrolment facility has been implemented. The impact is likely to be increased enrolments and income and possibly some reduction in staffing, however, this won't be fully understood until the 12 months time.</p> <p>Whistle Blowing Leaflet (WBL) has been issued to all Managers in Learning Services Team. WBL will be printed and displayed in each Centre's Tutor Resource Base area.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>

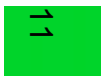
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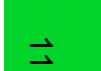
Management Action Plan (January - June 2015) – Progress update

Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Counter Fraud - Data Analytics (Jun 2015)	Effective	There were no audit recommendations.	n/a	
Highways Safety Inspections (Jun 2015)	Effective	Only 3 low priority recommendations were made.	n/a	





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Management Action Plan (January - June 2015) – Progress update




Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Children’s Safeguarding Quality Assurance (QA) Process (Jun 2015)	Significant Improvement Needed	<p>All QA reports and related improvement plans should be presented to the Leadership Team to ensure managers take effective action; and, a summary should be provided to the Social Care Services Board. (H)</p> <p>Establish a retention policy for QA audit files. (M)</p> <p>The QA Team should revise the structure of the service improvement plans to clarify the recommendation itself, who is responsible for implementing it and in what timeframe. (M)</p> <p>QA Team to ensure that all planned improvements include the agreed timescales and deadlines for completion and have a priority for importance allocated to them. (M)</p>	<p>We are currently awaiting a response from the service for this initial recommendation.</p> <p>A retention policy has been established.</p> <p>This recommendation has been implemented.</p> <p>This recommendation has been implemented.</p>	<p></p> <p></p> <p></p>
Managed Print Service (Jun 2015)	n/a - Position Statement	There were no recommendations made.	n/a	<p></p>

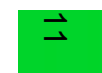
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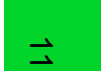
Management Action Plan (January - June 2015) – Progress update

Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Risk Management (Jun 2015)	Some Improvement Needed	<p>Consideration should be given to revising the risk assessment methodology to ensure services are consistent in their compliance with the risk framework. (L)</p> <p>Consideration should be given to SRF representatives supporting representatives from other directorate to provide independent challenge in DMT / SLT Risk workshops. (L)</p> <p>Guidance should be produced to ensure that decisions to enter into partnerships are based on a sound understanding of the risks and challenges, as well as the anticipated benefits. A tool should accompany the guidance to determine the level of risk a partnership may produce, and so ensure that the application of risk management is proportionate to the risk generated. (M)</p>	<p>The risk framework has been reviewed and updated.</p> <p>Strategic risk leads provide an update on risk within their area at each SRF meeting, which provides an opportunity to discuss further support or challenge if appropriate.</p> <p>The partnership governance framework is available on the snet and includes a section on risk.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>





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Management Action Plan (January - June 2015) – Progress update





Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
AIS Care Assessments (Jun 2015)	<p>Significant Improvement Needed</p> <p>[Sue- MAP timescales March 2016 hence the red RAG.]</p>	<p>Guidance notes should be refreshed and consolidated to ensure information is both consistent and up to date. (M)</p> <p>The service should agree specific timescales for data error corrections. (M)</p> <p>The service must review the essential information fields in light of service wide impact and previous audit recommendations. (H)</p> <p>The service must ensure that information collected is appropriately recorded. All consents to share information must be recorded under the appropriate tab in AIS including refusal to provide consent. (M)</p>	<p>The recording Guidance and Best Practice note updated 3 September. Discussions at Area Board Meetings to convey the importance of best practice.</p> <p>New measure of data quality for go live in July 2016.</p> <p>Considering as part of the new Liquidlogic system design. Sign off in December 2015.</p> <p>Work being conducted to collect 'Consent to Sharing' information. To be concluded prior to go live of new system July 2016.</p>	<p></p> <p></p> <p></p> <p></p>

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Management Action Plan (January - June 2015) – Progress update

Annex B

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AIS Care Assessments Cont'd (Jun 2015)	Significant Improvement Needed	<p>The service should review AIS records to ensure all cases have an appropriate review date. Team Managers should conduct periodic checks on the review status of service users. (M)</p> <p>The service should ensure that the recording of progress against an individual's target outcomes is evident in their records. (M)</p> <p>Management should consider arranging refresher training on the specifics of AIS recording. (M)</p> <p>The service should explore the capacity for the system to hold responses of 'undisclosed' this would clarify that the individuals were asked the relevant question and have actively responded by refusing to share the information. (L)</p>	<p>Since June this year, the Information Quality Team report on data errors and omissions regarding reviews on a fortnightly basis. The information is shared with the relevant locality teams for managers to discuss the cases in supervision and there is a performance target in team appraisal on reviews.</p> <p>The Care Act embedding frontline practice group are looking at how to improve recording of outcomes.</p> <p>Information quality Team provide support to officers.</p> <p>Exploring the option for recording consent in the new system.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>




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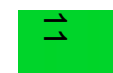
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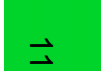
MAP Progress update – High Priority Recommendations not previously rated as “Green”

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Transport for Education (Feb 2013)	Major Improvement Needed	<p>Special Educational Needs (SEN) staff should have clear written procedures to allow consistency (H)</p> <p>Senior Management should ensure that management information from the new system is fit for purpose (H)</p> <p>The SEN officers should be present at the reviews. The written reviews from schools should be reviewed by SEN Officers to indicate approval of the reviews and the costs (H)</p>	<p>The Area Education Officer believes staff understand and use the SEND Code of Practice as set out by the Department for Education (DfE). However, the auditor has not seen any SCC specific procedures that reflect this.</p> <p>Recent audit found that the new Mobisoft Travel Centre (MTC) system went live in April 2014 and a number of management reports are produced from the system, filtered and shared with Area Special Needs Managers in Schools and Learning and Finance staff.</p> <p>The Area Education Officer confirmed that it was not practically possible for the SEN Officers to be present at the SEN case reviews by schools when transport is discussed. Instead, the SEND Case Workers who were appointed in September 2014 are responsible for ensuring that reviews are completed in a timely manner in accordance with the SEND Code of Practice. Additionally, the end dates of transport provisions are included in the initial transport request form and confirmation from SEN officers is required prior to transport provision continuing beyond the end date. The proposed SEN pilot in the East area agreed to be undertaken in Autumn 2014 by S&L did not happen. SEND Code of Practice came into effect in September 2014 and the SEN policy which is currently in draft form has not been finalised as yet.</p>	  



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Annex C

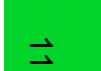
Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Direct Payments (Sep-13)	Some Improvement Needed	<p>Management must seek to achieve the target of all service users receiving a SCR at least annually (H)</p> <p>Management must either invest further resources in chasing late reconciliations, taking more serious action against failures to complete required paperwork and ensuring that adequate support is available to service users struggling to complete their reconciliations, or alternative action is required. Management could, for example, consider outsourcing the reconciliation element of DP management. (H)</p> <p>By reducing the frequency of reconciliation required for lower risk (low value, stable care packages) DPs the staff could focus on the higher risk reconciliations.</p>	<p>ASC are still not able to provide at least annual review to all service users. ASC have developed an extensive set of management reports to assist in the management of workload and have consistently improved their position since the initial audit. The management reports have highlighted significant data quality issues which are being addressed through the process.</p> <p>The shortfall in completion of reconciliation persists but the planned use of prepaid cards, and the subsequent improvement in audit trail and transaction recording should improve the situation.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p>

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Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
<p>SCC's Contract Management Framework (Nov-13)</p>	<p>Some Improvement Needed</p>	<p>The Head of Procurement should seek clear CLT endorsement of the contract management framework roll-out project. Each Directorate should be asked to select timeframes for the roll-out of the project by 31 March 2015. A formal project plan for a properly resourced and prioritised roll-out of the framework should be agreed by 31 March 2014. (H)</p>	<p>All significant new contracts awarded by Surrey CC have embedded the contract management framework, and overall progress has continued to be made around use of eCMS for performance reporting. Examples include where Procurement and Directorates including teams in Highways, Property and Waste have worked together to review, strengthen and revise performance indicators in existing contracts.</p> <p>Where it is deemed appropriate (e.g. where existing systems for KPI gathering and reporting do not exist), we have also started utilising the KPI functionality that our eCMS systems provides. This includes:</p> <ul style="list-style-type: none"> - Standard set of KPIs for Fire Service contracts are now uploaded onto eCMS and all training provided to the service stakeholders. - HR Training are uploading KPIs onto eCMS for multiple suppliers on DPS (Dynamic Purchasing System). Standard template has been agreed to monitor and measure performance. <p>Further work with other areas such as IMT, CSF, ASC is underway with more training and further progress expected in 2016.</p>	



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MAP Progress update – High Priority Recommendations not previously rated as “Green”




Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Risk Management (May-14)	Some Improvement Needed	Each Service risk register should include clear linkages between entries that relate to the challenges and opportunities in achieving Service objectives and service priorities, as defined in their summary Service plans, or key annual discussions of Service priorities. (H)	Through the various risk networks, risk meetings etc the Risk and Governance Manager has continued to reinforce the need for risk registers to focus on the key areas of risk to achieving priorities. More recently this has been highlighted at the Children’s Schools and Families Directorate Leadership Team meeting and this will also be emphasised at their risk workshop. The 2015/16 audit of risk management arrangements will include some testing of risk registers against the service one-siders which set out service objectives/priorities.	
Operation Horizon (May-14)	Some Improvement Needed	A process should be put in place for monthly payment of discounts due with the outstanding balance recovered from Kier MG immediately. (H)	Kier have investigated an automated credit system to recover the discounts on a more regular (monthly) basis but this has not been possible with Maximo, the existing works management system. There is currently a manual process in place and discounts are applied as schemes are completed and a deduction is applied as payment is made. A further reconciliation is undertaken at year end when final costs of schemes are agreed. Highways Officers will attend Audit and Governance Committee in December to provide a full update on the latest status of this.	

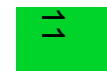
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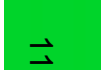
MAP Progress update – High Priority Recommendations not previously rated as “Green”

Annex C

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Surrey Arts (Jul-14)	Significant Improvement Needed	<p>Surrey Arts should consider creating an asset management strategy which effectively joins up all activities related to the acquisition, monitoring, maintenance and disposal of its musical instrument stock. (H)</p> <p>Surrey Arts should consider creating an articulated income strategy which details future plans for using its assets to generate revenue. (H)</p> <p>Surrey Arts should strongly consider prioritising the creation of a comprehensive database of its instrument stock. (H)</p>	<p>The service has prepared a revised strategy containing significantly more detail and addressing the issues raised. This has been discussed by the Management Team and will become a “living document” to be attached to the Business Plan.</p> <p>This has been included in the above. The revised strategy has been shared with Internal Audit, which has made further suggestions for continued income growth for the Service.</p> <p>Stock is recorded in Excel but the data needs to be transferred to Paritor. This is underway and the service has drafted in additional staff to complete the task by March 2016. Given the spread of instruments with schools and customers throughout the county, the planned additional exercise of bar-coding all instruments is a massive task and will take time to complete. Internal Audit will conduct a follow-up of this area in 2016/17 Qtr 1</p>	  




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Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Administration of Looked After Children’s (LAC) Finances (Sep-14)	Unsatisfactory	<p>Review records/HMRC returns of all LAC to establish which children hold a Child Trust Fund (CTF). (H)</p> <p>Take appropriate action for all children who do not have a CTF or JISA. (H)</p>	<p>Use performance team reports to identify children who would hold CTF accounts. Official solicitor contacted to obtain CTF details.</p> <p>The government has put in place a scheme where holders of CTF account holder can transfer their accounts to JISA accounts. For LAC, this responsibility will lie with the Official solicitor to make the transfer in the best interest of the child. Ongoing maintenance of the system in place.</p>	 
Apprenticeship Scheme (Nov-14)	Some Improvement Needed	<p>Consider how to mitigate the risks associated with funding changes. (H)</p> <p>Consider creating a permanent apprentice placement and support function that oversees all areas of the scheme. (H)</p> <p>Develop a strategy overarching the three apprenticeship schemes in Surrey. (H)</p>	<p>Details of the funding changes have yet to be confirmed (it is possible that funding via employers rather than training companies may be withdrawn)</p> <p>A Strategy has been drafted by the Strategic HR&OD Relationship Manager with oversight of corporate recruitment and retention. This Strategy sets out the responsibility for the three strands of the apprenticeship scheme and consultation with stakeholders began in March 2015.</p> <p>We await a response from the service for this latter point.</p>	

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Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Property Asset Management System (PAMS) (Nov-14)	Some Improvement Needed	The process for filing paid invoices should be resolved using the payment report from IMT. (H)	This is still outstanding and the invoices are separately held using a daily header with the name of the officer who processed the invoices on that particular day.	
Bus Operating Contracts (Dec-14)	Some Improvement Needed	Priority should be given to the work that is already underway to implement a suitable alternative and a user friendly IT system which will enable transparency and audit trails of all operations that take place in the Bus Service Planning Team. (H)	All bus contracts were transferred to the Mobisoft Travel Centre (MTC) system at the end of October 2015. As a result of this, greater clarity and transparency of contracts and price changes to them are available to the service.	
		Referencing of contracts should be reviewed and a logical sequence adopted clearly separating the routes and days of operation. (H)	As part of the above implementation, contracts have been referenced in a manner that will identify the routes and days of operations with clear audit trails.	

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Audit & Governance Committee
7 December 2015

**Half-year summary of Internal Audit irregularity investigations and counter fraud measures
April – September 2015**

Purpose of the report:

The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations and proactive counter fraud work undertaken by Internal Audit in the first half of this financial year from 1 April to 30 September 2015.

Recommendation

The committee is asked to note the contents of this report.

Introduction

1. The council's Financial Regulations require all officers and members of the council to notify the Chief Internal Auditor of any matter that involves, or is thought to involve, corruption or financial irregularity in the exercise of the functions of the council. Internal Audit will in turn pursue such investigations in line with the Strategy against Fraud and Corruption.
2. The annual Internal Audit Plan for 2015/16 carries within it a contingency budget for 'Irregularity and Special Investigations' of 280 days. This contingency covers time to investigate 'irregularities' (actual or alleged financial impropriety, corruption, and other similar matters) as well as time for proactive counter fraud work and the National Fraud Initiative (NFI), detailed in the latter part of this report.
3. Special ad hoc reviews not originally included in the agreed annual plan are also charged against this contingency if commissioned in-year by members or senior managers. While often linked to concerns raised by management or members, these reviews may also arise during the course of planned audit work. Examples of such work undertaken in the first half of 2015/16 include investigating a multi-faceted grievance and following up results from data analytic exercises.
4. Audit reports following irregularity investigations typically help to provide independent evidence to support a management case against an employee under formal disciplinary procedures, or help strengthen controls in areas where weaknesses are identified. As formalised in the Reporting and Escalation Policy, agreed by this committee, irregularity audit reports are not subject to the same distribution as general audit reports due to their confidential nature.

Summary of investigations between 1 April and 30 September 2015

Resources

5. As reported to this committee in May 2015, Internal Audit uses a flexible approach to allocate staff resources to investigations such that any auditor may carry out investigative work with support as appropriate. Many of the counter fraud functions are coordinated by a Lead Auditor who is also an Accredited Counter Fraud Specialist.
6. During the first half of 2015/16 a total of six officers undertook work on irregularity investigations excluding ad hoc special reviews. The total time spent on investigations was 28 days, which approximates to 0.25 of a full time equivalent post. The total comparative time taken in 2014/15 was 55 days, although this included a complex case that required a significant amount of management support.
7. Based solely on the hourly rates of these officers, the total amount spent on the investigation of fraud and irregularity was £5,709 (increasing to £15,426 including average employer pension contributions and recovery of overhead charges).

Number and types of investigations

8. In the first six months of 2015/16 a total of 16 investigations commenced and one case was carried forward from 2014/15. For comparison, in the first half of the 2014/15 financial year 13 investigations commenced.
9. The methods by which cases were brought to the attention of Internal Audit are below:
 - 8 were raised by management or Human Resources;
 - 3 arose due to whistle blowing allegations;
 - 3 were referred to Internal Audit by other councils; and
 - 3 were reported by the police or Department for Work and Pensions.
10. The proportion of all recorded irregularities across the council's directorates is shown in Figure 1 while Figure 2 shows the categories of investigations undertaken. The number of investigations is shown in parentheses.
11. Full details of the categories by which fraud and irregularity investigations are reported are attached at Annex A. All proven fraudulent or irregular behaviour by officers may be considered misconduct; similarly, poor controls increase the likelihood of fraud occurring. The categories, however, reflect alleged specific types of fraud or irregularity.
12. Of the 17 investigations carried out, 7 were proven, 6 were not proven, and 4 are ongoing. For those cases 'not proven', this is based on the specific allegations investigated; for example, while it may not be possible to prove 'theft' has occurred, a conclusion of 'poor control' might still be reached.
13. The category and allegations for cases undertaken in the first half of 2015/16 are summarised in Tables 1 to 3, which also detail outcomes for completed cases. Some cases may involve the allegation or investigation of more than one type of irregularity; the summaries therefore show the primary reason for investigation.

Figure 1. Investigated irregularities by directorate from 1 April to 30 September 2015

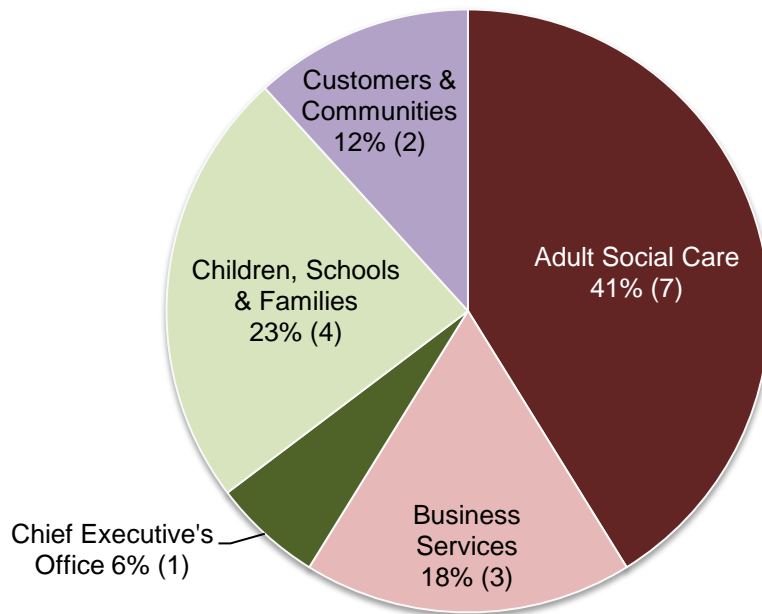


Figure 2. Summary of irregularities by type from 1 April to 30 September 2015

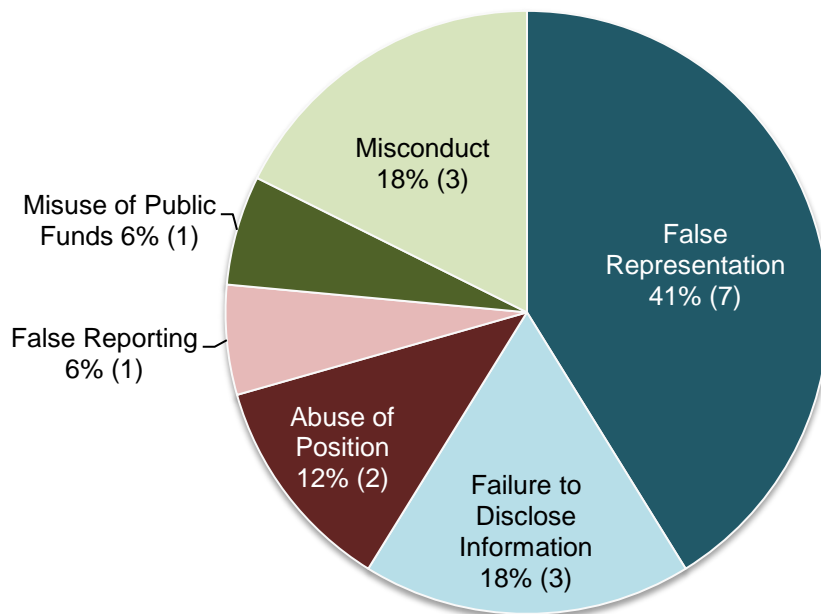


Table 1. Proven: 7 cases

Category	Allegation	Outcome
False representation	Fabrication of the number of concessionary bus fares to obtain payment from the council	£54k being recovered through invoices; case referred to the police
	Employee falsified a supplier contract with the council to obtain investment from an individual	No evidence that council systems were used to create the forgery but the officer resigned pending a police investigation
	Payment of £97k made in response to a fraudulent letter claiming a change of bank details for a council supplier	Advice given to strengthen management controls; case referred to the police
	Employee over-claimed mileage and passenger rates	Verbal warning issued but money not recovered due to low amount and timescale
Failure to disclose information	Individual concealed assets to obtain social care payments	Recovery of £160k being sought as part of a criminal prosecution
Misuse of public funds	Misuse of petty cash and welfare funds at a care home	Evidence of unusual practices but low monetary value; advice given to strengthen controls
Misconduct	Officer misrepresentation to another council to obtain information for their own needs	Disciplinary resulting in dismissal on the grounds of Gross Misconduct

Table 2. Not proven: 6 cases

Category	Allegation	Outcome
False representation	Fraudulent use of a Blue Badge	No evidence found to support allegation
	Individual receiving care services when not eligible	Insufficient evidence found to prove allegation; advice given to service to strengthen controls
Failure to disclose information	Referral from DWP of the concealment of capital by an individual to obtain social care and benefit payments	Capital identified by DWP was actually social care payments; no case to answer
Abuse of position	Referral from another council about a former SCC employee financially abusing individuals with deputyship accounts	No evidence of fraud against SCC but ongoing investigation at the other council
False reporting	Financial misstatement and misconduct in a council-funded project	No evidence found to support the allegations
Misconduct	Former employee accessed council files following resignation	No evidence found to support the allegations

Table 3. Ongoing: 5 cases

Category	Allegation
False representation	Individual receiving care services when not eligible
Failure to disclose information	Undeclared conflict of interest by a council officer
Abuse of position	Misuse of direct payments by a carer (not a council employee)
Misconduct	Unauthorised media recording and employee conduct issues

Proactive fraud prevention and awareness work

Fighting Fraud Locally

14. Internal Audit is continuing to make progress in embedding an anti-fraud culture in the organisation. This is being achieved through specific proactive fraud prevention and awareness work included in the 2015/16 Fighting Fraud Plan. An update on such activities is below.

Fighting Fraud presentations

15. Internal Audit has continued to deliver a Fighting Fraud presentation highlighting the council's fraud risks and management responsibilities regarding fraud to teams across the council. In the first half of 2015/16 more than 270 officers have attended presentations including teams from Procurement, Highways, and Public Health. In addition, fraud risk workshops have been held with two teams in Adult Social Care.
16. Since its launch in August 2014 the presentation has been delivered to 750 officers and sessions are planned with the Finance and Insurance Teams as well as Services for Young People. Surrey County Council came top in a recent benchmarking exercise of fraud awareness training across the seven county councils in the south-east and the presentation has been shared with these councils.

Counter fraud strategy

17. An in-depth review and refresh of the Strategy against Fraud and Corruption and accompanying Fraud Response Plan is underway. In line with the Orbis partnership the Lead Auditor is working with the fraud lead counterpart at East Sussex County Council to produce a strategy that aligns across both councils whilst acknowledging fraud risks specific to Surrey County Council. A full update will be shared with this committee at the Fraud Seminar in February 2016.

Schools audit

18. The Schools Compliance audit included as part of the 2015/16 Annual Audit Plan includes consideration of fraud risks in schools. To date the Senior Auditor has visited 13 schools and identified the following weaknesses in governance arrangements:
- Possible nepotism by a Headteacher relating to the direct appointment of a teacher without advertising the vacancy or interviewing any candidates;
 - Inappropriate procurement processes including regular payments to a supplier with no contract agreement and no evidence of quotations or bids;
 - Discrepancies in the expense claims of a school governor; and
 - Failure to regularly reconcile school income, increasing the risk of loss of funds through fraud and error

19. Each school will receive individual recommendations to improve controls and reduce the risk of fraud.

National Fraud Initiative

20. The NFI exercise, overseen by the Cabinet Office, identified a total of 18,500 data matches across 47 reports for Surrey County Council. The NFI exercise is intended to identify issues such as illegal workers, duplicate invoice payments, and pensions or care packages still in payment after death. Almost half (48%) of the data matches have now been investigated across 20 reports.
21. While the findings in the current exercise have been limited, this provides assurance that the processes and procedures in place are minimising losses through fraud and error. Outcomes to date include:
- No instances of the council employing workers without the right to work;
 - Pursuit of £5,600 in relation to four sets of duplicate invoices;
 - The cancellation of over 2,000 Blue Badges where the individual is deceased; and
 - An ongoing investigation into an officer with secondary employment.

Partnership working

22. The council is continuing to work in partnership with seven of Surrey's borough and district councils following its successful bid for £539k of counter fraud funding from the Department for Communities and Local Government (DCLG).
23. The funding has been used in part to put in place resources to identify and tackle fraud across all partners and training has been provided to organisations beyond the partnership. This has led to the successful recovery of 11 social housing tenancies and the prevention of over 30 potentially fraudulent housing, homeless, and right to buy applications. The partnership has also adopted new measures to tackle business rates avoidance and fraud.
24. The project's half year performance report to DCLG included a revised financial savings figure as it is anticipated that the partnership will exceed its original target of £800k to achieve projected savings of £1.2million in the 2015/16 financial year.

Implications

Financial and value for money

25. Public money is safeguarded through Internal Audit investigation of fraud and irregularities. This ensures that perpetrators are appropriately dealt with, monies are recovered where possible, and recommendations to improve internal control are made where necessary.

Equalities

26. There are no known equalities implications in this report.

Risk management

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

Next steps

No specific action is required.

Report contact: Reem Burton, Lead Auditor, Policy & Performance

Contact details: 020 8541 7009, reem.burton@surreycc.gov.uk

Sources: Morgan Kai Insight database, irregularity reports

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Definition of Fraud Categories

Annex A

Theme	Fraud category (for reporting)	Definition	Examples (not an exhaustive list)
Fraud Act 2006	False representation	Knowingly making an untrue or misleading representation to make gain, cause loss or expose the council to the risk of loss	Submitting incorrect expense claims; falsely claiming to hold a qualification
	Failure to disclose information	Intentionally withholding information to make gain, cause loss or expose the council to the risk of loss	Failing to declare pecuniary interests or additional employment
	Abuse of position	Use of position to act against, or fail to safeguard, the interests of the council or individuals under the council's care	Nepotism; financial abuse of social care individuals
Theft Act 1968	Theft	Dishonest appropriation of assets (often cash) belonging to the council or individuals under the council's care	Removing cash from safes; removing individuals' personal items in care homes
Bribery & Corruption Act 2010	Corruption	Offering, giving, soliciting or accepting any inducement or reward which may influence a person's actions, or to gain a commercial or contractual advantage	Accepting money to ensure a contract is awarded to a particular supplier
Finance and reporting	False reporting	Intentional manipulation of financial or non-financial information to distort or provide misleading reports	Falsifying statistics to ensure performance targets are met; delaying payments to distort financial position
	Misuse of public funds	The use of public funds for ultra vires expenditure or expenditure for purposes other than those intended	Officers misusing grant funding; individuals misusing social care direct payments
	Procurement	Any matter relating to the dishonest procurement of goods and services by internal or external persons	Breach of the Procurement Standing Orders; collusive tendering; falsifying quotations
Internal	Misconduct	Failure to act in accordance with the Code of Conduct, council policies or management instructions	Undertaking additional work during contracted hours; personal use of council IT equipment
	Poor Control	Weak local or corporate arrangements result in loss of council assets or breach of council policy	Storing a key to a safe in the immediate vicinity of the safe

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Audit & Governance Committee
7 December 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 this Committee last considered a Completed Internal Audit Reports item in September 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 Scrutiny Board.

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 six audit reports issued since the last report to this Committee in September 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	Streetworks Permit Scheme	Effective	0
2	Information Governance	Some Improvement Needed	3
3	Highways Communications	Significant Improvement Needed	2
4	Babcock 4S Contract	Some Improvement Needed	0
5	Nursery Education	Significant Improvement Needed	2
6	Community Partnership Libraries	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 Scrutiny Board does so.

SCRUTINY BOARD REVIEW:

- 7 The audit reports on **Surrey Arts** and **Fire Transformation Grant** (previously presented to this Committee) were considered by the Resident Experience Board Performance and Finance Sub- Group on 10 November 2015.
- 8 The audit reports on **Highways Integrated Transport Schemes** and **Bus Operating Contracts** (previously presented to this Committee) and the audit report on **Highways Communications** (detailed in Annex A of this report to Committee) will be considered by the Economic Prosperity, Environment and Highways Board on 10 December 2015

IMPLICATIONS:

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

WHAT HAPPENS NEXT:

- 11 See Recommendations above.

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

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

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

Completed Audit Reports (September - November 2015)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Streetworks Permit Scheme	Surrey County Council (SCC) as a highway authority is committed to reducing congestion and disruption caused by road works. To assist in achieving this outcome, the authority introduced a permit scheme on 11 November 2013 in order to provide an improved alternative to regulating and coordinating road works on Surrey's roads.	<p>The introduction of the Permit Scheme is a significant improvement on the previous Notification Scheme in co-ordinating street works and the due diligence of the team in maintaining compliance is to be applauded.</p> <p>The need for closer communication via a Service Level Agreement between the Street Works Team and the Order to Cash Team in the South East Shared Services was recommended in the previous audit in 2013 and has been in place since May 2014. The process for dealing with unpaid invoices is very clear and no invoice has been written off in the last 18 months.</p>	Effective	There were no recommendations arising from this Internal Audit review.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Information Governance (IG)	<p>Surrey County Council (SCC) has a number of legal obligations in the area of handling information and information requests. Several SCC policies have been issued to comply with legal requirements such as the Data Protection Act 1998, the Freedom of Information Act 2000 and the Environment Information Regulations 2004.</p>	<p>Many aspects of information risk are being managed satisfactorily. Policies and procedures are in place, Freedom of Information requests are processed/responded to on a timely basis, there is a satisfactory process for reporting potential breaches, and there is a suitable Information Sharing protocol in place.</p> <p>The Adults IG team and the Corporate IG team regularly update their line managers about issues/progress, but there are no specific team plans, objectives and targets such as those recently developed in Children's IG.</p> <p>Each IG team works independently of each other and reports to different line managers. The Corporate IG Manager is regarded as the IG lead and co-ordinator for SCC but she has no oversight, authority over, or responsibility for the work of the Adults and Children's IG teams.</p> <p>It is not clear whether IG related e-learning courses are mandatory as part of staff induction.</p>	Some Improvement Needed	<p>A detailed annual service plan outlining team objectives, targets and performance indicators should be prepared annually for each IG team. (H)</p> <p>Consider reviewing the existing IG structure to ensure more effective direction and co-ordination of all three teams. (H)</p> <p>Action is required to give IG teams much clearer visibility about which staff (and agency staff) have or have not completed compulsory e-learning and classroom training. The potential for recording IG training data in SAP should be explored with HR and IMT. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Highways Communication	<p>Surrey County Council (SCC) spends over £32m each year on highways schemes. Each scheme requires communication with a large number of different stakeholders; including county members, internal and external county and borough colleagues, residents, local businesses and emergency services.</p> <p>Concern has previously been expressed by members over the communication between the SCC Highways Team and local community, over the timing of the delivery of some of the works.</p>	<p>The Auditor reviewed the Communications provided for each scheme tested. There were a number of projects where no communications was evidenced. A Communication Strategy has been developed and Communications Manager appointed recently. This should help improve the communications in future.</p> <p>A variation order (VO) is where there are changes to the original contracted works, this can be for changes required for the materials to be used of the quantities. Of the 10 files tested by the auditor, all VO's were issued after the works were completed.</p> <p>In one of the sample tested, there was error in the final account presented by the contractor. The % uplift for 40% for nightwork was calculated against the estimate rather than the final cost. This should have been picked up by the engineer when they checked the final account.</p>	Significant Improvement Needed	<p>Ensure the communication strategy for highways schemes is complied with consistently. (M)</p> <p>The Highways Team should ensure VO's are issued promptly and before the works are completed. (H)</p> <p>SCC should ensure that all final accounts are carefully checked and the overpayment of £13,000 is recovered from the highways contractor. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Babcock 4S Contract	<p>Surrey County Council (SCC) is a local education authority with duties and powers to provide primary and secondary education under the Education Acts (1944 to 2002 inclusive) and the Schools Standards and Framework Act.</p> <p>In 2004 the council entered into a joint venture with VT 4S to deliver education services.</p> <p>A principal objective of the contract is to improve performance in relation to the provision of educational services, and to make arrangements to secure continuous improvement in the way in which such functions are exercised.</p>	<p>From documents analysed it is apparent that the reported performance data includes academies; this is due to conversion from maintained status happening part way through the year. How this is subsequently captured and reported within performance data therefore becomes critical.</p> <p>In a few cases, the termly assessment of project progress does not offer a transparent level of qualitative and quantitative comparison between the outcomes and the agreed KPI's for some projects.</p> <p>SCC loses Government funding every time a maintained school converts to Academy status. This makes the negotiations around the contract more difficult as the initial budgets and priorities agreed with B4S for projects need to be re-reviewed.</p>	Some Improvement Needed	<p>Where academies are included in the year-end contract performance information due to conversions occurring part way through the year, the relevant reports should be reviewed to ensure that performance data is only captured and reported for the period in which they are maintained schools. (M)</p> <p>Specifically for the projects identified with less effective KPI's the responsible officers should develop and refine more quantitative measures to show outcomes are measured and in line with expectations. (M)</p> <p>In terms of the termly reports from B4S the descriptions of project outcomes should be sufficiently detailed (M)</p> <p>SCC officers should ensure that a documented audit trail for decisions, assumptions and determinations is maintained during and after the annual negotiation process between the council and B4S (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Nursery Education	<p>The Childcare Act 2006 places a duty on all local authorities to improve outcomes for young children and to secure sufficient childcare to allow parents to work.</p> <p>All 3 and 4 year olds in England are currently entitled to 15 hours a week for 38 weeks a year of free early education or childcare. Some two year olds are also entitled to this provision subject to meeting eligibility criteria.</p> <p>These services are delivered by an array of maintained, private, voluntary and independent providers known as settings. Childcare providers that are registered on the Surrey Directory of Early Years Providers are able to offer free places and claim funding, on the behalf of parents or carers, directly from the council.</p>	<p>Overall registration forms are completed in full; however, the parental declaration forms at some settings, were incomplete; the days and funded hours were left blank. Furthermore, testing indicated several occurrences of misalignment of the hours of Early Years Education (EYE) on the parental declaration forms against the actual hours funded by the council. Amendment forms were unavailable to verify changes in the provision of EYE hours.</p> <p>Declaration forms held at 12 of the settings were 'future declared' in the sense that forms are signed in the Autumn Term for the Spring and Summer Terms. Declaration forms should be signed for at the beginning of each term as the hours a child attends the setting may change from term to term.</p> <p>While the service identified settings which are of concern to them it remains that they have not conducted visits, to the settings, to investigate their concerns.</p>	Significant Improvement Needed	<p>Based on the findings of this audit guidance notes should be re-circulated to ensure that settings understand how and at which point in the term the declaration forms are completed. (H)</p> <p>The service should develop an effective rolling programme of audit visits to ensure compliance with funding requirements (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Community Partnership Libraries (CPL)	<p>The Library Public Value Review (PVR) ran from May 2009 to January 2011 and provided a strategy for the long term improvement of the Library Service while reducing cost and improving efficiency.</p> <p>The three key PVR recommendations were to:</p> <ul style="list-style-type: none"> (i) Consult with Community Groups about transferring the management of eleven libraries in Surrey to create CPL; (ii) Identify a county managed network of libraries in Surrey; and, (iii) Withdraw the Mobile Library Service and provide targeted alternative services. <p>As a result of the PVR the Medium Term Financial Plan (MTFP) set initial budget savings of £200,000 for 2012/13 and a further £100,000 for 2013/14. The savings were to be realised through the staffing budget.</p>	<p>The proposed savings of £300,000 were achieved in 2013/14 by a reduction in the staffing budget. However, rather than reduce the library budget in 2013/14 it was used to set up a library investment budget of £300,000. In 2014/15 the £300,000 investment budget was removed from the library service budget to reflect the budget savings.</p> <p>At the time of this review Lingfield Library has not launched as a CPL it continues to be managed and operated by the council. The associated staff costs were removed as part of the MTFP savings in 2014/15. Consequently, a financial pressure remains of approximately £18,000 per annum on the service's budget until such point that Lingfield transfers to a CPL.</p>	Effective	There were no recommendations arising from this Internal Audit review.

¹ **Audit Opinions**

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

² **Audit Recommendations**

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

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

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

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Audit & Governance Committee
7 December 2015

Half Year Risk Management Report

Purpose of the report:

This half year risk management report enables the committee to meet its responsibilities for monitoring the development and operation of the council's risk management arrangements. It also presents the latest Leadership Risk Register.

Recommendations

It is recommended that the committee:

1. Consider the contents of the report and confirm they are satisfied with the risk management arrangements;
2. Review the Leadership Risk Register (Annex B) and determine whether there are any matters that they wish to draw to the attention of the Chief Executive, Cabinet, Cabinet Member or Board.

Introduction

3. The terms of reference of the Audit and Governance Committee include the requirement to monitor the effective development and operation of the council's risk management arrangements. This report summarises the risk management activity from April 2015 to date and provides an update on key changes to the Leadership Risk Register.

Key activity summary

Strategic risk arrangements

4. The Statutory Responsibilities Network (SRN) continues to be provided with monthly risk updates by the Director of Finance (strategic lead for risk management). The risk updates are focused on the Leadership Risk Register and emerging risks, but have also included the risk management strategy, risk management plan and the findings from the internal audit of risk management.

5. The Strategic Risk Forum (SRF), chaired by the Director of Finance, has met three times since April 2015. The forum continues to challenge and scrutinise strategic risk through reviewing strategic level risk registers and proposing Leadership Risk Register changes and emerging risks to SRN.
6. The Leadership Risk Register is presented to Cabinet on a quarterly basis to provide oversight of the council's strategic risks and controls.
7. A Business Services risk register has been jointly developed with East Sussex, which includes all the strategic risks from services within the Orbis partnership. The risk register will be reviewed and monitored by the Orbis Leadership Team on a regular basis.
8. The Director of Finance and the Risk and Governance Manager have been working with the Children, Schools and Families Leadership Team to provide risk management support and guidance and a risk workshop is taking place in December 2015.

Operational risk arrangements

9. The status and consistency of risk registers is reviewed by the SRF and the Council Risk and Resilience Forum to ensure that they meet the standards within the council's risk framework. The Risk and Governance Manager uploads risk registers that she receives onto the intranet so they can be viewed internally.

Council Risk and Resilience Forum (CRRF)

10. There has been one formal meeting of the CRRF during the period. The meetings are attended by service risk and business continuity representatives and help to share knowledge and good practice across the organisation to support the risk and business continuity arrangements.
11. There have also been two CRRF interactive workshops that have focused on supply chain resilience and winter resilience. The workshops help services validate their business continuity arrangements through interactive scenarios and identify areas that may need enhancing or further testing.

Business Continuity

12. The Emergency Management Team has worked with CRRF reps and officers from Procurement to confirm the list of critical providers (those who are essential to the delivery of the most critical council activities). Letters have recently been sent out from the Head of Procurement to the most critical providers (priority 1) to ask for confirmation of their business continuity arrangements. Letters are currently being sent out for the priority 2 providers.
13. The work area recovery plan for County Hall is in place and plans are being developed for the other main council buildings.

Internal audit review

14. Internal audit provide an annual independent assessment of the risk management arrangements. The 2014/15 audit received an overall opinion of some improvement needed.

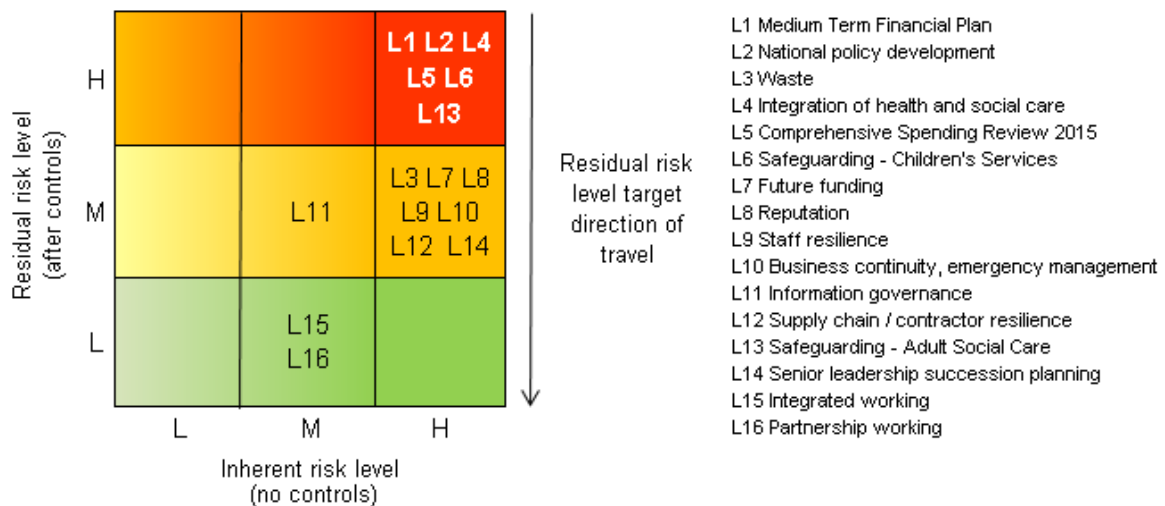
15. The management action plan has been completed and is attached at annex A.

Leadership Risk Register

- 16. The Leadership Risk Register (Annex B) is owned by the Chief Executive and shows the council’s 15 key strategic risks.
- 17. Since it was last presented to the committee in September 2015, the risk register has been reviewed by the SRF, SRN and Cabinet.

Changes to the risk register

- 18. Two new risks have been added to the risk register, both with a low residual risk level:
 - Integrated working (L15); and
 - Partnership working (L16).
- 19. Wording changes have been made to the risk controls of the following risks:
 - Safeguarding – Children’s Services (L6);
 - Medium Term Financial Plan (L1); and
 - Comprehensive Spending Review (L5).
- 20. Despite mitigating actions, six risks have a high residual risk level (L1,L2,L4,L5,L6,L13) and eight risks have a medium residual risk level (L3,L7,L8,L9,L10,L11,L12,L14): showing the significant level of risk that the council is facing despite the processes and controls being put in place to manage the risks.



Implications:

Financial and value for money implications

- 21. Integrated risk management arrangements, including effective controls and timely action, supports the achievement of the council’s objectives and enables value for money.

Equalities and Diversity Implications

22. There are no direct equalities implications in this report.

Risk Management Implications

23. Embedded risk management arrangements leads to improved governance and effective decision-making.

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

Contact details: 020 8541 9193 or cath.edwards@surreycc.gov.uk

Sources/background papers:

- Risk management reports, SRF and CRRF agendas and minutes.

PRIORITY RATINGS

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

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

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

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Progress as at November 2015
5.10	Consideration should be given to revising the risk assessment methodology to ensure services are consistent in their compliance with the risk framework.	Low	The risk framework will be reviewed to provide some flexibility with the risk process.	September 2015	Risk and Governance Manager	Completed. The risk framework has been reviewed and updated.
5.16	Consideration should be given to SRF representatives supporting representatives from other directorates to provide independent challenge in DMT / SLT risk workshops.	Low	Agreed. Will be discussed at future SRF meetings.	Ongoing	SRF	Completed. Strategic risk leads provide an update on risk within their area at each SRF meeting, which provides an opportunity to discuss further support or challenge if appropriate.
5.25	Movement of risk tables should be completed (including date risk added) for service risk registers to enhance the visibility of the management of risk control and mitigation.	Low	The use of movement of risk on service risk registers will be encouraged via SRF and CRRF.	December 2015	Strategic risk leads and service risk reps	Completed. Risk reps have been reminded to include movement of risk tables alongside their risk registers via SRF, CRRF and emails from the Risk and Governance Manager.
5.35	Guidance should be produced to ensure that decisions to enter into partnerships are based on a sound understanding of the risks and challenges, as well as the anticipated benefits. A tool should accompany the guidance to determine the level of risk a partnership may produce, and so ensure that the application of risk management is proportionate to the risk generated.	Medium	A partnership governance framework is being developed, which will include a section on risk.	September 2015	Risk and Governance Manager	Completed. The partnership governance framework is available on the snet and includes a section on risk.

Leadership risk register as at 31 October 2015 (covers rolling 12 months)

Owner: David McNulty

Annex B

Ref	Risk ref.	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	ASC1 C&C2 CSF4, EA11,3, 15 FR72, 85 ORB01	<p>Medium Term Financial Plan (MTFP) 2015-20</p> <p>Failure to achieve the MTFP, which could be as a result of:</p> <ul style="list-style-type: none"> not achieving savings additional service demand and/or over optimistic funding levels. <p>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>	High	<ul style="list-style-type: none"> 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) 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 Clear management action reported promptly detailing alternative savings / income if original plans become non deliverable or funding levels alter in year Monthly formal budget reports focus on funding levels comparing actual spend to forecasts Budget planning discussions with Cabinet and Select Committees Updated MTFP 2015-20 reported to Cabinet in July 2015. The ongoing budget planning process will continue to develop the MTFP 2016-21. Clear pricing structures in place for services delivered. Early conversations are undertaken with all relevant stakeholders to ensure consultations are effective and completed in a timely manner. Cross service networking and timely escalation of issues to ensure lawfulness and good governance. 	<ul style="list-style-type: none"> Prompt management action taken by Strategic Directors / Leadership Teams to identify correcting actions. (Evidenced by robust action plans) Members (Council, Cabinet, Select Committee) make the necessary decisions to implement action plans in a timely manner Members have all the relevant information to make necessary decisions 	Director of Finance	High

Key to references:

ASC = Adult Social Care risk

ORB = Orbis risk

C&C = Customers and Communities risk

CEO = Chief Executive's Office risk

CSF = Children, Schools and Families risk

EAI = Environment and Infrastructure risk

FR = Fire and Rescue risk

FN = Finance Service risk

IT = IMT Service risk

Leadership risk register as at 31 October 2015 (covers rolling 12 months)

Owner: David McNulty

Annex B

Ref	Risk ref.	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)
L6	CSF1,2,3	Safeguarding – Children’s Services 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.	High	<ul style="list-style-type: none"> 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. Adult Social Care and Children, Schools and Families are working as key stakeholders in the further development of the Multi-Agency Safeguarding Hub. Children’s Services Improvement Plan is being delivered to address areas of improvement from the Ofsted inspection and strengthen service and whole system capability and capacity. 	<ul style="list-style-type: none"> 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. Robust quality assurance and management systems in place to identify and implement any key areas of learning so safeguarding practice can be improved. 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. An Improvement Board (chaired by the Deputy Leader) oversees progress on the Improvement Plan and agrees areas of action as required. 	Strategic Director for Children’s Schools and Families	High
L13	ASC6,7,12	Safeguarding – Adult Social Care Avoidable failure in Adult Social Care, through action or inaction, leads to serious harm, death or a	High	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Continue to work with the Independent Chair of the Surrey Safeguarding Adults Board to ensure feedback and recommendations from case 	Strategic Director for Adult Social Care	High

Key to references:

ASC = Adult Social Care risk

ORB = Orbis risk

C&C = Customers and Communities risk

CEO = Chief Executive’s Office risk

CSF = Children, Schools and Families risk

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FR = Fire and Rescue risk

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Leadership risk register as at 31 October 2015 (covers rolling 12 months)

Owner: David McNulty

Annex B

Ref	Risk ref.	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)
		major impact on wellbeing.		<ul style="list-style-type: none"> Care Act Implementation Board provides strategic direction and focus. Adult Social Care and Children, Schools and Families are working as key stakeholders in the further development of the Multi Agency Safeguarding Hub. Established a locality safeguarding advisor to assure quality control. Close involvement by Associate Cabinet Member for Adult Social Care in safeguarding functions. 	<p>reviews are used to inform learning and social work practice.</p> <ul style="list-style-type: none"> Agree and embed agreed changes resulting from Care Act 2014 consultation. Actively respond to feedback from regulators. 		
L2	ASC2,9	<p>National policy development</p> <p>Continuing national policy changes 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>	High	<ul style="list-style-type: none"> Effective horizon scanning to ensure thorough understanding of new policy changes Implementation of a welfare reform programme including districts and boroughs covering: <ul style="list-style-type: none"> Advice and information Financial resilience Emergency assistance Localisation of council tax support Housing and homelessness Employment training and support Taking opportunities to influence central Government policy development e.g. via the Local Government Association. 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 to the Council Overview Board and the Resident Experience Board. 	<ul style="list-style-type: none"> Working in partnership with other statutory partners (e.g. Clinical Commissioning Groups CCG's) to maximise opportunities for communities Members proactively take the opportunities to influence central Government Care Act Implementation Board in place and project programme set up to support ongoing discussion with partners. 	Strategic Director for Adult Social Care	High

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Leadership risk register as at 31 October 2015 (covers rolling 12 months)

Owner: David McNulty

Annex B

Ref	Risk ref.	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)
L4	ASC2 CEO2	Integration of health and social care Failure in partnership working reduces our ability to: - co-ordinate/integrate health and social care services; - improve health outcomes; and - develop a financially sustainable model.	High	<p>Governance arrangements:</p> <ul style="list-style-type: none"> Robust partnership governance arrangements are in place through the Better Care Board, Public Sector Transformation programme and Surrey's Health and Wellbeing Board Regular monitoring of progress and risks against key Health & Social Care integration work streams and agreed financial governance framework (including the Better Care Fund) Prioritisation of resources and clear senior leadership across Council directorates to support the development of Health & Social Care work streams. Continued focus on building and maintaining strong relationship with partners through regular formal and informal dialogue Surrey's Better Care Fund plan (which includes agreed financial plans, metrics to measure progress and risk sharing arrangements) has been approved by Surrey's Health & Well-Being Board and the national Better Care Fund team. Formal pooling agreements (section 75 agreements) being developed for the operation of the Better Care Fund. 	<ul style="list-style-type: none"> Progress discussions with Clinical Commissioning Groups in Surrey about plans for integration beyond the Better Care Fund. Inclusion of key partners in local whole systems planning. Members continue to endorse approaches to integration across the County. Increase focus on tracking implementation and realisation of benefits through the Local Joint Commissioning Groups. 	Strategic Director for Adult Social Care	High
L5	FN04	Comprehensive Spending Review (CSR) 2015 Risk that CSR 2015: <ul style="list-style-type: none"> reduces further the total public sector funding available, and 	High	<ul style="list-style-type: none"> Having contributed to the Spending Review submissions in the late summer, the council will continue to be active in involvement with Government departments to develop revised proposals as they emerge (eg business rate retention, devolution). Officers (Finance and 	<ul style="list-style-type: none"> Cabinet fully consider the implications of CSR in budget planning and agree an MTFP that reflects likely impacts. 	Director of Finance	High

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		<ul style="list-style-type: none"> introduces a revised distribution mechanism which lowers the councils financial resilience. 		Policy in particular) to review and interpret the implications of the Spending Review due to be announced on 25 November 2015 and the subsequent Local Government Financial Settlement.			
L14	ASC4	<p>Senior Leadership Succession Planning</p> <p>A significant number of senior leaders leave the organisation within a short space of time and cannot be replaced effectively resulting in a reduction in the ability to deliver services to the level required.</p>	High	<ul style="list-style-type: none"> Workforce planning linked to business continuity plans High Performance Development Programme to increase skills, resilience and effectiveness of leaders Career conversations built into appraisal process looking forward five years Shaping leaders exercise 	- Transparent and effective succession plans	Chief Executive	Medium
L13	EAI2	<p>Waste</p> <p>Failure to deliver the key elements of the waste strategy leads to negative financial and reputational impact.</p>	High	<ul style="list-style-type: none"> Implementation monitored by the Waste Programme Delivery Board with strategic overview provided by the Strategic Waste Board Operational Delivery Board created to specifically manage the delivery of the Eco Park development. All major decisions are reported to Cabinet on a regular basis Reporting through Surrey Chief Executives detailed proposals on options for improved collaborative working to achieve the strategy outcomes. Joint strategic partnership reinforces collaboration and will, if successful, strengthen the ability to deliver the key elements of the waste strategy Support from external strategic advisors assists senior officers in management and 	<ul style="list-style-type: none"> Strong resourcing and project management regime in place to ensure prompt resolution of any issues that may hinder progress. Collaborative work with Districts and Boroughs is delivered through the Surrey Waste Partnership with close involvement of all Surrey Chief Executives 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 	Strategic Director of Environment and Infrastructure	Medium

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Leadership risk register as at 31 October 2015 (covers rolling 12 months)

Owner: David McNulty

Annex B

Ref	Risk ref.	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)
				mitigation of key technical, financial and legal risks. <ul style="list-style-type: none"> Senior officers working closely with Government departments. 	making.		
L7	CSF4 EAI1 FN01	Future Funding 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.	High	<ul style="list-style-type: none"> Structured approach to ensuring Government understands the council's Council Tax strategy and high dependence Targeted focus with Government to secure a greater share of funding for specific demand led pressures (in particular School Basic Need) Continued horizon scanning of the financial implications of existing and future Government policy changes Development of alternative / new sources of funding (e.g. bidding for grants) Review how systems and processes can lead to greater efficiencies. <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"> Members make decisions to reduce spending and or generate alternative sources of funding, where necessary, in a timely manner. Officers unable to recommend MTFP unless a credible sustainable budget is proposed. 	Director of Finance	Medium
L8	ASC8 CSF3,4 CEO1 EAI2,14 ORB02	Reputation 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	High	<ul style="list-style-type: none"> Processes in place that minimise the likelihood of organisational failure include: <ul style="list-style-type: none"> Active learning by senior leaders from experiences / incidents outside the council inform continual improvement within the council Strong corporate values Robust Governance framework (including codes of conduct, health & safety policies, complaints tracking). 	<ul style="list-style-type: none"> Regular monitoring of effectiveness of processes is in place and improvements continually made and communicated as a result of learning. 	Chief Executive Officer	Medium

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Leadership risk register as at 31 October 2015 (covers rolling 12 months)
Owner: David McNulty
Annex B

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		services effectively and harming our freedoms and flexibilities from Government controls.					
L9	CEO7 ORB05	Staff resilience Scale of public service transformation and budget challenge leads to loss in productivity, increased sickness and staff turnover, impacting on the ability to deliver services to residents.	High	<ul style="list-style-type: none"> • Communication, consultation and engagement is a priority for the council with an emphasis placed on thoroughly addressing the concerns of staff and their representatives • Eight training courses available that address various aspects of change and trained coaches are available in all services to support staff. • High Performance Development Programme being offered across the organisation to support leaders to develop their own and the organisations behaviours. • Comprehensive range of surveys and focus groups provide a measure of the staff satisfaction with the council and its management of change. • Smarter working framework and flexible working policy in place to support managers and their teams to work differently. • Promotion of support mechanisms for staff (eg. employee assistance). • Staff are encouraged to get involved in finding innovative solutions to redesign services. 	<ul style="list-style-type: none"> - Decision by members on pay and reward system taken in timely manner and combine with staff and union consultation. - Communications engagement plan to promote the benefits of working for Surrey and help to support engagement across the organisation to be delivered. 	Strategic Director Business Services	Medium
L10	CEO5 EAI4,5 FR06	Business Continuity, Emergency Planning Failure to respond effectively to a known event or major incident results in an inability to deliver	High	<ul style="list-style-type: none"> • The Council Risk and Resilience Forum reviews, moderates, implements and tests operational plans. • Close working between key services and the Emergency Management Team to 	<ul style="list-style-type: none"> - Business Continuity Plans are in place and signed off (by heads of service) in timely manner 	Strategic Director of Environment and Infrastructure	Medium

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		key services.		update plans and share learning <ul style="list-style-type: none"> Continued consultation with Unions and regular communication to staff. External risks are assessed through the Local Resilience Forum. Regular updates reported to Statutory Responsibilities Network. 			
L12	ASC8	Supply chain / contractor resilience 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.	High	<ul style="list-style-type: none"> Supply chain business continuity plans for strategic/critical contracts to meet required standards. Levels of compliance reported to Statutory Responsibilities Network. Consistent management of supply chain risks across all key suppliers through common reporting. Regular supplier intelligence reporting in place to track industry and supplier news. Risk management training provided to contract managers to enable a consistent approach. Mitigating actions are less effective for small/medium suppliers due to reduced business continuity. 	<ul style="list-style-type: none"> Supplier selection policy decision made to include financial resilience and business continuity arrangements Needs strong support from ELT (Extended Leadership Team) to ensure contract resilience and business continuity is in place and regularly up-dated 	Strategic Director Business Services	Medium
L11	ASC5 CEO1 CSF5 IT51	Information Governance Loss of protected data by the council leads to financial penalties, safeguarding issues and erosion of public trust.	Medium	<ul style="list-style-type: none"> Encrypted laptops, secure email environment and strong password policies Best practice working standards including PSN accreditation and move towards ISO2700 Focus on educating users through communications campaigns (linked to known peaks for breaches) and a refreshed and re-launched information security e-learning package. Information Governance and Caldicott 	<ul style="list-style-type: none"> Cabinet review of IT security policy has resulted in the security policy, Code of conduct and social media policies being updated to reflect changes agreed 	Strategic Director Business Services	Medium

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				<p>Boards in place to oversee processes and controls</p> <ul style="list-style-type: none"> Implementation of learning from feedback where breaches occur. Directorates and Digital Delivery Team engaging with partners to deliver a platform that will enable appropriate sharing of information between agencies. Increased use of mobile technology to minimise the need for paper records. <p>Despite the actions above, there is a continued risk of human error that is out of the council's control.</p>			
L15	ORB04	<p>Integrated working</p> <p>A significant change in integrated working leads to significant service disruption and reputational damage.</p>	Medium	<ul style="list-style-type: none"> Shared strategy to ensure no unintended consequences. Strong governance arrangements (eg. clear responsibilities, IAA) in place with early warning mechanisms. Effective transition arrangements with continuous stakeholder engagement. Close liaison and communication with customers. 	- Leadership and managers recognise the importance of building and sustaining good working relationships with key stakeholders and having early discussions if these falter.	Chief Executive	Low
L16	CEO2 EAI3,15	<p>Partnership working</p> <p>A significant change in partnership working leads to significant service disruption and reputational damage.</p>	Medium	<ul style="list-style-type: none"> Public Service Transformation Network (PSTN) leadership work stream in place. Partnership governance arrangements in place with early warning mechanisms. Intelligence on partners is shared and areas of risk identified as a consequence. Aligned partnership strategies High Performance Development Programme in place to increase skills, resilience and effectiveness of leaders. 	- Leadership and managers recognise the importance of building and sustaining good working relationships with key stakeholders and having early discussions if these falter.	Chief Executive	Low

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Movement of risks

Ref	Risk	Date added	Inherent risk level when added	Movement in residual risk level		Current residual risk level
L1	Medium Term Financial Plan	Aug 12	High	-	-	High
L2	National policy development	Feb 13	High	-	-	High
L3	Waste	May 10	High	Jan 15	↓	Medium
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	Jan 15	↑	High
L7	Future funding	Aug 12	High	-	-	Medium
L8	Reputation	Oct 14	High	-	-	Medium
L9	Staff resilience	May 10	High	Jan 12	↓	Medium
L10	Business Continuity, Emergency Planning	May 10	High	Aug 12	↓	Medium
L11	Information governance	Dec 10	Medium	Oct 14	↓	Medium
L12	Supply chain / contractor resilience	Jan 14	High	-	-	Medium
L13	Safeguarding – Adult Social Care	May 10	High	Jan 15	↑	High
L14	Senior leadership succession planning	Mar 15	High	-	-	Medium
L15	Integrated working	Sept 15	Medium	-	-	Low
L16	Partnership working	Sept 15	Medium	-	-	Low

Risks removed from the register in the last 12 months

Risk	Date added	Date removed
IT risk	May 10	Oct 14

Leadership level risk assessment criteria

Due to their significance, the risks on the Leadership Risk Register are assessed on their inherent risk level (no controls) and their residual risk level (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
7 December 2015

Ethical Standards Annual Review

Purpose of the report:

To enable the Committee to monitor the operation of the Members' Code of Conduct over the last 12 months and to consider what advice and guidance about ethical standards it recommends to be offered to Members in the next 12 months.

Recommendations:

That the Committee notes the report and considers:

- What (if any) further advice, guidance and training should be offered to Members over the next year, or any longer period, and
- Whether the current frequency of reports enables it to effectively monitor the operation of the Code of Conduct.

Introduction:

2. The Localism Act 2011 places the Council under a statutory duty to promote and maintain high standards of conduct by its Members and co-opted Members
3. The Council has a Code of Conduct governing elected and co-opted Members' conduct, when acting in those capacities. The council's Code of Conduct, viewed as a whole is consistent with the following seven principles:
 - Selflessness
 - Integrity
 - Objectivity
 - Accountability
 - Openness
 - Honesty
 - Leadership

The Code also includes provisions for the registration and disclosure of pecuniary and other interests. No revisions have been made to the Code since it was adopted by the Council in 2012.

4. Members are required to register "disclosable pecuniary interests" with the Monitoring Officer and these must be published on the Council's website.

5. The Act also requires the Council to appoint “at least one independent person” whose views must be sought after an investigation into a complaint has been conducted and before a decision on it is made. It also allows Members who have had an allegation made against them to seek the views of the Independent Person if they wish.
6. The Council has delegated to the Audit and Governance Committee the roles of:
 - monitoring the operation of the Members’ Code of Conduct and;
 - promoting advice, guidance and training on matters relating to the Code of Conduct.
7. The Committee is also responsible for granting dispensation to Members relating to their disclosable pecuniary interests. In April 2015 the Committee granted a dispensation to Graham Ellwood to enable him to allocate funding to George Abbot School. No other application for a dispensation has been received in the period covered by this report.

The Code of Conduct

8. At the Council meeting of 17 July 2012, Members agreed that they wanted to adopt a simple, high level code. The current Members’ Code of Conduct is based on the Department of Communities and Local Government (“DCLG”) “illustrative” text of a Code of Conduct for Members and is annexed to this report for ease of reference.
9. The Code does however make links to other Council protocols, including the Member/ Officer Protocol which requires both staff and councillors to treat each other with dignity, trust and courtesy.

Independent Person

10. The Act requires the appointment of at least once independent person who cannot be a councillor, officer or a relative or friend of any one of them. Professor Michael Joy OBE. Professor Joy was appointed by Council for a term of four years from December 2012.

Arrangements for receiving and handling complaints

11. The Act requires the Council to adopt arrangements for dealing with complaints of a breach of the Members’ Code of Conduct. Any such complaints must be dealt with in accordance with those arrangements. Before any final decision is reached on a complaint that has been investigated, the Independent Person’s views must be sought. A copy of the Council’s arrangements is annexed to this report. These arrangements are designed to promote informal resolution rather than an adversarial approach, the latter tends to result in long and expensive investigations, some of which have been disproportionate to the seriousness of the complaint.

Register of Pecuniary Interests

12. All Members are required to notify the Monitoring Officer, within 28 days of taking office, of any disclosable pecuniary interests they have, including those of a spouse, civil partner or someone with whom the member is living as husband and wife or as civil partner. All Surrey County Council Members have completed entries and the Council’s register is published online in accordance with legal requirements.

13. Each elected Member's entry on the Register of Interests is now easily accessible on their individual page on the Council's website. Co-opted members have also registered their interests. These are not available on the Council's website, but can be inspected at the Council's offices.
14. An Audit of Members Interests in 2015 recommended that the Council consider extending the interests it requires its Members to disclose to include certain non – pecuniary interests. That recommendation has been referred to the Constitution Review Group for consideration.
15. The Monitoring Officer has noticed an increasing trend for Members to request that their home address is excluded from the published register of interests, often because of concerns relating to fear of crime. The Localism Act allows sensitive interests to be excluded from publication. However the law in relation to this is quite prescriptive, requiring both the Member concerned and the Monitoring Officer to consider that disclosure of the details of the interest could lead to the member or a person connected with them being subject to violence or intimidation. In the majority of requests that is not the case.

Training and Guidance for Members

16. Comprehensive guidance and training were provided for every new and returning councillor in 2013. On 22 September 2015 a reminder of the need to disclose and guidance relating to the registering of gifts and hospitality was emailed to all Members. Refresher training sessions about interests are being prepared by officers and two dates have been arranged, the first on 14 December 2015 and a second on 1 February 2016.

Code of Conduct Complaints

17. The table below shows the number of complaints received by the Monitoring Officer, broken down by three month periods since her last report to this Committee (a period of 15 months). There have been no complaints alleging that a Member has failed to disclose or declare a pecuniary interest (this being a breach of the code which could result in criminal prosecution of the Member).

Three months ending	Number of Complaints
October 2014	1
January 2015	9
April 2015	0
July 2015	5
October 2015	2
Totals	17

The number of complaints received is comparable with the 2013/14 year, when 14 complaints were received in a 12 month period.

18. Broken down into broad headings the reasons given for complaints about members this year were as follows
 - Failure to answer correspondence - 5 complaints
 - Dissatisfaction with a council service – 2 complaints
 - Comments made by the Member directly to the complainant – 3 complaints
 - Comments made by a Member during debate in a Cabinet or Committee meeting – 2 complaints
 - Breach of data protection – 1 complaint

- Miscellaneous dissatisfaction with way Member engaged with the complainant – 4 complaints
19. The Monitoring Officer is of the view that a number of the complainants wish to seek redress in connection with their dissatisfaction about the way a Member has personally dealt with them. Under the previous national Code of Conduct such complaints may have required further action if they could have amounted to “failure to treat with respect”. The Council took a decision not to introduce a similar provision into the local code it adopted in 2012. It would also appear that some complaints may be triggered by policy decisions which the complainant perceives as impacting unfavourably on them.
 20. An initial sift is applied to complaints to decide whether, if proven, the subject matter of the complaint would amount to a breach of the Code of Conduct. During the period one complaint was considered for action. After consultation with the Chairman of the Member Conduct Panel this was dealt with by informal resolution—resulting in the Member apologising to the complainant.
 21. In one case the complainant requested that the Monitoring Officer put any action relating to the complaint on hold and has not requested that it be resumed. All other complaints have been closed as a result of an initial assessment that the subject matter of the complaint, if proven, would not amount to a breach of the Code.
 22. One complaint, received in July 2014, was subject to formal investigation and subsequently concluded during the period monitored in this report. The investigator found that there was no evidence of a breach of the Code and, following consultation with the Chairman of the Member Conduct Panel and the Independent Person the matter was closed.

Risk Management Implications

23. The Council’s Code of Conduct, Register of Interests and arrangements for dealing with complaints are statutory requirements and key elements of good governance. A lack of an appropriate Code of Conduct and/or robust and objective procedures for handling complaints could diminish public confidence in members’ transparency about their personal interests and in decisions being taken solely in the public interest. An unduly onerous or complicated Code or procedures for handling complaints would diminish Member confidence in a fair approach and could hinder their decision making. Guidance and training is intended to assist Members in observing the Code and so mitigate the risk of complaints about Members

Financial and value for money implications

24. An external investigation of a complaint costs in the region of £5,000. In the last year one investigation was dealt with by an external investigator.

Equalities and Diversity Implications

25. There are no obvious equalities and diversity implications to which the Committee needs to pay due regard.

Next steps:

The Monitoring Officer will report any recommendations from this Committee to the Member Conduct Panel and will keep the Independent Person informed.

Report contact: Ann Charlton, Monitoring Officer and Director of Legal and Democratic Services

Contact details: 0208 541 9001 / ann.charlton@surreycc.gov.uk

Background papers: None.

Appendix 1

Surrey County Council Member Code of Conduct

As a member or co-opted member of Surrey County Council you shall have regard to the following principles of public life – selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

Accordingly, when acting in your capacity as a member or co-opted member –

1. You must act solely in the public interest and should never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate.
2. You must not place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.
3. When carrying out your public duties you must make all choices, such as making public appointments, awarding contracts or recommending individuals for rewards or benefits, on merit and must be impartial and seen to be impartial.
4. You must co-operate fully with whatever scrutiny is appropriate to your office.
5. You must be as open as possible about your decisions and actions and the decisions and actions of Surrey County Council and should be prepared to give reasons for those decisions and actions.
6. You will on occasions be privy to confidential and sensitive information, such as personal information about someone, or commercially sensitive information which, if disclosed, might harm the commercial interests of the Council or another person or organisation. This information must not be revealed without proper authority.
7. You should be mindful of the requirement to declare and record any disclosable pecuniary interests in a manner conforming with the procedures set out in the box below.
8. You must, when using or authorising the use by others of the resources of your authority, ensure that such resources are not used improperly for political purposes (including party political purposes) and you must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986. For guidelines on the personal use of Council IT resources by Members, please refer to the IT Code.
9. You must promote and support high standards of conduct when serving in your public post, in particular as characterised by the above requirements, by leadership and example.
10. In addition to compliance with the Member Code of Conduct, you are expected to comply with the following codes:
 - a. Member/Officer Protocol
 - b. Planning Code of Best Practice

Registering and declaring pecuniary interests

You must, within 28 days of taking office as a member or co-opted member, notify the authority's monitoring officer of any disclosable pecuniary interest as defined by regulations made by the Secretary of State, where the pecuniary interest is yours, your spouse's or civil partner's, or is the pecuniary interest of somebody with whom you are living with as a husband or wife, or as if you were civil partners.

In addition, you must, within 28 days of taking office as a member or co-opted member, notify the authority's monitoring officer of any gift or hospitality with a value of £100 or above which you have been offered (whether accepted or not).

If an interest has not been entered onto the authority's register, then the member must disclose the interest to any meeting of the authority at which they are present, where they have a disclosable interest in any matter being considered and where the matter is not a 'sensitive interest'¹

Following any disclosure of an interest not on the authority's register or the subject of pending notification, you must notify the monitoring officer of the interest within 28 days beginning with the date of disclosure.

Unless dispensation has been granted, you may not participate in any discussion of, vote on, or discharge any function related to any matter in which you have a pecuniary interest as defined by regulations made by the Secretary of State. Additionally, you must observe the restrictions the authority places on your involvement in matters where you have a pecuniary interest.²

¹ A 'sensitive interest' is described in the Localism Act 2011 as a member or co-opted member of an authority having an interest, and the nature of the interest being such that the member or co-opted member, and the authority's monitoring officer, consider that disclosure of the details of the interest could lead to the member or co-opted member, or a person connected with the member or co-opted member, being subject to violence or intimidation.

² There are currently no additional restrictions placed by the authority, however, Members should be aware that adverse interests could be considered as transcending the Code of Conduct.

SURREY COUNTY COUNCIL

Arrangements for dealing with standards allegations under the Localism Act 2011

1. Context

- 1.1. Surrey County Council has 80 elected Councillors known as “Members” The Council is committed to promoting and maintaining high standards of conduct amongst its Members and has adopted a Code of Conduct setting out the conduct it expects of its Members and Co-opted Members as they carry out that role.
- 1.2. These are the Council’s arrangements for dealing with any complaint it receives, alleging that an elected or co-opted Member of Surrey County Council has failed to comply with its Code of Conduct. These arrangements will form the basis for investigating and deciding any such complaints.
- 1.3. The Council will appoint at least one Independent Person, whose views must be sought by the Council before it takes a decision on any allegation which it has decided should be investigated. The Council may also seek the view of the Independent Person at any other stage it chooses and a Member against whom an allegation as been made can also consult the Independent Person.

2. The Code of Conduct

- 2.1. A copy of the Council’s Code of Conduct for Members is set out below. It is also available for inspection on the Council’s website and on request from Democratic Services [*Please phone 020 8 5419 122 to speak to somebody in Democratic Services*].
- 2.2. The Code applies to Members when they go about the work of the Council or their role as a Member. The Council will not investigate complaints relating to a Member’s private life.

3. Making a complaint

- 3.1. Anyone wishing to make a complaint about the behaviour of a Surrey County Councillor (“Member”), should write or email to-

The Monitoring Officer
Surrey County Council
County Hall
Kingston Upon Thames
KT1 2DN
Or email monitoringofficer@surreycc.gov.uk

- 3.2. The Monitoring Officer is the member of the Council’s staff who has statutory responsibility for maintaining the Register of Members’ Interests and who is responsible for administering the system in respect of complaints of member misconduct. 3.3 Only written complaints will be investigated and the Council will require a name and a contact address or email address to acknowledge receipt of the complaint and keep the complainant informed of its progress. The Council does not normally investigate anonymous complaints, unless there is a clear public interest in doing so. The Monitoring Officer will disclose the name of the complainant to the Member unless specifically asked to withhold it. Only in very exceptional cases will the Council be able to progress a complaint to an investigation without disclosing the identity of the complainant to the Member.

4. How a complaint is resolved

- 4.1. The Monitoring Officer will review every complaint received. Where they are of the view that your complaint, if proven, would not amount to a breach of the Members Code of Conduct they will notify you of this and will not progress the matter further.
- 4.2. Wherever possible the Monitoring Officer will seek to resolve your complaint through informal resolution. Informal resolution may avoid the need for a formal investigation and could, for example, consist of the Member accepting that their conduct was unacceptable and offering an apology, or other remedial action by the Council. The Monitoring Officer will consult the Chairman of the Member Conduct Panel before recommending informal resolution and will notify you and the Member concerned of any recommendation and how that will be progressed.

5. When a complaint will be investigated

- 5.1. On some occasions informal resolution will not be possible, because one of the parties does not agree to cooperate with an informal process. If this happens the Monitoring Officer will seek a ruling from the Independent Person, who will decide whether the matter proceeds to an investigation or progresses no further. In order to inform that decision the Monitoring Officer will disclose information to the Independent Person, including details of the complaint, steps taken to achieve informal resolution and why this has not been successful. The complainant and the Member will be notified of the outcome.
- 5.2. On some occasions the Monitoring Officer may consider that the conduct alleged, if proved to have occurred, would amount to a breach of the Members Code of Conduct and would not be capable of informal resolution. If this is the case, after consultation with the Chairman of the Member Conduct Panel, the Monitoring Officer will decide whether the complaint merits formal investigation. In making that decision the Monitoring Officer will take into account both the seriousness of the alleged breach and the information provided in support of the complaint. Where the Monitoring Officer requires additional information in order to come to a decision, they may contact either the complainant or the Member to request that information.
- 5.3. If a complaint identifies criminal conduct or breach of other regulation by any person, the Monitoring Officer has the power to call in the Police and other regulatory agencies.

6. How is the investigation conducted?

- 6.1. If the Monitoring Officer decides that a complaint merits formal investigation, he/she will appoint an Investigating Officer. This may be a member of the Council's staff or an external investigator. The Investigating Officer will decide whether to speak to the complainant and to any other witnesses and may collect written evidence, such as correspondence, or minutes of meetings.
- 6.2. The Investigating Officer will contact the Member and provide them with a copy of the complaint, and ask the Member to provide his/her explanation of events, and to identify what documents the Investigating Officer needs to see and anyone they should interview. In very exceptional cases, where the Monitoring Officer, after consulting the Independent Person, considers that disclosing details of the complaint to the Member might prejudice the investigation, these will be withheld from the Member until the investigation has progressed sufficiently.

6.3. At the end of their investigation, the Investigating Officer will produce a draft report and will send copies of that draft report, in confidence, to the complainant and to the member concerned, to give them both an opportunity to identify any inaccuracies in the report and to comment on their findings. Having received and taken account of any comments that you may make on the draft report, the Investigating Officer will send his/her final report to the Monitoring Officer.

6.4. The investigation and the Investigating Officer's report will be kept confidential at this stage.

7. What happens if the Investigating Officer concludes that there is no evidence of a failure to comply with the Code of Conduct?

The Monitoring Officer will send a copy of the Investigating Officer's report to the Chairman of the Member Conduct Panel and to the Independent Person and seek their views on whether to convene a member Conduct Hearing Panel. Where a hearing is inappropriate the Monitoring Officer will write to the parties, notifying them that they are satisfied that no further action is required. The Monitoring Officer will send them both a copy of the Investigating Officer's final report, which will no longer be confidential at this point.

8. What happens if the Investigating Officer concludes that there is evidence of a failure to comply with the Code of Conduct?

Where the Investigating Officer concludes that there is evidence of a failure to comply with the Code of Conduct the Monitoring Officer will arrange for the Member Conduct Panel to hold a meeting, within three months of the Investigator's final report being issued, so that it can take a decision on the complaint.

8.1. The Monitoring Officer will invite the Member to reply in writing to the Investigation Officer's report, in particular to identify what is likely to be agreed and what is likely to be in contention at the hearing. The Member will be invited to give a view on whether the Panel should meet in public or in private. The Chairman of the Member Conduct Panel will set a date for the hearing and may issue directions as to the manner in which the hearing will be conducted, including whether or not the Member Conduct Panel will meet in public or private.

8.2. At the hearing, the Investigating Officer will present their report, call such witnesses as they consider necessary and make representations to substantiate their conclusion that the Member has failed to comply with the Code of Conduct.

8.3. The Member will also have an opportunity to give evidence, to call witnesses and to make representations to the Member Conduct Panel as to why they consider that they did not fail to comply with the Code of Conduct.

8.4. After hearing from all the parties the Member Conduct Panel may conclude either:

- that the Member did not fail to comply with the Code of Conduct or
- that the Member did fail to comply with the Code of Conduct, in which case it will also decide what action to recommend or to take.

The Member Conduct Panel will not announce its decision at the Hearing. Before reaching a final decision on the complaint and any sanction, the Chairman of the Member Conduct Panel will report its finding to the Independent Person, whose views will be sought and taken into account by the Panel before a final decision is made.

9. What action can the Member Conduct Panel take where a member has failed to comply with the Code of Conduct?

The Council has delegated to the Member Conduct Panel the power to take such action in respect of individual members as may be necessary to promote and maintain high standards of conduct. Accordingly the Member Conduct Panel may –

9.1. Decide that no action is needed

9.2. Censure the Member

9.3. Recommend to the Member's Group Leader (or in the case of un-grouped members, recommend to Council or to Committees) that he/she consider all any of the following sanction:

- The Member be removed from any or all Committees or Sub-Committees of the Council;
- the Member be removed from the Cabinet, or removed from particular Portfolio responsibilities;
- the member be removed from all outside appointments to which he/she has been appointed or nominated by the authority

9.4. Report its findings and recommendations to the next available meeting of the County Council.

The Member Conduct Panel has no power to suspend or disqualify the Member or to withdraw members' or special responsibility allowances.

10. How are the Panel's finding communicated to me?

As soon as reasonably practicable after the Panel has made its final decision, the Monitoring Officer will prepare a formal decision notice in consultation with the Chairman of the Member Conduct Panel, and send a copy to the complainant and to the Member and will make that decision notice available for public inspection.

11. Who are the Member Conduct Panel?

The Member Conduct Panel is a cross party Panel of Members of the Council chaired by the Chairman of the County Council. Any hearing will be conducted by three of their number, one of whom shall be the Chairman or Vice Chairman of the Council, who will chair the meeting. In the event that neither the Chairman nor Vice Chairman are able to chair the meeting the hearing will be conducted by three members of the Panel and the election of one of their number to chair the hearing will be the first item of business at the meeting.

12. Who is the Independent Person?

The Independent Person is a person who has applied for the post following advertisement of a vacancy for the post, and is the appointed by a positive vote from a majority of all the members of Council.

A person cannot be "independent" if he/she –

- is, or has been within the past 5 years, a member, co-opted member or officer of the Council; or
- is a relative, partner or close friend, of a member, co-opted member or officer of the Council;

13. Revision of these arrangements

The Council may by resolution agree to amend these arrangements, and has delegated to the Chairman of the Member Conduct Panel the right to depart from these arrangements where they consider that it is expedient to do so in order to secure the effective and fair consideration of any matter.

14. Appeals

A Member is expected to comply with the decisions taken through the process and has no right of appeal against a finding of breach of the Code of Conduct. However a Member may require that a further Member Conduct meeting reviews any sanction imposed at a hearing.

15. Local Government Ombudsman

Where a complainant concludes that the authority has failed to deal properly with a complaint they may make a complaint to the Local Government Ombudsman.



Audit & Governance Committee
7 December 2014

Operation Horizon: Update on Savings

Purpose of the report:

At a previous meeting the Audit & Governance Committee requested clarity and update on Surrey Highway progress in realising projected Project Horizon Savings, and to ensure that a process is in place for the financial transfer of savings to Surrey County Council (SCC). This was highlighted in the 2014 Audit Report and in the resulting Management Action Plan.

Recommendations:

That the Committee note the content of the report.

Introduction:

1. In February 2013 Cabinet approved a £100m investment in Surrey's road network. The investment programme (known as Project Horizon) was to resurface a minimum of 500Km (10%) of the council's road network over five year period.
2. The Audit & Governance Committee has been monitoring implementation of the Management Action Plan following the Internal Audit Report on Operation Horizon in May 2014. It has been particularly concerned about progress in implementing an automated solution to recover discounts from Kier MG.

Savings Plan:

3. In 2012 the 500Km programme was priced by Surrey Highways (using 2011 rates) at a total estimated cost of £120m. Therefore to enable programme delivery within budget constraints, Surrey Highways and its contractors, agreed a savings plan to realise £12m to £20m over the five year period.

4. The savings plan was based on two activities to deliver between 12% to 20% discount:
- Contract Discount (12%)**– suppliers would give SCC an automatic **12%** discount of costs provided SCC continue to guarantee a minimum amount of turnover (expressed in material tonnage) per year
 - Value Engineering (4% – 8%)**– in the addition to the above, all parties agreed to a minimum **4%** value engineering target for each scheme and a stretch target of **8%**. This would incentivise teams to maximise efficiency and minimise design costs
5. See below for summary of success against targets:

Contract Discount (12%)

6. The table below confirms the combined Tarmac/Kier estimated and actual realised saving to date:

Contract Savings Summary			
	Annual Budget £m	Forecast Savings £m	Actual Savings £m
Year 1 (2013/14)	31	£3.72	£3.27
Year 2 (2014/15)	24	£2.88	£2.16
Year 3 (2015/16)	15	£1.80	£2.88
Year 4 (2016/17)	15	£1.80	£1.80*
Year 5 (2017/18)	15	£1.80	£1.80*
Total	100	£12.00	£11.91

*Savings for year 4 & 5 based upon forecast not actual realised

7. The table above confirms that Surrey Highways are on target to realise the contract savings of 12%. For 2014/15 savings, an interim payment of £1m has been transferred to SCC, with the outstanding balance to be transferred before the end of the year. However, two risks have been identified:
- Timing** –contract assumed savings would be paid quarterly based upon annual design estimate of material. However in practice tonnage can only be agreed by both parties once actual programme has been delivered. Thus savings are thus not been agreed until the end of each financial year. A new process due to be introduced in 2016/17 is anticipated to re-introduce quarterly savings payments.
 - Tonnage Values** – due to the focus on residential roads in remaining programme, there is a risk that full tonnage volumes will not be achieved. SCC and contractors are therefore reviewing options to ensure savings continue to be realised

- c. **Chertsey Depot** – original agreement assumed SCC would lease land for storage. However, this has proved difficult to achieve as part of formal lease. In the first 2 years of contract, suppliers were content to apply savings on an informal basis, providing access to site was maintained. However, they have recently expressed risk for this arrangement continuing for remainder of programme. Surrey Highways, property services and Kier are reviewing options to determine how risk can be mitigated.

Value Engineering (4% to 8%)

8. The table below confirms estimated value engineering savings and actual realised amount:

	Annual Budget	Estimated minimum saving	Estimated Stretch Saving	Realised Savings To Date
	£m			
Year 1 (2013/14)	31	£1.24	£2.48	£1.80
Year 2 (2014/15)	24	£0.96	£1.92	£1.80
Year 3 (2015/16)	15	£0.60	£1.20	£0.84
Year 4 (2016/17)	15	£0.60	£1.20	£1.30*
Year 5 (2017/18)	15	£0.60	£1.20	£1.30*
Total	100	£4.00	£8.00	£7.04

*Savings for year 4 & 5 based upon forecast not actual realised

9. Surrey Highways are thus on target to realise value engineering savings of 7%, against overall stretch target of 8%. This has been delivered through ensuring effective management of night works and traffic management and minimising construction length for schemes
10. Year 3 value engineering saving has been negatively impacted by increased Tar cost (classed as hazardous waste), however, revised process for Year 4 & 5 will mitigate future impact.

Conclusions:

11. Surrey Highways remain on target to achieve savings target of 19%, realising a total saving of £19m through delivery of project horizon.
12. Risks remain in the final years of the programme particular in finalising tonnage values and Chertsey depot, however, agreed negotiation and action plan advises risks can be mitigated through effective dialogue and resolution.

Financial and value for money implications

There are no direct implications.

Equalities and Diversity Implications

There are no direct implications.

Risk Management Implications

See paragraphs 8–10.

Next steps:

Surrey Highways will continue to deliver savings strategy, mitigating risks and report to Environment & Select Board on progress and remaining programme for Horizon.

Report contact: Jane Young, Pavement Team Manager, Highways and Transport, 01372 832174

Sources/background papers:

None.



Audit & Governance Committee
7 December 2015

Governance Update Report

SUMMARY AND PURPOSE:

The purpose of this report is to provide a half year update on the areas within the 'Continually Strengthening Governance' section of the 2014/15 Annual Governance Statement and the governance arrangements during the first six months of 2015/16.

RECOMMENDATIONS:

The Committee is asked to:

- a) Confirm whether it is satisfied with the ongoing governance work; and
- b) Agree whether any concerns should be referred to the Cabinet or to the relevant Cabinet Member.

CONTINUALLY STRENGTHENING GOVERNANCE:

- 1 The 2014/15 Annual Governance Statement (AGS) identified areas that required strengthening in order to enhance the overall governance arrangements. Progress on these areas is monitored by the Governance Panel¹ and is summarised below.
- 2 Children's and Safeguarding Service

The following areas of improvement were identified:

- ' There is a need to reduce reliance on long term agency resource particularly in management/supervisory roles;*
- As the number of children in receipt of direct payments increases, the council must ensure it has robust systems in place to demonstrate that social care reviews are conducted in a timely manner in line with stated policy;*
- The council needs to improve its administration of looked after children's personal finances to ensure it meets its statutory duty as the corporate parent.'*

¹ Consisting Director of Legal and Democratic Services (Chair), Director of Finance, Senior representatives from HR and Policy & Performance, Chief Internal Auditor, Risk and Governance Manager

3 Contract Management

The following area was highlighted in the AGS:

'There is a need to ensure that the council's central contract management system contains key information on significant contracts to enable effective contract monitoring and timely procurement.'

- 4 An update on progress on the Management Action Plans for the areas above is included within the Internal Audit half year report on this agenda.

2015/16 GOVERNANCE ARRANGEMENTS:

- 5 Updates on many different areas of governance are continuously reported to senior management and members through networks, groups and boards. The information below provides an update on key areas of governance that are supporting the increasing number and scale of challenges that the council is facing.

Governance strategy

- 6 The Governance Panel has developed a one page governance strategy, in alignment with the Council's Corporate Strategy. The governance strategy, attached at annex 1, clearly sets out the meaning of governance and the benefits of good governance. The strategy will help promote the importance of good governance and is underpinned by the council's Code of Corporate Governance.

Networked leadership approach

- 7 The council's leadership focuses on strategic issues through a networked approach, which enables cross council working to focus on outcomes. In particular, the Statutory Responsibilities Network (SRN) takes a lead on risk and governance and receives updates from the Strategic Risk Forum (chaired by the Director of Finance) and the Governance Panel (chaired by the Director of Legal and Democratic Services) as appropriate.

Financial planning

- 8 The Medium Term Financial Plan (MTFP) has been refreshed to incorporate latest data on demand and the likely future financial outlook. While some clarity has emerged, indicating a challenging financial future, much uncertainty continues pending the autumn spending review.
- 9 A report was provided to Cabinet in November 2015 that updated them on the strategic challenges facing the council in developing its MTFP (2016-21), including the revenue budget and the Capital Programme. This has ensured early transparency ahead of the Cabinet meeting on 2 February 2016 that will formally recommend the 2016/17 budget to full County Council.

Ethical standards

- 10 The officer Code of Conduct sets out the standards of values and ethics expected from officers and supports the council's aim to provide high quality services fairly and efficiently. The Code of Conduct has been updated to incorporate the 7 Standards of Public Life to ensure that officers are aware of the recognised ethics of public service.

Children's Improvement Plan

- 11 Progress on the delivery of the Children's Improvement Plan is being monitored in a number of ways, including through independent external review (Department for Education and Ofsted), the Improvement Board (chaired by the Deputy Leader), internal programme and project arrangements and member scrutiny and oversight, in particular the Social Care Services Board.

Projects and programmes

- 12 The Cabinet and member boards continue to be regularly updated with progress on key strategic projects, programmes and collaborative working such as the Better Care Fund and Families, Friends and Communities. This enables continuous focus, review and monitoring of key areas to support the delivery of the council's strategic goals.

Staff

- 13 A pay and reward strategy review is being undertaken and officers are working closely with senior management, members, and the trade unions. The approach to performance management across the organisation is being reviewed, which will build on the existing system, focusing on what staff are doing and how they are doing it, and developing collective ownership of outcomes.
- 14 A staff survey has recently taken place that focused on the employee experience. Results are due in early 2016 and will provide information on how staff feel about the organisation.

IMPLICATIONS:

Financial

- 15 There are no direct financial implications of this report.

Equalities

- 16 There are no direct equalities implications of this report.

Risk management

- 17 An effective governance and internal control environment leads to improved performance and outcomes for residents.

WHAT HAPPENS NEXT:

Governance update reports will be provided to future Committee meetings.

REPORT AUTHORS: Ann Charlton, Chair of Governance Panel

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

Sources/background papers: 2014/15 Annual Governance Statement, Governance Panel papers, working papers, Cipfa/Solace Framework for Delivering Good Governance in Local Government, The Code of Corporate Governance

PURPOSE

To operate effectively, efficiently and ethically to ensure Surrey residents remain healthy, safe and confident about their future.

VISION

- Selflessness
- Openness
- Integrity
- Honesty
- Objectivity
- Leadership
- Accountability

VALUES

-  Listen
-  Responsibility
-  Trust
-  Respect

Context

Good governance is about doing things in the right way and acting in the public interest at all times to ensure intended outcomes are achieved. This Governance Strategy demonstrates our commitment to good governance and promotes the values and principles that guide the behaviour of all officers and members. It is supplemented by the Code of Corporate Governance that sets out the way we meet that commitment. An annual review of governance and the publication of an Annual Governance Statement enable us to identify and report on good governance practice and also areas where there is a need to enhance arrangements.



DECISION MAKING:

Good governance encourages better informed and longer-term decision making as well as the efficient use of resources.

ACCOUNTABILITY AND TRANSPARENCY:

Good governance strengthens accountability for the stewardship of resources.

OUTCOMES:

Good governance improves management and oversight, resulting in more effective interventions and a better resident experience.

In 2015/16 we will:

- Maintain our focus on key projects and programmes such as Families, Friends and Communities, to assist with social care needs and demands
- Seize opportunities opened up by innovation work, technology and digital developments to support the changes we want to make for residents and to manage growing demands
- Continue to make important investments and improvements for staff and members to ensure they have the training, support, equipment and working environments needed to work effectively and provide high standards of customer care.

Our core governance principles

1. We will focus on our purpose and implement a vision to achieve the intended outcomes for the community
2. Members and officers will work together to achieve a common purpose with clearly defined functions and roles
3. We will promote values and uphold high standards of conduct and behaviour
4. We will take informed and transparent decisions that promote value for money and are subject to effective scrutiny and risk management
5. We will develop the capacity and capability of members and officers to be effective
6. We will engage with our stakeholders as appropriate to promote robust public accountability.

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