

Notice of Meeting

Audit & Governance Committee




Date & time
Monday, 22
February 2016
at 10.00 am

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

Contact
Bryan Searle
Room 122, County Hall
Tel: 020 8541 9019
bryans@surreycc.gov.uk

Chief Executive
David McNulty

 We're on Twitter:
@SCCdemocracy

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Bryan Searle on 020 8541 9019.

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

To report apologies for absence and substitutions.

2 MINUTES OF THE PREVIOUS MEETING (7 DECEMBER 2015)

(Pages 1
- 16)

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

3 DECLARATIONS OF INTEREST

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

Notes:

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

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (16 February 2016).
2. The deadline for public questions is seven days before the meeting (15 February 2016).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER

(Pages
17 - 24)

To review the Committee's recommendations tracker.

6 2015/16 EXTERNAL AUDIT PLAN

(Pages
25 - 48)

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2015/16 financial statements of the Council.

7 2014/15 AUDIT FINDINGS REPORT FOR SURREY CHOICES

(Pages
49 - 88)

The purpose of this report is to share the report of the auditors, Grant Thornton, with the Committee, share background information and a report of the actions being taken in light of the audit report and

other matters arising.

This report has been prepared on behalf of the Council's Shareholder Board by the secretary to the Board.

8 COMPLETED INTERNAL AUDIT REPORTS

(Pages
89 - 104)

The purpose of this report is to inform Members about the Internal Audit reports that have been completed since this Committee last considered a Completed Internal Audit Reports item in December 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.

9 STATUTORY RESPONSIBILITIES NETWORK

(Pages
105 -
108)

To update the Audit & Governance Committee on activity of the Statutory Responsibilities Network.

10 LEADERSHIP RISK REGISTER

(Pages
109 -
120)

The purpose of this report is to present the Leadership Risk Register as at 31 January 2016 and update the Committee on any changes made since the last meeting to enable the Committee to keep the Council's strategic risks under review.

11 AUDIT AND GOVERNANCE COMMITTEE - ANNUAL REPORT 2015

(Pages
121 -
134)

For Members to consider and comment on the Committee's Annual Report.

12 DATE OF NEXT MEETING

The next meeting of Audit & Governance Committee will be on 11 April 2016.

David McNulty
Chief Executive

Published: 12 February 2016

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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 7 December 2015 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

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

In Attendance

Cath Edwards, Risk & Governance Manager
Cheryl Hardman, Regulatory Committee Manager
David John, Audit Performance Manager
Sheila Little, Director of Finance (Section 151 Officer representative)

76/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were no apologies for absence but Will Forster had notified the Chairman that he would be late. The Director of Finance and Risk & Governance Manager had also notified the Chairman that they would be late to the meeting.

77/15 MINUTES OF THE PREVIOUS MEETING: 28 SEPTEMBER 2015 [Item 2]

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

78/15 DECLARATIONS OF INTEREST [Item 3]

There were none.

79/15 QUESTIONS AND PETITIONS [Item 4]

There were none.

80/15 RECOMMENDATIONS TRACKER [Item 5]**Declarations of interest:**

None.

Key points raised during the discussion:

1. In relation to A20/15 (record keeping in Adult Social Care), the Chairman reported that he had spoken to the Head of Resources in Adult Social Care. He was persuaded that responsibility for record keeping should remain with Adult Social Care, citing previous interference which had caused confusion about where responsibility lies. He had been given assurance that changes were being put in place to reduce the problems identified and would meet the Head of Resources again in the new year for a further update. The Cabinet Member for Business Services and Resident Experience was in agreement with this approach.

Denis Fuller joined the meeting at 10.10am.

Members raised concerns that assurances had been given previously on this issue but that problems had continued. The Chairman responded that responsibility had been passed back and forth and that he had been persuaded that it should stay with Adult Social Care.

2. In relation to A18/15 (SEND Strategy), the Vice-Chairman stated that he wouldn't give an update on the Education and Skills Board's findings at this stage.
3. In relation to A30/15 (meeting room chairs), it was agreed to mark this as completed.

Action/Further information to note:

None.

RESOLVED:

That the committee NOTES the report.

81/15 BABCOCK 4S LIMITED - ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 [Item 6]

Declarations of interest:

None.

Witnesses:

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

Key points raised during the discussion:

1. The Chairman introduced the report and informed the committee that the meeting with Babcock 4S had been a good one.
2. The Finance Manager informed the committee that Jason Russell had been appointed to the Babcock 4S Board by the Shareholder Board on 19 November 2015.

Action/Further information to note:

None.

RESOLVED:

- i. That the committee NOTES the Annual Report and Statements;
- ii. That the committee NOTES the findings of the informal meeting of the Audit & Governance Committee.

82/15 GRANT THORNTON: AUDIT & GOVERNANCE COMMITTEE UPDATE [Item 7]

Declarations of interest:

None.

Witnesses:

Thomas Ball, Manager – Grant Thornton

Key points raised during the discussion:

1. The representative of Grant Thornton introduced the update and confirmed that the audit of the financial statements 2014/15 had been formally concluded after the Pension Fund Annual Report had been finalised, and the audit certificate had been issued on 30 November 2015.
2. Members queried why 3-5 members were being proposed as an ideal size for an audit committee given the different size and responsibilities of local authorities. The Grant Thornton Manager suggested that this was a proposed average size and that committees will vary depending on the size and complexity of the local authority. Surrey County Council' audit committee would be at the top of that range, if not bigger.
3. The Chairman queried what Grant Thornton's response was to the National Audit Office's consultation. The Grant Thornton Manager did not know the details of the response but was able to confirm that the response had been positively incorporated into the final guidance that was issued.
4. Members requested that Grant Thornton met informally with the committee to discuss its effectiveness in the context of the cross-sector review of audit committee effectiveness (**Recommendation Tracker ref: A39/15**).

Action/Further information to note:

Grant Thornton to meet informally with the committee to discuss its effectiveness in the context of the cross-sector review of audit committee effectiveness.

RESOLVED:

That the committee NOTES the external auditor's progress report.

83/15 EXTERNAL AUDIT: 2014/15 AUDIT FINDINGS REPORT FOR S.E. BUSINESS SERVICES LTD [Item 8]**Declarations of interest:**

None.

Witnesses:

Thomas Ball, Manager – Grant Thornton

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

David John, Audit Performance Manager

Key points raised during the discussion:

1. The representative of Grant Thornton introduced the Audit Findings Report and suggested that overall it was a good outcome for SE Business Services Ltd.
2. Members thanked Grant Thornton for bringing the issue of the unsigned contract to their attention and queried Grant Thornton's views on carrying on business with an unsigned contract. The Grant Thornton Manager stressed that First Community Health and Care was paying the fees in accordance with the draft contract. With regard to audit, the unsigned contract did not have a big impact although it had been raised as a control point. If it is not dealt with by the end of December it becomes a bigger problem.

In response to a further query about risk, the Grant Thornton Manager agreed that in theory the unsigned contract was a risk as SE Business Services Ltd may not be paid in accordance with the draft contract. However, SE Business Services Ltd had made a risk-based decision to continue. As part of the audit, Grant Thornton had checked that SE Business Services Ltd was being paid in accordance with the draft contract. Correspondence was also noted which showed this issue being followed up.

In response to a question on why the contract remained unsigned, the Grant Thornton Manager assured the committee that SE Business Services Ltd had done everything it could to resolve the issue. Members queried whether Grant Thornton's relaxed attitude could lead to them being held responsible if the unsigned contract does lead to a problem. It was clarified that Grant Thornton had raised this as a point in its Audit Findings Report and would follow up with the management at South East Business Services Ltd. The responsibility to resolve the situation lies with them.

The Finance Manager (Assets & Accounting) assured the committee that this was a one off situation and a measured commercial risk was being taken to act on an unsigned contract. To date, there had been no problems and the contract should be signed soon.

The Audit Performance Manager suggested that contracts should be signed as best practice as otherwise it can lead to uncertainty. However, legal advice had allowed for tacit acceptance of contractual requirements.

The Chairman proposed writing to the Director of Legal and Democratic Services to query the legal view on unsigned contracts. This was agreed (**Recommendations Tracker ref: A40/15**).

Action/Further information to note:

Chairman to write to the Director of Legal and Democratic Services to query the legal view on unsigned contracts.

RESOLVED:

That the committee NOTES the contents of the 2014/15 Audit Findings Report for SE Business Services Ltd.

84/15 GRANT THORNTON: 2015/16 KEY PERFORMANCE INDICATORS [Item 9]

Declarations of interest:

None.

Witnesses:

Thomas Ball, Manager – Grant Thornton

Nicola O'Connor, Finance Manager (Assets & Accounting)
Sheila Little, Director of Finance

Key points raised during the discussion:

1. The representative of Grant Thornton introduced the proposed Key Performance Indicators (KPIs) for 2015/16 and highlighted the three new indicators.

The Director of Finance joined the meeting at 10.45am.

2. The Chairman requested that where targets are not reached, further detail is provided on where problems lie. The Grant Thornton Manager confirmed that issues can be flagged throughout the year.
3. Members queried whether a fuller set of KPIs could be proposed. The Director of Finance and Finance Manager (Assets & Accounting) suggested that the proposed KPIs were set at the appropriate level and assured Members that since the external auditors have a mature relationship with Surrey County Council and hold regular discussions with its officers, the KPIs did not need to be expanded upon. If the relationship was more difficult, performance would need to be managed more carefully.

Action/Further information to note:

None.

RESOLVED:

That the committee APPROVES the proposed Key Performance Indicators for 2015/16.

85/15 TREASURY MANAGEMENT HALF YEAR REPORT 2015/16 [Item 10]**Declarations of interest:**

None.

Witnesses:

Phil Triggs, Strategic Manager (Pensions & Treasury)
Alex Moylan, Senior Accountant

Key points raised during the discussion:

1. The Strategic Manager (Pensions & Treasury) introduced the report. He updated the committee that the treasury management advice contract was out to tender and the tendering process would be complete by 1 January 2016. Two advisors had been shortlisted for interviews. Members queried whether a new advisor would be able to get to grips with their role given the short time between interviews and signing of a contract. The Strategic Manager (Pensions and Treasury) confirmed that due diligence would take place if the appointment was to change but stressed the large amount of information provided by the Council during the tender process and the experience of both shortlisted companies.
2. The Strategic Manager (Pensions and Treasury) confirmed that the Office of the Police and Crime Commissioner for Surrey is satisfied with the council's management of its cash and that regular discussions take place.
3. In response to a question about capital borrowing, the Director of Finance confirmed that £90m had been borrowed this year in three lump sums. This was to address anticipated need at times when interest rates were at historic lows.
4. The Chairman requested that schools with cash balances incorporated within the council's balances be informed again that they would receive 0% interest under present arrangements (**Recommendations Tracker ref: A41/15**).
5. The Chairman suggested that investment returns were too low and could reflect an overcautious investment strategy. The Strategic Manager (Pensions & Treasury) confirmed that the failure of Icelandic banks had reduced the risk appetite but pointed out that the rate of return had increased this year. Discussions will be taking place on increasing the risk appetite of the Treasury Management Strategy for 2016/17. Options would be shared with the Chairman of the Committee before the Strategy is to be determined by Council in February 2016 (**Recommendations Tracker re: A42/15**).
6. In response to a previous request from the Chairman, officers tabled a list of outstanding investments (**attached as Annex 1 to the Minutes**). The Chairman requested that this be included in future reports.
7. Members queried whether the risk rating of Aberdeen had increased given recent news stories about it. The Strategic Manager (Pensions & Treasury) gave feedback from a recent conference at which the Chief Executive for Aberdeen had spoken.

Action/Further information to note:

- a) Officers to write to schools with cash balances incorporated within the council's balances to explain that they would receive 0% interest under present arrangements.
- b) Options for the redrafted Treasury Management Strategy to be shared with the Chairman of Audit & Governance Committee, before it is presented to Council in February 2016.

RESOLVED:

That the committee NOTED the content of the Treasury Management Half Year Report for 2015/16.

86/15 INTERNAL AUDIT HALF YEAR REPORT 2015/16 [Item 11]**Declarations of interest:**

None.

Witnesses:

David John, Audit Performance Manager

Key points raised during the discussion:

1. The Audit Performance Manager introduced the report.
2. In response to a query about the increase in the proportion of audits receiving opinions of 'significant improvement needed', the Audit Performance Manager suggested that there wasn't a single answer. He highlighted that the Audit Plan was risk-based, so it was looking at areas which may be more likely to receive that audit opinion. However, the Audit Plan had been risk-based for a number of years. There did not appear to be any pattern as to where the 'significant improvement needed' opinions were being received. There may be some pattern associated with the auditor assigned to an audit. It may also be that by the end of the financial year, the proportion of audits receiving 'significant improvement needed' will have fallen. Members noted that they still had concerns about the half year figure of 23% of audits receiving 'significant improvement needed'.
3. The Audit Performance Manager clarified that the audit opinions listed for 2015/16 under paragraph 7 were new for this year. Audits receiving follow up reviews were not listed in this table.
4. The Audit Performance Manager informed the committee that the Internal Audit team had shrunk over the past 15 years. However, it had also developed a more comprehensive and targeted Audit Plan. Vacancies had been covered with good agency staff. 280 days were also set aside as a contingency to deal with any special investigations in-year. The Audit Performance Manager confirmed that the Chief Internal Auditor would be able to provide an audit opinion at the end of the year.
5. **Financial Assessment and Benefits** – There was concern at the management response to the recommendation for 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. It was felt that the service should understand what its demand is before it can plan to address it. Members also queried how long into 2016 the IT system would be operational. Officers confirmed that this was being proposed for mid-2016. The committee agreed that the Chairman should write to the new Strategic Director of Adult

Social Care and Public Health, copying in the Cabinet Member and Scrutiny Board Chairman (**Recommendations Tracker ref: A43/15**).

6. **Fire Station Capital Project Management** – The Audit Performance Manager informed the committee that Audit had now assessed progress against the Management Action Plan (MAP) to be Green, following information being received from the service. Internal Audit does not usually conduct a follow-up audit for medium priority recommendations but as discussions are held regularly with Surrey Fire and Rescue Service, auditors will know informally if there are any further problems.

Saj Hussain left the meeting at 11.27am.

7. **Members' Interests** – It was suggested that consideration of whether the Members' Code of Conduct should include a requirement to disclose non-pecuniary interests should be undertaken by Audit & Governance Committee as it has responsibilities for ethical standards.

Saj Hussain rejoined the meeting and Tim Hall left the meeting at 11.31am.

8. **Direct Payments (Children)** – The Audit Performance Manager suggested that preventing any reviews from becoming overdue was possibly over-ambitious.
9. **Accounts Receivable** – The Audit Performance Manager suggested that the assessment of action responding to the recommendation that the service should change the overpaid salaries invoicing process with a view to separating the customer information upload from the invoice upload should have been amber as the meeting had been scheduled. He was not aware of the outcome of the meeting but clarified that the assessment was Amber not Red.

Tim Hall rejoined the meeting at 11.35am.

10. **Surrey Arts** – The Audit Performance Manager explained the insurance in place for accidental damage, vandalism or theft of musical instruments. Members asked for further detail on insurance excess for theft from Surrey Arts and the total value of instruments owned by Surrey Arts (**Recommendations Tracker ref: A44/15**).

Action/Further information to note:

- a) The Chairman to write to the new Strategic Director of Adult Social Care and Public Health, copying in the Cabinet Member and Scrutiny Board Chairman, regarding the management response to an Internal Audit recommendation regarding outstanding assessments.
- b) Further detail to be provided on insurance excess for theft from Surrey Arts and the total value of instruments owned by Surrey Arts.

RESOLVED:

The committee NOTED the report.

87/15 HALF YEAR SUMMARY OF IRREGULARITY INVESTIGATIONS AND COUNTER FRAUD MEASURES APRIL - SEPTEMBER 2015 [Item 12]

Declarations of interest:

None.

Witnesses:

Reem Burton, Lead Auditor
David John, Audit Performance Manager

Key points raised during the discussion:

1. The Lead Auditor introduced the report and highlighted the increase in the number of irregularity investigations which she suggested was due to the promotion work that had been undertaken. Many of the investigations were relatively quick and focused on the provision of advice to improve controls.
2. The committee was informed that in the case of the payment of £97k made in response to a fraudulent letter claiming a change of bank details for a council supplier, £70k had been recovered.
3. Members asked if officers could give any assurance that other large frauds had not happened. The Lead Auditor stressed the fraud prevention work undertaken and the annual audits of key financial controls. She pointed out that a list of all suppliers is publicly available due to transparency rules, making it easy for fraudsters to create invoices. Reasonable assurance could be given that controls are in place. In response to a suggestion that demands for payment be made both electronically and in paper, the Director of Finance stated that this would not prevent fraud. However, a new invoicing system was being implemented. Officers informed Members that this particular fraud had highlighted that counter-fraud activities had been focussing on the more sophisticated ends of the process rather than the basics. Counter-fraud work would now go back to basics and not assume knowledge.
4. Counter-fraud officers would be working with schools to improve their controls. It was confirmed that governing bodies have to take responsibility for any loss through fraudulent activity.
5. In response to a query about the investigation in the Chief Executive's Office, officers confirmed that the case had not been proven.

Action/Further information to note:

None.

RESOLVED:

The committee NOTED the report.

88/15 COMPLETED INTERNAL AUDIT REPORTS [Item 13]**Declarations of interest:**

None.

Witnesses:

David John, Audit Performance Manager

Key points raised during the discussion:

1. The Audit Performance Manager introduced the report.
2. **Nursery Education** – The Audit Performance Manager clarified that the sample of nursery settings audited were those which caused the most concern. Therefore the audit opinion of “significant improvement needed” does not necessarily apply across all nursery settings.

3. **Highways Communications** – the committee was assured that Economic Prosperity, Environment and Highways Board would be looking at this report on 10 December 2015.

Action/Further information to note:

None.

RESOLVED:

The committee NOTED the report.

89/15 HALF YEAR RISK MANAGEMENT REPORT [Item 14]

Declarations of interest:

None.

Witnesses:

Cath Edwards, Risk & Governance Manager

Key points raised during the discussion:

1. The Risk & Governance Manager introduced the report and confirmed that risk arrangements continue to work well. She highlighted wording changes on some of the risks in the Leadership Risk Register, as well as two new risks.
2. The Director of Finance informed the committee that the Statutory Responsibilities Network had begun a strategic review of the Leadership Risk Register to ensure that it contains only the key risks that could cause significant disruption to the council. The outcomes of the review would be reported to the committee and to Cabinet.
3. Members highlighted security risks to staff, particularly on the front desk at County Hall. The Director of Finance confirmed that terrorism risks had been discussed by the Statutory Responsibilities Network. It had been agreed to note national guidelines and make sure that staff were also aware of those guidelines. All Business Continuity Plans were also being revisited. The Chairman proposed to raise the issue of front desk security with the Chief Executive (**Recommendations Tracker ref: A45/15**).
4. With regard to **L13 Safeguarding – Adult Social Care**, a Member raised the risk inherent in partnership working, for example hospital referrals for social care assessment and the need to ensure domiciliary care was in place when patients are discharged from hospital. The Director of Finance explained that she could not respond for Adult Social Care but confirmed that this risk did have a high residual risk level and would always be a high risk. The value of the Leadership Risk Register was to ensure that the right people were having discussions. The Audit Performance Manager explained that Adult Social Care and Children's Services has its own Quality Assurance processes but that Internal Audit had recently audited Quality Assurance in Children's Services.
5. The Director of Finance confirmed that she, along with the Director of Legal and Democratic Services and the Chief Internal Auditor, had input into the Children's Improvement Board on governance issues. The Governance Plan for the Children's Improvement Plan had been to the Statutory Responsibilities Network twice. The Deputy Chief Executive also provides monthly updates to the Statutory Responsibilities Network on the Improvement Plan.

Action/Further information to note:

The Chairman to raise the issue of front desk security with the Chief Executive.

RESOLVED:

The committee NOTED the report.

90/15 ETHICAL STANDARDS ANNUAL REVIEW [Item 15]**Declarations of interest:**

None.

Witnesses:

Ann Charlton, Director of Legal and Democratic Services/Monitoring Officer

Key points raised during the discussion:

1. The Director of Legal and Democratic Services introduced the report, explaining that as the report had been delayed there was 15 months of data.
2. Members noted the importance for Members to attend one of the scheduled training sessions on interests.
3. In response to a request, the Director of Legal and Democratic Services agreed to find and share some comparative statistics on ethical standards (**Recommendations Tracker ref: A46/15**). She pointed out that this was a more difficult task with the abolition of the Standards Board and adoption of local codes of conduct.
4. The Director of Legal and Democratic Services confirmed that she had clerked the appointment panel for the Independent Person but that Members had made the appointment.

Action/Further information to note:

The Director of Legal and Democratic Services to find and share some comparative statistics on ethical standards.

RESOLVED:

The committee NOTED the report.

91/15 OPERATION HORIZON: UPDATE ON SAVINGS [Item 16]**Declarations of interest:**

None.

Witnesses:

Jane Young, Carriageway Team Leader

David Harmer, Chairman of Economic Prosperity, Environment and Highways Board

Key points raised during the discussion:

1. The Carriageway Team Leader introduced the report.
2. The Chairman asked why it had taken so long to get the payments transferred. The Carriageway Team Leader explained that it takes some to get tickets in and review them to finalise material tonnages. It had been agreed now to do this quarterly and this had been diarised with the Kier team.

3. In response to a question about underperformance clawbacks, the Carriageway Team Leader explained that there are Key Performance Indicators in place and underperformance against these can affect monthly profits. However, this has not been an issue.
4. The Carriageway Team Leader agreed with Members that access to the Chertsey Depot was not easy and informed them that discussions were underway with Property Services to make it easier for aggregate industries to access the depot.
5. The Carriageway Team Leader explained the process for extraction and use of tar from roads. The amount of tar being found in roads was normal for the age of the roads and the Council has a duty to deal with it as a contaminant.
6. Concern was expressed that planning permission was not fully in place for the site at Hithermoor. The Carriageway Team Leader assured the committee that conversations were taking place with the Planning Service.
7. The Carriageway Team Leader confirmed that a further payment of £150,000 was anticipated in the December bill batch. The rest of the savings would be part of the opportunity pot.
8. The Carriageway Team Leader explained that chemical testing of materials on lorries was undertaken to prevent fraudulent activity.
9. The Chairman of Economic Prosperity, Environment and Highways Board agreed that there were risks in any project of this nature but that all due diligence had been undertaken. He suggested that the service could only be vigilant to try and prevent fraudulent activity. He assured the committee that his Board was able to keep supplier performance under review through regular Member Reference Group meetings.

Action/Further information to note:

None.

RESOLVED:

The committee NOTED the report.

92/15 GOVERNANCE UPDATE REPORT [Item 17]

Declarations of interest:

None.

Witnesses:

Cath Edwards, Risk & Governance Manager

David John, Audit Performance Manager

Key points raised during the discussion:

1. The Risk & Governance Manager introduced the report.
2. The Audit Performance Manager assured the committee that administration of looked after children's personal finances had improved.
3. The Chairman queried who was ultimately responsible for the delivery of the Children's Improvement Plan. It was agreed that this would be the Deputy Chief Executive as Statutory Director of Children's Services and the Cabinet Member for Schools, Skills and Educational Achievement as the Statutory Lead Member for Children's Services.

Action/Further information to note:

None.

RESOLVED:

The committee NOTED the report.

93/15 DATE OF NEXT MEETING [Item 18]

The date of the next meeting was noted.

The Chairman expressed thanks to the Regulatory Committee Manager, who was attending her last meeting of the committee, on behalf of himself and Audit & Governance Committee.

Meeting ended at: 12.50 pm

Chairman

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Short-Term Treasury Deposits as at: 31/11/2015

Counterparty	Deposit Type	Amount	Interest Rate
LLOYDS - 32 Day Notice Call Account	Call Account*	£45,000,000	0.57%
LLOYDS - Fixed Deposits Call Account	Fixed Deposit	£10,000,000	0.70%
GS INTERNATIONAL BANK	Fixed Deposit	£20,000,000	0.76%
Nationwide Building Society	Fixed Deposit	£20,000,000	0.75%
SANTANDER	Fixed Deposit	£20,000,000	0.62%
Insight - MMF	Money Market Fund	£17,800,000	0.40-0.50%
Aberdeen - MMF	Money Market Fund	£25,000,000	0.40-0.50%
Morgan Stanley - MMF	Money Market Fund	£1,800,000	0.40-0.50%
JP Morgan - MMF	Money Market Fund	£25,000,000	0.40-0.50%

*Call Account requires 32 day notice

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Audit & Governance Committee
22 February 2016

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.

RECOMMENDATION:

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

REPORT CONTACT: Bryan Searle, Senior Manager, Cabinet, Committees & Appeals
020 8541 9019
bryans@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. On 7 December, the Vice-Chairman stated that he wouldn't give feedback on the Board's findings at this stage. He will provide an update at the meeting on 22 February 2016.
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 further undertook to meet the Head of Resources in Adult Social Care and reported back on 7 December 2015. A further update was received in February 2016, and the Chairman will report back at the meeting.
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	On 23 June 2015, Cabinet approved the Annual Governance Statement for inclusion within the Statement of Accounts and Annual Report. Audit & Governance Committee is to continue to monitor the governance environment and report to Cabinet as appropriate.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
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 reviewed the fraud risk register at their meeting in January and strategic risk leads will include within the risk discussions they have with their management teams and incorporate into risk registers as appropriate.
A39/15	07/12/15	Grant Thornton: Audit & Governance Committee Update	Grant Thornton to meet informally with the committee to discuss its effectiveness in the context of the cross-sector review of audit committee effectiveness.	Regulatory Committee Manager	The Chairman and Vice-Chairman are meeting with Grant Thornton just prior to the committee meeting on 22 February and will feed back views.
A41/15	07/12/15	Treasury Management Half Year Report 2015/16	Officers to write to schools with cash balances incorporated within the council's balances to explain that they would receive 0% interest under present arrangements.	Strategic Manager (Pensions & Treasury)	An update will be provided at the meeting.
A42/15	07/12/15	Treasury Management Half Year Report 2015/16	Options for the redrafted Treasury Management Strategy to be shared with the Chairman of Audit & Governance Committee, before it is presented to Council in February 2016.	Strategic Manager (Pensions & Treasury)	The Strategic Manager (Pensions & Treasury) met with the Chairman on 28 January 2016. An update will be provided at the meeting.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A43/15	07/12/15	Internal Audit Half Year Report 2915/16	The Chairman to write to the new Strategic Director of Adult Social Care and Public Health, copying in the Cabinet Member and Scrutiny Board Chairman, regarding the management response to an Internal Audit recommendation regarding outstanding assessments.	Chairman	A signed letter was sent dated 17 December 2015 An update will be provided at the meeting..
A45/15	07/12/15	Half Year Risk Management Report	The Chairman to raise the issue of front desk security with the Chief Executive.	Chairman	A response has been received from the Chief Executive, explaining that this was discussed at the Statutory Responsibilities Network meeting on Monday 25th January. A review is currently being carried out with our property and community safety colleagues and the Chief Executive will write to the Chairman again once this review has been completed.
A46/15	07/12/15	Ethical Standards Annual Review	The Director of Legal and Democratic Services to find and share some comparative statistics on ethical standards.	Director of Legal and Democratic Services	A response has been received from the Director of Legal, Democratic and Cultural Services to say that Surrey district and Borough Monitoring Officers have confirmed that they have not had any complaints requiring formal consideration in the last 12 months. Information is currently being sought from county councils.

Audit & Governance Committee Recommendations Tracking

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

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> <p>The committee received a report on discounts on 7 December 2015.</p>

Audit & Governance Committee Recommendations Tracking

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.
A40/15	07/12/15	External Audit: 2014/15 Audit Findings Report for SE Business Services Ltd	Chairman to write to the Director of Legal and Democratic Services to query the legal view on unsigned contracts.	Chairman	A response was emailed to the Committee on 12 February 2016..
A44/15	07/12/15	Internal Audit Half Year Report 2915/16	Further detail to be provided on insurance excess for theft from Surrey Arts and the total value of instruments owned by Surrey Arts.	Director of Finance	A response was emailed to the committee on 30 December 2015.

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Audit & Governance Committee
22 February 2016

2015/16 External Audit Plan

Purpose of the report:

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2015/16 financial statements of the Council.

Recommendations:

1. It is recommended that the Committee approves the attached Audit Plan.

Introduction:

2. The Audit Plan outlines the risks we have identified for the audit of the 2015/16 financial statements of the Council and our planned response to them.
3. The report also outlines the work we will undertake as part of our Value for Money conclusion.

2014/15 Financial Statement Risks

4. Our Audit Plan has identified a series of 'significant' risks and 'other' risks. The 'significant' risks comprise:
 - 2 presumed risks as required under International Auditing Standards, relating to fraud arising from revenue recognition and management override of controls
 - Valuation of property, plant and equipment
 - Valuation of your pension fund liability

The 'other' risks comprise:

- Operating expenditure, payroll costs and property, plant & equipment. These areas are the most numerically significant elements of the

financial statements that are not otherwise addressed by the significant risks above

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Value for Money Conclusion

5. The Audit Plan summarises our planned approach to our Value for Money work, and the significant risks identified.
6. We will conduct our work with a focus on these areas:
 - Efficiency savings plan
 - Arrangements in children's services following 2014/15 Ofsted report
 - Orbis partnership

Results of interim audit work

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

Conclusion

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

Financial and value for money implications

None.

Equalities and Diversity Implications

None.

Risk Management Implications

None.

Next steps:

None.

Report contact: Thomas Ball, Manager, Grant Thornton

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

Sources/background papers: None.

The Audit Plan for Surrey County Council

Year ending 31 March 2016

22 February 2016

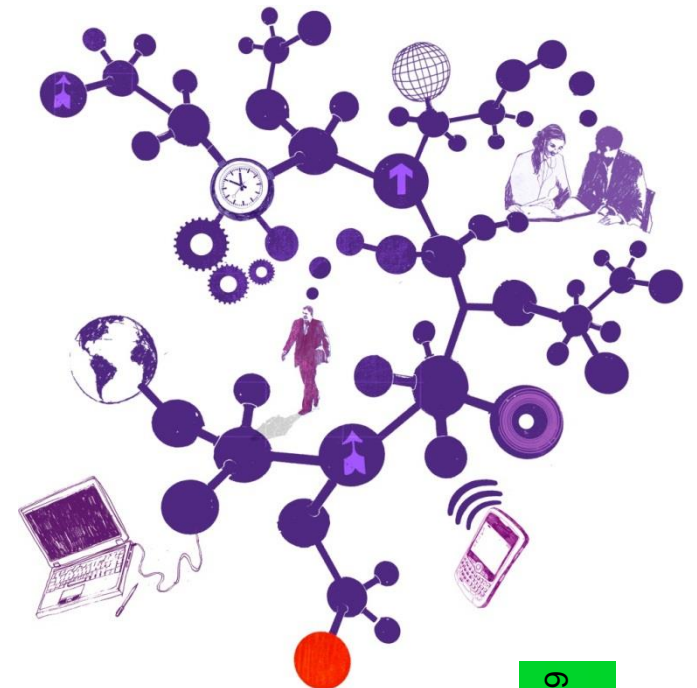
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Andy Mack
Engagement Lead
T +44 (0)207 728 3299
E andy.l.mack@uk.gt.com

Tom Ball
Audit Manager (Accounts)
T +44 (0)207 728 3009
E thomas.ball@uk.gt.com

Geoffrey Banister
Audit Manager (Value for Money)
T +44 (0)207 728 3023
E geoffrey.c.banister@uk.gt.com

Bal Daffu
In-Charge Auditor
T +44 (0)207 728 3427
E bal.s.daffu@uk.gt.com



The Audit and Governance Committee
Surrey County Council
County Hall
Penrhyn Road
Kingston Upon Thames
KT1 2DN

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

T +44 (0)20 7383 5100
F +44 (0)20 7383 4715
www.grant-thornton.co.uk

22 February 2016

Dear Members of the Audit and Governance Committee

Audit Plan for Surrey County Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Surrey County Council, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

Yours sincerely

Andy Mack, for and on behalf of Grant Thornton UK LLP

Chartered Accountants

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A. Action plan

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

Understanding your business

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

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging. We have discussed with senior management the impact of the Chancellor's statement on the Council.

2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- You are leading plans for devolution across the region, through discussion with central government.

3. Integration with health sector

- Developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.
- You are host of the Better Care Fund in Surrey as part of a partnership with your NHS partners.

4. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.
- You have already achieved completion of the audit of your financial statements by the 31 July deadline.



Our response

- We will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.

- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our Vfm conclusion.
- We will review the Council's treatment of entries relating to the Better Care Fund in the financial statements.

- We will continue to work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We will complete all substantive work in our audit of your financial statements by 31 July 2016.
- We will undertake more extensive early testing than in 2014/15 so as to enhance the efficiency of the audit even further.

Developments and other requirements relevant to your audit

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

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset. The impact on your 2015/16 financial statements is unlikely to be material.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.
- We have already discussed the impact of the above with the finance team, which will be highly material. We have reviewed the timetable the Council has in place to undertake this significant exercise.

4. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- You have a new property company, wholly-owned by the council, that has started trading in 2015/16 and will be included in your 2015/16 group financial statements.

Our response

- We will keep the Council informed of any further changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We have already discussed with the finance team the impact of IFRS 13 and the planned approach to valuation of these assets and will continue this dialogue throughout the year.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

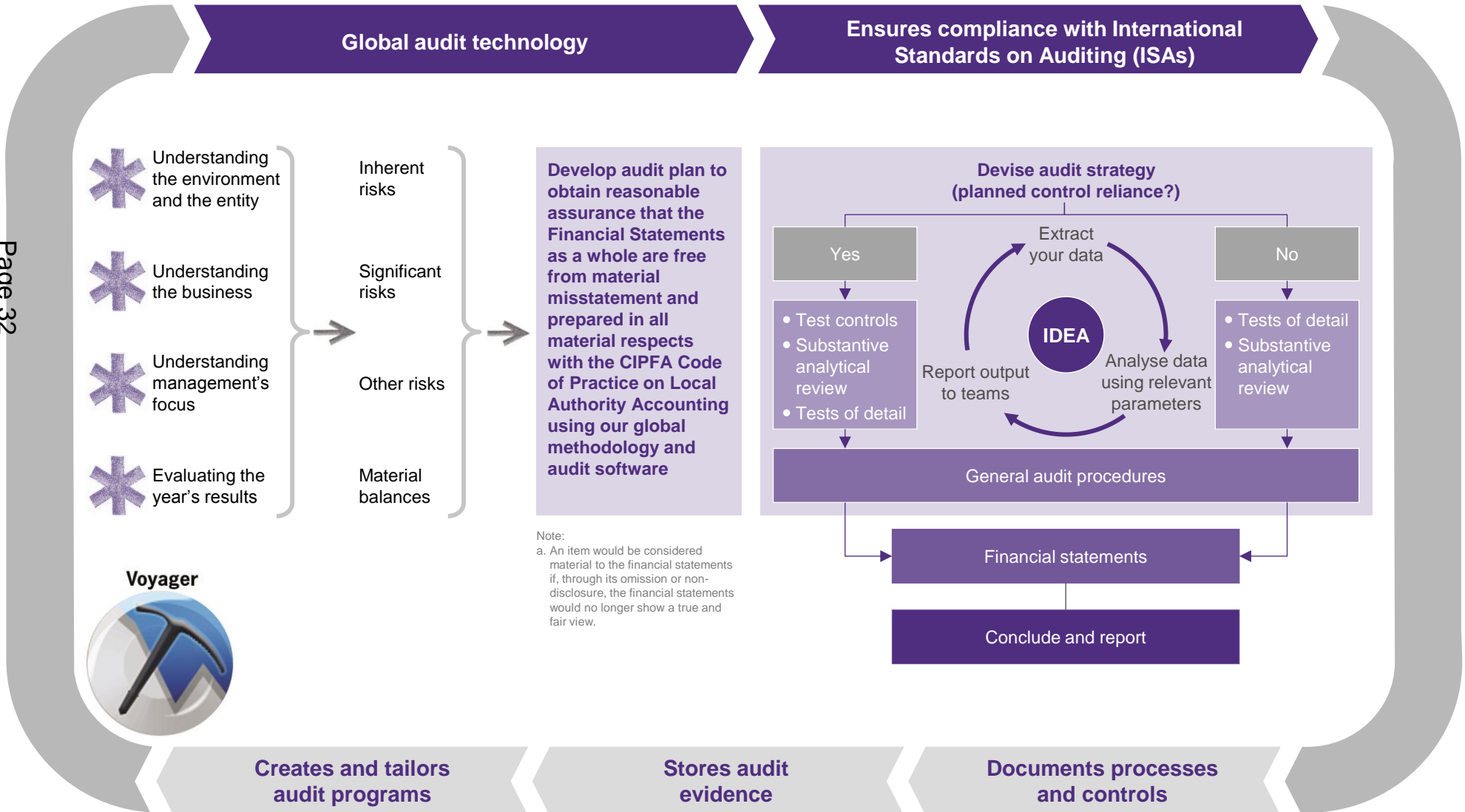
- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.

Our audit approach

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

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £27,787k (being 1.5% of prior year audited gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

In the previous year, we determined materiality to be £32,946k (being 1.8% of prior year unaudited gross revenue expenditure). We have applied a lower percentage threshold this year to reflect the increased scrutiny of financial performance across local government, amidst increasing pressures being faced on revenue funding, key areas of expenditure and the need to continue to make significant efficiency savings each year.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £1,389k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where we are not setting a separate materiality threshold, but where we are undertaking more extensive testing:

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of related party transactions in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For this Council, we have concluded that the greatest risk of material misstatement as regards revenue recognition relates to the occurrence/ existence of other income and receivables.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Surrey County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Surrey County Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual and significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of property, plant and equipment	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, expertise and objectivity of any management experts used • Review of the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements • Procedures to confirm the reasonableness of the proposed revaluations, including reference to national trends where appropriate • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Other risks identified

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

In this section we outline the other risks of material misstatement which we have identified as a result of our planning. These apply to both the Council and Group financial statements.

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

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
S. E. Business Services Limited	No	Targeted	None at this stage.	We will conduct a high level analytical review.
Surrey Choices Limited	No	Targeted	None at this stage	We will conduct a high level analytical review.
Halsey Garton Property Limited	No	Targeted	None at this stage	We will conduct a high level analytical review.

Value for Money

Background

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

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out in the table on the right:

Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of good governance• Understanding and using appropriate cost and performance information to support informed decision making and performance management• Reliable and timely financial reporting that supports the delivery of strategic priorities• Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions• Managing assets effectively to support the delivery of strategic priorities• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities• Commissioning services effectively to support the delivery of strategic priorities• Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

Following the completion of this risk assessment, we have identified three significant risk and these are summarised below. A significant risk is defined as an issue, decision or area of activity which relates to the overall VfM criterion, is important enough to be of clear interest to the public and other stakeholders and about which we do not already have sufficient information on which to base a conclusion on the relevant arrangements. Included below are details of the work we plan to carry out to address these risks in fulfilling our duties in respect of the 2015/16 VfM conclusion. We will also consider the Council's other risks related to the NAO's VfM criteria and will report back any findings to the Audit and Governance Committee.

Significant risk identified	Sub-criterion	Planned response
The Council has historically managed its finances well and has consistently achieved savings targets. It is on course to achieve a balanced budget for 2015/16. However, following the most recent settlement, the scale of efficiencies and savings required is sizeable.	Sustainable resource deployment	We propose to: <ul style="list-style-type: none"> review the Council's progress in updating its medium term financial strategy and the reports to Members review the outturn position for 2015/16 and the budget plans for 2016/17 and 2017/18 meet with key officers to discuss key strategic challenges and the Council's proposed response
Ofsted issued a critical report on children's services in 2014/15 and the council is currently subject to follow up review. We issued a qualified except for conclusion in 2014/15. Until such time as Ofsted confirmed adequate arrangements are in place this remains a significant risk.	Sustainable resource deployment	We propose to: <ul style="list-style-type: none"> review update reports from Ofsted as available and take these into account in informing our VfM conclusion.
The Orbis partnership is now underway. It is both innovative and represents a major change in back office service provision. The partnership is of considerable strategic importance to the Council.	Working with partners	We propose to: <ul style="list-style-type: none"> Meet with officers to understand nature and extent of progress with the project. Review key decision papers and reports presented to Council committees.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter. We will include our conclusion as part of our report on your financial statements which we will give by 31 July 2016.

Results of interim audit work

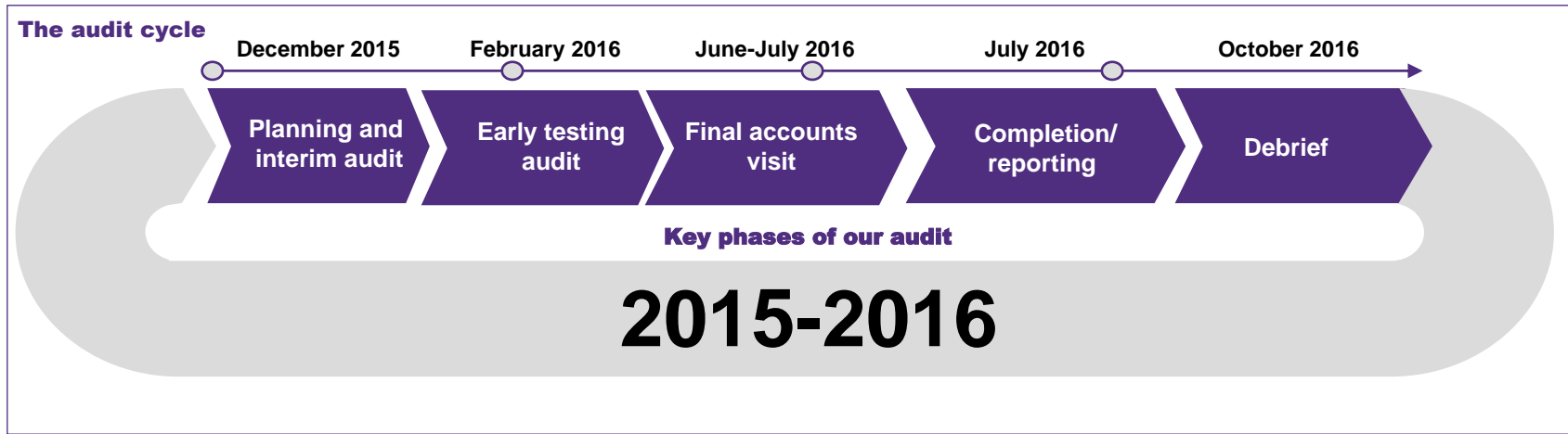
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
Review of information technology controls	<p>Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>This will involve an assessment of whether IT (information technology) controls have been implemented in accordance with our documented understanding.</p>	<p>Our specialists will complete this testing in March 2016 and we will report any matters to bring to your attention in our Audit Findings Report.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in all areas where we consider that there is a risk of material misstatement to the financial statements, with the exception of property, plant and equipment.</p> <p>Our work to date has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach. Any findings arising from our completion of this work will be reported to you in our Audit Findings Report.
Journal entry controls	<p>We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and to identify any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>In February 2016 we will be undertaking detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review.</p>	Any findings arising from this work will be reported to you in our Audit Findings Report.
Early substantive testing	<p>We will be undertaking substantive sample testing to month 9 in the following areas:</p> <ul style="list-style-type: none"> - Grants income - Other revenues - Operating expenditure - Payroll expenditure - Council tax precept demands - Property, plant and equipment additions - Property, plant and equipment disposals - Property, plant and equipment deeds - Journals (as per above) <p>No issues have been identified that we wish to highlight for your attention.</p>	We will complete this testing later in February 2016 and will report our findings of this work, along with subsequent testing to cover the period to year end to be undertaken in June/July 2016, in our Audit Findings Report.

Key dates



Date	Activity
December 2015	Planning and interim audit
15th – 26th February 2016	Early testing audit
22 February 2016	Presentation of audit plan to Audit and Governance Committee
6th June – 22nd July 2016	Year end fieldwork
July 2016 (date TBC)	Audit findings clearance meeting with Director of Finance
25 July 2016	Report audit findings to those charged with governance (Audit and Governance Committee)
By 29 July 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit (2015/16)	142,098
Audit of S. E. Business Services Limited (2015/16)	15,000
Audit of Surrey Choices Limited (2015/16)	18,000
Additional fee for audit of Surrey Choices Limited (2014/15)	TBC
Total audit fees (excluding VAT)	TBC

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Our fee assumptions include:

Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.

- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

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

Fees for other services

Service	Fees £
Certification of Teachers' Pensions return (2015/16)	4,000

Fees for other services

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

Independence and ethics

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

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

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

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

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Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

In our Audit Finding Report on the 2014/15 financial statements, we agreed a number of recommendations with management. Progress against these recommendations is shown below.

Rec No.	Recommendation	Priority	Management response on progress
1	Obtain legal advice to ensure that the approach taken to the de-recognition of schools and the use of the statutory override is appropriate.	High	Subsequent to the audit findings report being agreed, CIPFA issued an informal commentary on the issue. We consulted with our internal legal team and they consider the CIPFA commentary to support the view that our accounting treatment of foundation schools is within the statutory framework. We are now satisfied that the approach taken to the de-recognition of schools and the use of the statutory override is appropriate.
2	Ensure the accounts fully disclose all key judgements made in applying its accounting policies and the rationale for determining them.	Medium	In the 2015/16 accounts we will have a new critical judgement around the adoption of the new accounting policy for surplus assets following the introduction of IFRS13. This change will be fully disclosed in the accounts along with the full rationale behind the change. The schools accounting judgements will remain in the accounts but reflect that 2015/16 it is the second year of adoption following our review of schools accounting in 2014/15.
3	Undertake a post mortem of the 2014/15 closedown and identify areas where the timeliness of response to audit queries can be improved.	Medium	The closing working group has agreed a new process for responding to audit requests. A new central record will be held of all samples that service accountants can access to see all requests for evidence in one place. This should aid communication and make it clearer for everybody what is required. Grant Thornton have agreed to do a lunchtime learning session and provide a document on working papers and audit evidence so staff are more aware of GT requirements. A review of transactions on the balance sheet is underway to remove transactions that can now be cleared and removed from open items. This will help reduced the number of old year transactions, that don't make up the year-end balance, from appearing as open items at year-end and featuring on any sample requests.
4	Build on the lessons learned from previous successful efficiency programmes to address the increasing financial challenges it faces.	Medium	The council held regular budget workshops with cabinet and senior officers from May 2015 to January 2016 to develop the budget strategy for the next five years. This included the paper to Cabinet in November 2015 setting out the Financial Prospects for the Medium Term Financial Plan. Following the Local Government Settlement, the council is now proposing a Public Value Transformation Programme of all service delivery to ensure the council's budget is sustainable.



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Audit & Governance Committee
22 February 2016

2014/15 Audit Findings Report for Surrey Choices Ltd

Purpose of the report:

The purpose of this report is to share the report of the auditors, Grant Thornton, with the Committee, share background information and a report of the actions being taken in light of the audit report and other matters arising.

This report has been prepared on behalf of the Council's Shareholder Board by the secretary to the Board.

Recommendations:

It is recommended that the Committee:

1. Review the report from the auditors, Grant Thornton, and consider the steps being taken to implement improvements, and
2. Determine whether there are any further matters that they wish to draw to the attention of the Council Overview Board, which has the oversight of the Shareholder Board.

Surrey Choices Ltd

Shareholder Board

1. The Shareholder Board was created following the report to Cabinet in March 2013, which described the Council's strategic approach to innovation and new models of delivery. This strategy set out the Council's approach to continuing to deliver public value in an environment of diminishing financial resources by evaluating different delivery models, including the development of the Council's approach to trading.
2. The Shareholder Board safeguards the Council's interest as shareholder and takes decisions in matters that require the approval of the Council as owner of the company. Decisions in relation to the day to day operation of companies are taken by the directors of each company. The Shareholder Board is comprised of 3 members of the Council's Cabinet and the Chief Executive. The Board is

supported by officers of the Council, including the Section 151 Officer (Director of Finance) and the Monitoring Officer (Director of Legal, Democratic and Cultural Services).

3. The Shareholder Board meets at least quarterly and receives detailed and comprehensive information and briefings to support its decision-making. The extent of the role of the Shareholder Board in decision-making will depend upon the council's shareholding and upon terms included in a company's articles of association, or in the other contractual documents such as a Shareholders' Agreement in relation to Joint-Venture companies.
4. The Council Overview Board has a scrutiny function in relation to the decision-making of the Shareholder Board and in respect of the performance of the companies for which the Council is the majority shareholder.

Surrey Choices Ltd

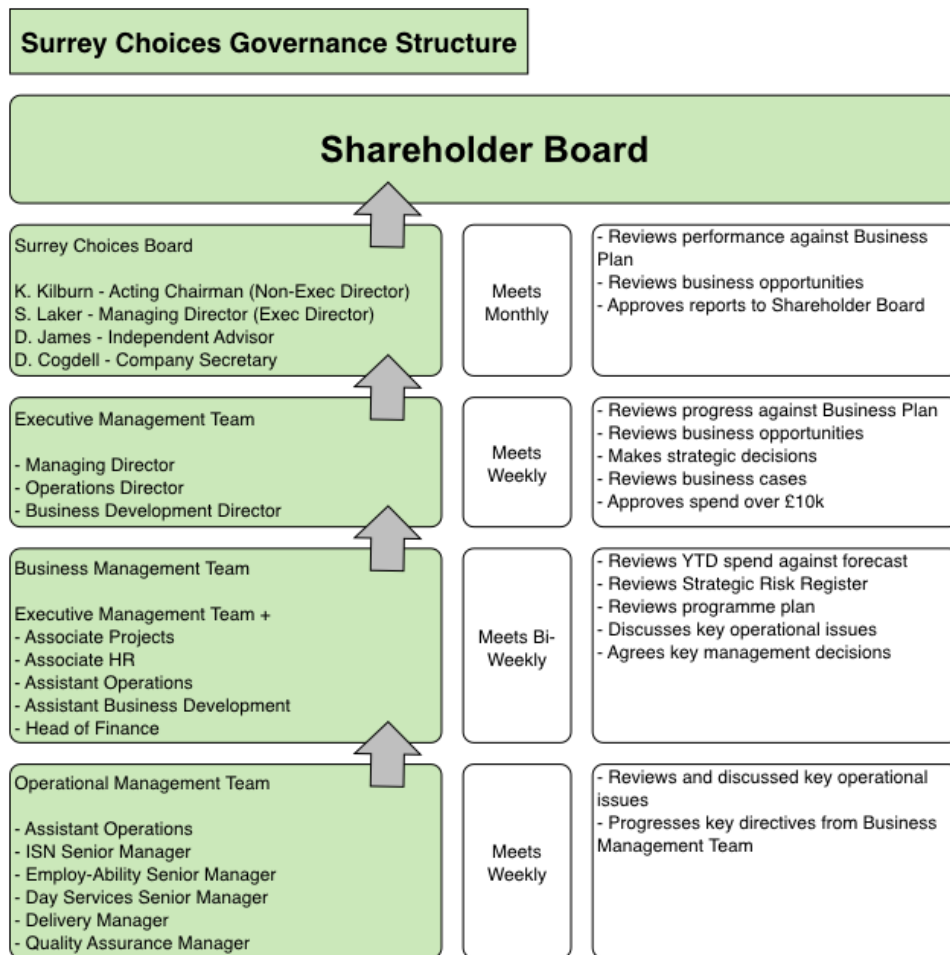
5. Surrey Choices Ltd commenced trading in August 2014, following Cabinet approval of the business case in December 2013. The company provides people with learning and physical disabilities with a range of services in a variety of settings, including day services. The commissioning contract to supply services to the Council is currently based on a "block" arrangement. The contract triggered the transfer of employees from the Council to the company under Transfer of Undertakings (Protection of Employment) Regulations (TUPE).
6. The business case to establish the company expected that the Council would benefit from;
 - Income generated from trading activity by supplying services to those people with personal budgets, and
 - a reduction in the cost of services from reducing fixed costs, and economies of scale delivered as a result of trading activity.
7. The business case demonstrated that the company would make a modest profit within the first five years of operation and that the company would require loans to facilitate the purchase operational assets from the council, pay for set-up costs and to provide for working capital requirements.
8. The Annual Report of the Shareholder Board presented to the Cabinet in July 2015 noted that the Company secured approval from the Care Quality Commission for the regulated services and for the newly developed respite provision. Savings were being made from a reduction in management layers, and services were being reshaped from the customer perspective. The report noted that the financial result for first partial year of trading to 31st March 2015 was a loss which was broadly in line with expectations, excluding the impact of the actuarial review of the pension liability on staff that transferred from the Council. At this time, the company was expecting to be able to achieve a small net profit in the financial year 2015/16.

Governance & Controls

9. The report from the auditors, Grant Thornton, in respect of the financial year ending 31st March 2015 is appended to this report. The Committee will note that the auditor highlights significant deficiencies in internal controls. This follows growing concerns expressed by both Internal Audit and the Shareholder Board regarding the robustness of controls and the adequacy of governance arrangements at the company. The background to these concerns is noted below.

10. An Internal Audit review of Surrey Choices Ltd was undertaken in February 2015 in order to provide assurance that effective processes and controls were in place within the company and provided comment on the transition and set-up arrangements. The resultant audit report identified that some improvement was needed – “that a few specific weaknesses were noted; generally the controls evaluated were adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.” The Audit noted that at the time of testing some procedures and policies integral to the company’s governance were yet to be finalised, but that arrangements were in place to demonstrate that they would be addressed in due course. The Auditor commented that the Shareholder Board demonstrated that strategic oversight of the key transitional issues was in place, with appropriate challenge and follow-up of outstanding matters being part of the governance arrangements in place.
11. In July 2015 the Shareholder Board took steps to enhance the governance arrangements for the company and appointed a new Director to the Surrey Choices Board. This followed several months of discussion regarding the need to strengthen the management and therefore the advisors sought an individual who would be able to bring more rigour than had hitherto been in place. The Shareholder Board accepted the resignation of the previous Director of the company, coinciding with changes to the Director’s main employment with the Council.
12. Internal Audit conducted a further audit of Surrey Choices Ltd in August 2015, with the review primarily focusing on the services being delivered by the company to the Council under the agreed contract arrangements. This audit noted that Significant Improvement was needed, that management information provided by the company was inadequate to enable the services (being delivered) to be effectively monitored. The Personalisation Service which the company previously provided has now (from January 2016) been brought back in-house.
13. The Shareholder Board received the audit report from Grant Thornton at its meeting in December 2015. The Board shared its disappointment with the Directors of the company and requested immediate action be taken, particularly in regard to the Chief Financial Officer of the company. The Shareholder Board were very concerned about the failings in the controls and governance of the company, noted that some of the management actions were already underway and that the new Director had injected more rigour to the way in which the company was being managed.
14. The Shareholder Board requested that the company reports progress against the actions on a regular basis and received its first update report at its meeting in February 2016. The Shareholder Board noted that the company has;
- Established an audit action plan to address each of the areas raised as a concern by Grant Thornton. Progress against this action plan is reviewed weekly by the Managing Director and shared with the auditor.
 - The Managing Director has arranged to hold monthly meetings with the external auditor, who have been asked to –
 - i. Stress-test each area of concern
 - ii. Advise on the reparation and review of the company strategic risk register, incorporating each of the areas of concern
 - iii. Agree a plan with the company to deal with specific issues arising from the previous financial management
 - iv. Attend the wider quarterly managers’ meetings to gain an overview of the company’s quality assurance and control structure.
 - v. Return for a pre-audit, focusing specifically on part-year testing.

- The Directors have made changes to the overarching governance within the company, taking on board advice from the auditors to increase the visibility and collective responsibility of the company's financial performance. This includes the creation of a new business management team designed to provide challenge and scrutiny.



15. The Shareholder Board is encouraged by the steps being put in place to improve the control and governance arrangements and will continue to monitor progress against the agreed actions noted above and the audit action plan on a quarterly basis for the remainder of this year.

Financial Results

16. The Annual Report of the Shareholder Board presented to the Cabinet in July 2015 (and reviewed by the Overview and Scrutiny Board in October 2015) noted that Surrey Choices Ltd was expecting to be able to achieve a small net profit for the current financial year, 2015/16.
17. The Shareholder Board requested and reviewed an update to the financial forecasts of the company at their meeting in December 2015. This forecast however indicated that the company was expecting to report a significant loss, of £1.7m.
18. The Shareholder Board requested that the company provides a revised set of management accounts, providing more detail and setting out the financial position for the next 18 months, the causes of the variances, and the management actions that will be taken. Advice was provided to the Directors to

encourage them to ensure that the company had the right back-office support, and that there was capacity and capability in the top team to be able to provide sufficient support to manage the business and to exploit future growth prospects.

- 19. The Shareholder Board received an update at its meeting in February 2016 and noted that the key reason for the worsening financial situation was the large increase in the services provided by the company due to the volume of referrals (257 new cases) under the block contract arrangements. The Shareholder Board is satisfied that these cases would have created a volume pressure within the Council under previous arrangements and that the company is providing these additional services at a lower cost compared to the previous in-house provision. Discussions have commenced between the company and the Adult Social Care (ASC) Commissioners to agree appropriate actions and adjustments to the contractual relationship to reflect this situation.
- 20. The Shareholder Board is sufficiently encouraged by the progress made by the Directors to believe that a credible recovery plan is achievable to return to profitability. The company will commence actions and further develop its financial plans which will be presented as the Annual Business Plan of the company to the Shareholder Board in March 2016.

Implications:

Financial and value for money implications

- 3. As highlighted above, one of the key drivers behind the deteriorating financial situation of the company has been the increase in volumes of cases referred by the Council and supported by Surrey Choices Ltd. Discussions are underway between the company and ASC commissioning officers to agree appropriate adjustments to the block contract. These discussions will seek to achieve the most affordable outcome for the Council without further detriment to its group company.
- 4. The Council may consider providing a further working capital loan facility to Surrey Choices Ltd. In order to agree and recommend this to the Council, the Shareholder Board will expect to see that the loan can be repaid, that the company can demonstrate a return to profitability, and be reassured that the control and governance environment within the company has been significantly improved.

Equalities and Diversity Implications

- 5. There are no direct equalities implications but any actions taken need to be consistent with the Council’s policies and procedures.

Risk Management Implications

- 6. Improvements to the effective management of risks and implementation of robust financial controls will support the company and therefore the Council to meet its objectives and enable value for money.

Next steps:

The Shareholder Board will receive regular progress reports from the Directors of Surrey Choices, including an Annual Business Plan, which is expected to demonstrate the ability of the company to return to profitability within an acceptable

timeframe. The Shareholder Board will receive regular reports in respect of the control & governance improvements required and being implemented by the company.

The council's Internal Audit department will be invited to review the progress being made to improve the governance and control environment of the company.

Report contact: Susan Smyth, Secretary to the Shareholder Board [Strategic Finance Manger

Contact details: 0208 541 7588 or susan.smyth@surreycc.gov.uk

2014/15 Audit Findings Report for Surrey Choices Limited

Introduction:

1. This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2014/15 financial statements of Surrey Choices Limited.
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 31 March 2015 and its profit for the year ended at that date.
3. The attached Audit Findings Report provides a commentary on the financial statements.
4. An unmodified opinion on the financial statements was issued in early December 2015 and the audited financial statements and directors' report were submitted to Companies House ahead of the 18th December deadline.

2014/15 Financial Statements

5. The audit process identified a number of significant adjustments to the draft financial statements, which have been corrected by management. These had the effect of increasing the company's loss per the draft financial statements by £186,475.

2014/15 Audit Findings

6. The Audit Findings Report summarises the findings of the 2014/15 audit, which was completed in December 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, there were a number of internal control weaknesses identified in relation to employee contracts, payroll, petty cash and invoicing.

8. A number of recommendations have been agreed with the company in respect of the working papers provided for audit and the preparation of accounts under a new accounting framework in 2015/16. Management have agreed an action plan for implementation of these.
9. As a result of the significant overrun of the audit, and the resultant extra work required, an additional fee is currently being agreed with management.

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 a number of significant adjustments to the draft financial statements, which have been corrected by management.

Equalities and Diversity Implications

None.

Risk Management Implications

None.

Report contact: Thomas Ball, Manager, Grant Thornton

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

Sources/background papers: None.

The Audit Findings for Surrey Choices Limited

31 March 2015

December 2015

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Richard Hagley

Director

T 0207 865 2160

E richard.hagley@uk.gt.com

Tom Ball

Manager

T 0207 728 3009

E thomas.ball@uk.gt.com

Keyasha Pillay

Executive

T 0207 728 2494

E keyasha.pillay@uk.gt.com



Grant Thornton at a glance

1 in 3

FTSE 100 are non-audit clients

No. 2

Auditor of AiM

Page 4th
of 58

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100+

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Board of Directors
Surrey Choices Limited
Nexus Day Centre
Green Street
Sunbury-on-Thames
Middlesex
TW16 6QB

December 2015

Dear Sirs

Audit Findings for Surrey Choices Limited for the period 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.

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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

Chartered Accountants

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Section 1: Status of the audit and audit opinion

- 01. Status of the audit and audit opinion
- 02. Executive summary
- 03. Overview of audit findings
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- 05. Other findings
- 06. Other communication requirements
- 07. Internal controls
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Status of the audit and audit opinion

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



Our anticipated audit report will be unmodified

Section 2: Executive summary

01. Status of the audit and audit opinion

02. Executive summary

03. Overview of audit findings

04. Significant findings

05. Other findings

06. Other communication requirements

07. Internal controls

08. Misstatements

09. Fees, non audit services and independence

10. Communication of audit matters

Executive Summary

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

The key messages arising from our audit of the company's financial statements are that the company:

- produced draft financial statements for its first period of trading in accordance with the planned audit timetable and in time for inclusion in the consolidated accounts of the company's parent, Surrey County Council implemented a full general ledger system, BluQube, from February 2015 and began to develop and action some clearly defined month-end processes
- audit working papers as requested in the 'working paper requirements' document shared with the company were not provided at the start of the audit fieldwork – this caused a delay in some fieldwork being commenced
- the financial statements had to go through a number of iterations, with significant extra effort required to reach an acceptable standard
- the response time to audit queries was in many cases beyond the agreed timeframe and this meant that the completion of audit fieldwork was delayed significantly beyond the period of our onsite visit

We have identified a series of adjustments to the draft financial statements (details are recorded in section eight of this report). The draft financial statements for the period ended 31 March 2015 recorded a loss of £480,289. The equivalent figure per the audited financial statements is £666,764. The adjustments predominantly relate to:

- Year-end pay costs not accrued for in the draft financial statements
- Removal of an incorrect accrual for VAT on property rent
- Capitalisation and depreciation of a number of items that had previously been expensed
- Creditors not included in the draft financial statements
- Reclassification of a loan held with Surrey County Council
- Deferred tax not included in the draft financial statements

- IAS 19 costs not included in the draft financial statements and correction of the defined benefit pension scheme liability

In addition, we identified expenditure that related to 14/15 but which had not been accrued for, as well as debtors that had been incorrectly accounted for. Management have decided not to correct for either of these, which are immaterial to the financial statements. We have also agreed with management a number of amendments to the notes to the financial statements. Further details are provided in sections five and eight of this report.

Controls

Roles and responsibilities

The company's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 report these to the company.

Findings

We draw your attention in particular to control issues identified in relation to journals, debtors, payroll, petty cash and accruals. Further details are provided within section seven of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Chief Finance Officer. As a result, we have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Finance Officer and the finance team.

Looking ahead, the company are required to present accounts under the new FRS 102 accounting framework in 2015/16. It is important this is planned thoroughly and considered sufficiently early. We will support the company in this process and work closely with the finance team to ensure working paper requirements can be met and that audit query response times are achievable.

Section 3: Overview of audit findings

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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	Contract accounting not consistent with terms	No	●	Yes
Cash	Remote	-	No	●	None
Trade creditors	Reasonably Possible	Creditors understated or not recorded in correct period	No	●	Yes
Defined pension scheme liability	Remote	-	No	●	Yes
Equity	-	-	-	●	-
Reserves	Remote	-	No	●	Yes

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Account	Material misstatement risk?	Description of risk	Changes to Audit Plan?	Sufficiency of controls?	Significant audit findings?
Revenue	Significant	Contract accounting not consistent with terms	No	●	None
Payroll	Reasonably Possible	Employee remuneration and benefit obligations and expenses understated	No	●	Yes
Other operating expenses	Reasonably Possible	Creditors understated or not recorded in correct period	No	●	Yes
Administrative expenses	Reasonably Possible	Creditors understated or not recorded in correct period	No	●	Yes
Exceptional items	Reasonably Possible	Creditors understated or not recorded in correct period	No	●	None
Taxation	-	-	-	●	-

Changes to Audit Plan

- We have not had to alter or change our Audit Plan as previously communicated to you on 12 August 2015.

Controls

- Deficiencies in controls over cash, payroll, debtors and creditors have been identified. Further details are provided in section seven of this report.

Controls

For further details see Internal controls

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

Section 4: Significant findings

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Significant findings

	Risks identified in our audit plan	Commentary
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>Our audit work has identified no issues in respect of revenue recognition.</p>
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>

Section 5: Other findings

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Other findings

	Risks identified in our audit plan	Work completed	Issues arising
1.	Revenue and debtors <ul style="list-style-type: none"> Contract accounting not consistent with terms 	<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 of the operating expenses system Sample testing of in-year expenditure Completeness testing of expenditure and year end payables 	<p>Our audit work has identified a series of non-trivial amendments to cost of sales, administrative expenses and interest payable. The majority of these relate to reclassification of expenditure, whilst the remainder relate to inclusion of IAS 19 costs, accrual of previously unaccrued expenditure and capitalisation of some items of expenditure. Further details are provided on pages 23-24.</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 four non-trivial amendments to payroll expenditure. Of these, three have a net impact on the face of the financial statements, with an aggregate impact of £362,097. The remaining amount has only a disclosure impact of £201,644, with these costs having previously been reflected in the financial statements but not the disclosure. Further details are provided on pages 23-24.</p> <p>There are no other issues in relation to this risk we are required to report to you.</p>

Other findings – disclosures

	Adjustment type	Account balance	Impact on the financial statements
1.	Disclosure	Note 5 – Particulars of employees	This disclosure has been updated to reflect the additional accrued £216,097 NIC and PAYE costs, the £184,000 IAS 19 employer contributions adjustment and the £330,000 IAS 19 costs in the adjusted financial statements, as detailed on pages 8 and 23. In addition, there was £201,644 of wages, salaries and social security costs included in the draft profit and loss account but not included in the draft version of this note. This disclosure error has also been amended by management.
2.	Disclosure	Note 6 – Directors' remuneration	This note has been updated for the correct remuneration figure and to include the company pension contribution figure.
3.	Disclosure	Note 7 - Taxation	This note was not included in the draft financial statements.
4.	Disclosure	Note 10 – Creditors: amounts falling due within one year	This disclosure has been updated to reflect: <ul style="list-style-type: none"> £273,172 being reclassified as a trade creditor from amounts owed to group undertakings Interest payable being removed from amounts owed to group undertakings to a separate category Other creditors being adjusted for the £153,084 VAT and £216,097 NIC and PAYE costs as detailed on page 23 £1,365,000 in respect of a loan held with Surrey County Council has been reclassified as a non-current creditor as the agreement terms state repayment is due by June 2019.
5.	Disclosure	Note 12 – Deferred tax	This note was not included in the draft financial statements.
6.	Disclosure	Note 15 – Reconciliation of movement in shareholders' funds	This note was not included in the draft financial statements.

Other findings – disclosures (continued)

	Adjustment type	Account balance	Impact on the financial statements
7.	Disclosure	Note 16 – Defined benefit pension scheme	<p>This note has been expanded to incorporate:</p> <ul style="list-style-type: none"> • Details of the assets and liabilities as at 18 August 2014 • Reconciliation of the opening and closing fair values of the scheme assets and opening and closing defined benefit obligations • Fair values of the scheme assets by asset category • Key assumptions employed by the actuary
8.	Disclosure	Note 17 – Operating lease commitments	This note was not included in the draft financial statements.

Section 6: Other communication requirements

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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 management. 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 with relevant laws and regulations
4.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Company, including a summary of unadjusted misstatements and additional representations in respect of the net deferred tax asset and opening defined benefit pension scheme liability in the adjusted financial statements
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

Section 7: Internal controls

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Internal controls




Assessment

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



- 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

	Assessment	Issue and risk	Recommendations
1.	 <p>Significant deficiency – risk of significant misstatement</p>	<ul style="list-style-type: none"> • Our testing of payroll expenditure identified a number of individuals for whom the company did not hold contracts of employment. It has been explained that: <ol style="list-style-type: none"> For staff transferred from Surrey County Council, contract files have not yet been released by the Council For joiners to the company post-transfer, employment contracts have not yet been signed For Senior Management, the employment contracts have not yet been signed <p>If signed contracts are not held by the company there is a risk of non-compliance with the requirements of the company's regulator, the Care Quality Commission. There is also a contractual risk in the event of disputes with employees.</p>	<ul style="list-style-type: none"> • The company should ensure processes for obtaining and signing employee contracts are completed as soon as possible. <p>Management response</p> <ul style="list-style-type: none"> • (i) We accept the findings of the report. We had identified this issue in July 2015 and have contacted Surrey County Council to ask for the files to be retrieved and passed to us as soon as possible. • (ii) We accept the findings of the report. New contracts of employment have now been drafted and we expect all staff to have signed their contract by 31 March 2016. • We accept the findings of the report. Contracts of employment for senior managers have been drafted and we expect all senior managers to have signed their contract by 31 March 2016.
2.	 <p>Significant deficiency – risk of significant misstatement</p>	<ul style="list-style-type: none"> • Testing of journals identified a number of weaknesses around journals processes. Specifically, there are no set limits in the system for journals posting, segregation of duties between journal preparer and poster have not always been followed and there is no evidence of journals authorisation have taken place. We recognise that the general ledger does limit the access to post journals to the financial controller only. <p>There is a risk that inappropriate or inaccurate journals are posted to the general ledger.</p>	<ul style="list-style-type: none"> • Processes should be put in place to ensure that: <ol style="list-style-type: none"> There is segregation of duties between poster and preparer Journals authorisation is formally evidenced, either within BluQube or by some other means There are journals posting limits set for different members of staff <p>Management response</p> <ul style="list-style-type: none"> • We accept the findings of the report. New sign off processes and limits are currently being developed and we would expect them to be in place, including a retrospective review of all journals by 31 January 2016.

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
3.	 Deficiency - risk of inconsequential misstatement	<ul style="list-style-type: none"> Our testing of creditors identified a small number of invoices that related to 2014-15 but that were not included in the year-end creditors balance (further details are provided in section eight of this report). This was due mainly to late receipt of invoices from some of the business units and, as a result, a lack of timely review by the finance team. <p>There is a risk that creditors are understated in the financial statements and in-year management accounts.</p>	<ul style="list-style-type: none"> The company should ensure processes are put in place to review invoices received post month-end, and that business units are aware of the timetable to submit invoices to the finance team. <p>Management response</p> <ul style="list-style-type: none"> We accept the findings of the report in regard to the former manual accounting processes. Our bluQube processes are currently being reviewed to ensure all costs and liabilities are identified and that creditors are correctly stated.
4.	 Deficiency - risk of inconsequential misstatement	<ul style="list-style-type: none"> There was a difference of £777 identified when the petty cash balances were reconciled to the accounts, which the financial controller undertook during the audit. There is no formal process in place to reconcile the petty cash balances at year-end. <p>There is a risk that cash balances are not accurately stated in the company's assets and, if not regularly reconciled, that assets are misappropriated.</p>	<ul style="list-style-type: none"> Processes should be put in place to ensure all petty cash balances are accurately reconciled on a regular basis. <p>Management response</p> <ul style="list-style-type: none"> We accept the findings of the report. New processes are now in place to ensure petty cash is regularly reconciled as part of month end processes. We will also include a specific section on control of both petty cash and purchasing cards in our Quality Checking process.
5.	 Deficiency - risk of inconsequential misstatement	<ul style="list-style-type: none"> There were a number of income balances due from Surrey County Council for which no supporting invoices were raised. This is due to the Council being viewed as an internal department for which, per company policy, no invoices are raised. <p>There is a risk that this could put the company at risk of challenge from the Council over amounts due.</p>	<ul style="list-style-type: none"> Going forward, invoices should be raised for amounts due from Surrey County Council. <p>Management response</p> <ul style="list-style-type: none"> We accept the findings of the report. This was a particular issue relating to additional funding for EmployAbility activity. This is no longer the case as all revenues are invoiced.

Assessment

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

Section 8: Misstatements

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Adjusted misstatements

Detail	Profit and loss account (£)		Balance sheet (£)		Profit effect (£)
	Debit	Credit	Debit	Credit	
Loss per draft accounts					(480,289)
Cost of sales	216,097				(216,097)
Creditors NIC and PAYE creditors had not been accrued for at year-end				216,097	-
Creditors Cost of sales The draft accounts incorrectly included a VAT accrual on property rent		153,084	153,084		- 153,084
Interest payable & similar charges Administrative expenses Interest payable on a loan from Surrey County Council was not correctly classified on the profit and loss account	22,234	22,234			(22,234) 22,234
Administrative expenses Creditors The draft accounts did not include an accrual for the external audit fee	10,000			10,000	(10,000) -
Tangible fixed assets Cost of sales Administrative expenses Cost of sales In the draft accounts there was computer equipment and property which should have been capitalised and depreciated that had been expensed	10,541	114,089 12,544	116,092		- (10,541) 114,089 12,544
Creditors: amounts falling due more than one year Creditors: amounts falling due within one year A loan held with Surrey County Council not due for repayment until June 2019 was reclassified on the balance sheet				1,365,000 1,365,000	- -
Cost of sales Other finance costs Employer pension contributions Defined benefit pension scheme liability Reserves IAS 19 costs had been accounted for incorrectly in the draft financial statements	330,000 27,000	184,000	184,000	357,000	(330,000) (27,000) 184,000 - - -

Adjusted misstatements (continued)

Detail	Profit and loss account (£)		Balance sheet (£)		Profit effect (£)
	Debit	Credit	Debit	Credit	
Loss per draft accounts					(480,289)
Debtors			16,046		-
Tax on loss on ordinary activities	56,554				(56,554)
Deferred tax liability on defined benefit pension scheme deficit		72,600			-
Deferred tax was not included in the draft financial statements					-
Defined benefit pension scheme liability			1,037,000		-
Reserves				1,037,000	-
The draft financial statements incorrectly included a historic liability in respect of the defined benefit pension scheme					-
Loss per final accounts	672,426	558,551	2,871,222	2,985,097	(666,764)

Unadjusted misstatements

Detail	Profit and loss account		Balance sheet		Profit effect	Reason for not adjusting
	Debit	Credit	Debit	Credit		
Loss per final accounts					(666,764)	
Cost of sales	19,179				(19,179)	Amount is immaterial
Creditors				19,179	-	
Being accrual of costs relating to 14/15 for which invoices were received post year-end						
Turnover	38,960				(38,960)	Amount is immaterial
Debtors				38,960	-	
Being inclusion of an amount in debtors that should have been removed						
Potential Loss	58,139	-	-	58,139	(724,903)	

Section 9: Fees, non audit services and independence

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Fees, non audit services and independence

	Planned Fee (£)	Actual fee (£)	Threat Y/N	Safeguard
Audit	9,000	TBC*	N	n/a
Other	Nil	Nil	n/a	n/a

Independence and ethics:

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

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

* as a result of the issues encountered during the audit (and as explained in section two of this report) we will be agreeing additional fees with the Chief Finance Officer.

Section 10: Communication of audit matters

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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		✓

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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.

Appendices

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Appendix A: Action plan

The following recommendations have been agreed with management:

Rec No.	Recommendations for 2015/16	Priority	Management response	Implementation date & responsibility
1	Compile working papers for the start of the audit that include transaction-level or equivalent listings supporting every balance in the financial statements	High	<p>We agree with the recommendation in the report. The implementation of bluQube will help this area substantially. We would expect this to be in place for the preparation of the financial statements to the period ended 31 March 2016.</p> <p>However, we would also propose Surrey Choices and Grant Thornton undertake collaborative work, especially in planning of the audit. Changes to personnel and the extended gap between audit planning and fieldwork meant that some disruption occurred from our perspective, with some information requests being repeated. This led to confusion both in the finance team in Surrey Choices and the audit team in Grant Thornton and contributed to some of the issues highlighted in your report. Whilst this is by no means a significant issue, we believe there is scope to improve our joint working, making both the work of both client and auditor more efficient and effective.</p>	Chief Finance Officer, 31 March 2016
2	Ensure the 2015/16 accounts are prepared in accordance with the requirements of FRS 102 before submission for audit	High	<p>We accept the recommendation in the report. Whilst our financial statements for the period ended 31 March 2015 were appropriately prepared using FRS 3, as mentioned above we believe that some of the adjustments were both a normal part of a year end review and that others especially relating to the application pension liabilities, proved so technically challenging that even experts within Grant Thornton struggled to provide the correct advice first time. Therefore, it is an unreasonable expectation that the financial statements will be perfect prior to audit. We agree that we can improve our readiness, (regardless of the accounting standard in operation), and that this can be achieved through improved planning as identified above.</p> <p>We acknowledge that for the period ended 31 March 2016 is past the trigger date for FRS 102 and we are training our staff in the use of FRS 102 in preparing our financial statements.</p>	Chief Finance Officer, 31 March 2016

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AUDIT & GOVERNANCE COMMITTEE
22 February 2016

Completed Internal Audit Reports

SUMMARY AND PURPOSE:

The purpose of this report is to inform Members about the Internal Audit reports that have been completed since this Committee last considered a Completed Internal Audit Reports item in December 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 12 audit reports issued since the last report to this Committee in December 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	Highways Contract (Lot 1)	n/a	0
2	Deputyships	Some Improvement Needed	1
3	ASC Contract Management	Some Improvement Needed	0
4	Training Course Cancellations	Some Improvement Needed	0
5	General Ledger	Effective	0
6	IT Feeder Systems	Effective	0
7	LAC Finances - Follow-up review	Some Improvement Needed	1
8	Schools Compliance Audit	Some/Significant Improvement Needed	0

9	Members' Allocations	Some Improvement Needed	0
10	Public Health Contracts	Some Improvement Needed	1
11	Families, Friends and Communities	Some Improvement Needed	2
12	Treasury Management	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.

IMPLICATIONS:

- 7 Financial Equalities
Risk management and value for money
- 8 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:

- 9 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 (December 2015 – January 2016)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Highways Contract (Lot 1)	<p>The Core Highways Maintenance contract (Lot1) was won by May Gurney, for a period of five years, ending in April 2017 with an option for the extension of the contract for a further four years. May Gurney were acquired by the Kier Group in July 2013.</p> <p>Members now need to consider whether they wish to approve the extension of the contract. This will take account of an assessment of value for money provided by the contract. There is a risk that an uneconomically viable contract could result in termination of the contract and a need to re-procure the service with the associated cost and service interruption potential.</p>	<p>The Lot1 contract allows the purchase of special one-off non contract items known as Star Rated Items. This allows engineers to order special materials for bespoke work/schemes. Where a Star Item is likely to be required for future works, there is an expectation that a fixed price is agreed following proper procurement processes. In practice it is not clear to the Auditor whether this has happened but from April 2016 procedures will change to ensure three quotations are mandatory for any non-contract items above £10,000 to align with SCC Procurement Standing Orders.</p> <p>Problems with recording works in Maximo led to large volumes of work in 2013 and 2014 being wrongly coded as Star Items which prevented easy analysis of the scale of use of Star Items.</p> <p>The annual value of the Highways contracts (all Lots) delivered by Kier began rising sharply from a £35m pa base to £69m pa following the launch of 'Project Horizon' a roads replacement programme. A specific paper on Project Horizon was not presented to Cabinet for approval. The impact of Project Horizon will need to be taken account of when considering the procurement approach, should a recommendation be made to further extend the contract with Kier.</p> <p>Internal Audit reviewed the draft Value for Money report prepared by Procurement which concludes that <i>"up to this point the contract has delivered value for money"</i>.</p>	n/a	There were no formal audit recommendations.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Deputyships	<p>Where an individual lacks the mental capacity to manage their own financial affairs, this responsibility may be passed to an appointee or deputy. The council may apply for either of these roles but cases are only taken where there is no other person available to help the individual manage their finances.</p> <p>Surrey County Council is a corporate appointee or deputy for approximately 600 individuals and the total value of the deputyship accounts is around £4million.</p>	<p>Roles and responsibilities have been clarified and documented.</p> <p>Guidance on case closures addresses previous Internal Audit recommendations and management know they need to draft procedures for payment of personal allowances.</p> <p>Social care debt relating to deputyship accounts is being addressed. New processes should allow more accurate reporting and improved management of debt.</p> <p>Auditor was unable to give full assurance that the payment log in its current state is an accurate reflection of all transactions.</p> <p>Audit testing of 190 payments for evidence of a supporting invoice or appropriate payment request and accurate recording in the payment log, found 34 payments with some level of discrepancy either in the audit trail or recording in the payment log.</p>	Some Improvement Needed	<p>Assistance with formatting the payment log should be sought from Corporate Finance. (M)</p> <p>The Deputyship Team must investigate all payments where there is a discrepancy and take corrective action. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
ASC Contract Management	<p>Most services manage day-to-day issues relating to contracts for services, sometimes with some support from Procurement and Commissioning team colleagues and in other cases, fully independently.</p> <p>Adult Social Care has a number of contracts that are deemed to be 'strategic and critical contracts'.</p> <p>This audit review considered the contract management arrangements for Home Based Care (HBC) and for Surrey Independent Living Council (SILC).</p>	<p>Overall, contract management arrangements for Home Based Care (HBC) are satisfactory. There is a very good Service Specification in place that links to national standards and SCC aims and objectives.</p> <p>A re-launched of the set of KPIs for HBC has led to some delays in data returns from providers. The emphasis within the KPIs on taking on new referrals may need rethinking and the Service could perhaps use this as an opportunity to revisit Service User outcome based monitoring and payment.</p> <p>SILC have expressed some criticism that the Authority was not fully promoting Direct Payments. The reducing numbers of referrals was highlighted and points were made that there appeared to be a partial trend back to local authority commissioned services, along with anecdotal cases of delays in SCC referral.</p>	Some Improvement Needed	<p>Consider to reviewing the current basket of KPIs. Where KPIs returns are not received, providers should be challenged to provide robust explanations or face the phased application of Service credits as allowed for under the terms of the framework agreement. (M)</p> <p>Commissioning staff should give further consideration to the implications of the continuing fall in the number of residents with needs referred for potential support on Direct Payments. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Training Course Cancellations</p>	<p>HR management monitor the number of staff trained each month and the number of training course cancellations. HR management are concerned that the number of classroom-based course cancellations appears to be high, and asked Internal Audit to review the position and to make appropriate recommendations where necessary.</p>	<p>Between 1 January and 21 October 2015, there were 13,790 classroom attendances and a further 6,290 cancellations. This represents a cancellation rate of 31.3%.</p> <p>265 staff cancelled five or more courses in the ten month period under review. Such activity would not routinely be detected by line managers and suitable exception reports are not available.</p> <p>Staff can book and cancel classroom-based training without line manager approval.</p> <p>Course attendance sheets are supposed to be submitted to the Training Administration Team (TAT) to enable them to record details of attendance and non-attendance. However, for the period under review 29.6% of registers had not been returned, which affects the accuracy of attendance and cancellation data.</p>	<p>Some Improvement Needed</p>	<p>Consideration should be given to re-introducing the requirement for managers to give advance approval of staff applications to attend training courses. (M)</p> <p>A suitable management exception report should be devised to highlight exceptional booking and cancellation activity to staff managers, the Training Administration Team and the HR Service Partners. (M)</p> <p>Updated lists of expected course attendance should be made available to trainers on the day of the course, to give them more accurate information, and to enable attendance registers to be compiled more accurately and efficiently. (M)</p> <p>Course trainers must be urged to submit course attendance returns immediately after each course. Analyses of non-returns should be carried out to identify trainers with the highest non-compliance rates. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
General Ledger	<p>Surrey County Council (SCC) uses the SAP Accounting module to maintain a General Ledger (GL) of all accounting transactions and to enable the production of periodic financial accounts.</p> <p>A chart of accounts is maintained on SAP which incorporates the master data (such as cost codes and GL accounts) to be used. As at November 2015, the master data consisted of 1,393 active GL accounts and 5,810 active cost codes.</p>	<p>The results of audit testing indicated good compliance with procedures and no significant errors were noted.</p> <p>There were a number of uncleared transactions from prior years within key control accounts eg:</p> <p>GI/IR - £4,221k Advance Recovery - £666k</p> <p>The balance on GL Account 8113 (Uncleared Cheques) was £622k. This included sums for cheques issued before 01 January 2015 totalling £385k. Current policy is that uncashed cheques are not cancelled from the account until they are six years past the cheque issue date.</p> <p>The balance on GL Account 8134 (untraced income) was £122k and consists of bank remittances from prior years that could not be matched to any expected income.</p> <p>SAP document 8000244687 contained several accruals relating mainly to LSTF capital projects managed by Highways. Some project accruals appear to have remained unchanged for up to six months.</p>	Effective	<p>Continue to ensure that sufficient resources are applied to investigate, correct and eliminate non-reconciling items from key control accounts (including GR/IR, external payroll deduction accounts, external pension contribution accounts, advance recovery and BACS Recall). (M)</p> <p>Review the policy for waiting six years before uncashed cheques are cancelled from the relevant GL account. (L)</p> <p>A clearer policy and procedure for dealing with unidentified income should be established. (L)</p> <p>Details of accruals for the LSTF projects should be jointly reviewed by Finance and Highways staff to ensure they are up to date and as accurate as possible. (L)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
IT Feeder Systems	Surrey County Council has various applications which are currently only used by specific services, for specific needs and there should be a valid and clear business case for each of these systems which includes the support, hosting and maintenance arrangements.	<p>Internal Audit carried out a review to ensure that the system for managing the Non-Corporate System Applications was adequate, and that effective internal controls applied to these systems. It was felt that in light of the discussions with officers; and the compliance testing carried out, the system currently operating is sound.</p> <p>IMT are managing the system effectively and are ensuring that any software procurement is managed adequately via the Technology Boards.</p>	Effective	There were no recommendations arising.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Administration of LAC Finances Follow up Audit	As part of the 2014/15 annual Internal Audit Plan a review of the Administration of LAC Finances was carried out. The review found numerous control weaknesses and a total of 13 recommendations were made. These recommendations were agreed in a Management Action Plan (MAP) in September 2014. By April 2015 the service had made progress to address the majority of the high priority recommendations. The follow up audit report sets out the progress made against the MAP.	<p>The September 2014 audit testing identified, from a sample of 35 children that 12 (34%) did not hold a JISA or CTF. The Auditor re-tested these children's records. Testing indicates savings information remains incomplete in 6 records</p> <p>The last updates of account reference numbers were made in October 2014. No further LCS updates have been made.</p> <p>Discussions with officers suggest they are unclear of their responsibilities in regards to updating account reference numbers on LCS.</p>	Some Improvement Needed	<p>LCS should be routinely updated with account reference numbers or where not available notes should be made of steps taken to obtain the account information on LCS. (H)</p> <p>The service should produce guidance on the Finance Teams' responsibilities for recording and updating LCS with savings account information. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Schools Compliance Audit - Schools Fraud Checklist 2015/16</p>	<p>Based upon the conclusions of the previous schools audit report "Review of self-assessment process for SFVS - 2014/15", it was proposed that the schools programme within the Annual Internal Audit Plan for 2015/16 be based on proactive anti-fraud and corruption measures.</p> <p>20 schools were selected to receive an audit inspection. The sample included primary, secondary and PRU schools.</p>	<p>The Auditor was not satisfied with the level of controls around the procurement system in schools.</p> <p>Instances of no formal signed contracts in place, or agreed terms and conditions with the contractors were identified.</p> <p>Weaknesses in control systems related to the monthly pay reports, resulted in some allowances being paid to some staff in error.</p> <p>The Auditor identified a few discrepancies in the process of allowing additional payments to Headteachers.</p> <p>In a few cases, the overtime recording system was not properly controlled.</p> <p>Contracts of employment are not always being signed by the employees and/or are not being renewed as appropriate.</p> <p>Other weaknesses in the recruitment system, travel expense arrangements and lettings.</p>	<p>Significant Improvement Needed for the procurement system observed in schools;</p> <p>Some Improvement Needed for other audited areas as detailed in the Audit Report.</p>	<p>Where the audit of an individual school has led to specific findings or recommendations, these have been communicated to the individual school.</p> <p>There were no service level audit recommendations.</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Members' Allocations	<p>Surrey County Council's 81 councillors receive an annual allocation of funding which is given to help their local borough or districts communities. The allocations are used to enhance the environmental, economic or social wellbeing of residents in Surrey. For the financial year of 2014/15 each councillor was assigned £10,300. with a total budget of £834,300. The bids for funding are led by the relevant councillor within the associated borough or district and administered through the Community Partnerships Team.</p>	<p>The audit confirmed that the procedures and funding of Members' Allocations is performed satisfactorily.</p> <p>The Guidance and eligibility criteria for allocations are adequate but processing staff are using various documents.</p> <p>The application form is not robust enough in requesting quotations and estimates for goods or services, therefore not determining if bids were excessive or not value for money.</p> <p>Benefits gained by the local communities were evident from the 53 samples selected. However, evidence monitoring and assessment of any patterns in funding requests within communities was not fully effective.</p>	Some Improvement Needed.	<p>Ensure that all guidance and procedure documents are reviewed periodically, and produce one single document as appropriate guidance for all Local Support Assistants (LSA) to use. (M)</p> <p>Quotations, estimates and a quantification of the direct benefits to the community should be requested at the time of application (M)</p> <p>Reference to a deadline for the applicant to submit to the council their evidence of how their allocation was spent must be included within the application form and the funding agreement. (M)</p> <p>There should also be increased emphasis on the LSAs to ensure that this evidence is both received and reviewed within a 12 month limit of initial funding. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Public Health Contracts	<p>From 1st April 2013 the responsibility for local public health transferred from NHS Primary Care Trusts (PCT) to local authorities. Local authorities have a duty to improve the health and wellbeing of their local population. Consequently Surrey County Council has taken ownership of managing relevant public health service contracts and is required to commission appropriate public health services.</p>	<p>Quality measure and innovation payments should be quantifiable and an audit trail of such payments should be readily available not only for the purposes of knowledge management but also for the transparency in payment processes.</p> <p>First Community Health Care collects client feedback, but this is not formally reported back to the commissioners.</p> <p>Contract risk monitoring and recording processes are developed; however the arrangement for recording of this information is fragmented.</p> <p>A review of the contract register identified that seven contracts have expired and contract values are recorded in various formats; life of contract value and in some cases annual contract value.</p>	Some Improvement Needed.	<p>Ensure transparency over the authorisation and record keeping of all payments (especially for quality measure and incentive payments which are outside the core contract). (M)</p> <p>Implement clear measurable targets for the First Community Health Care contract and implement KPIs. (M)</p> <p>Periodically review carer and client feedback (M)</p> <p>Ensure all contracts are current with updated contract variations are in place as appropriate. (M)</p> <p>Ensure that all identified risks are assessed and an appropriate mitigating action and risk ownership is recorded on the risk register. (M)</p> <p>Ensure that all contracts irrespective of their value are routinely uploaded to CMS. (M)</p> <p>Assign responsibility for maintaining and updating the contract register to a specific officer or team to ensure consistency of recording. (M)</p> <p>Ensure the contract register is regularly updated and implement the recording of key KPIs in the register. (M)</p> <p>Consider recording the top 2/3 contract specific risks on the contract register. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Families, Friends and Communities (FFC)	<p>The FFC programme seeks to increase community capacity and reduce the related cost of care and support.</p> <p>The Medium Term Financial Plan (MTFP) for 2014/15 included savings for ASC of £42m. The planned savings for the FFC support programme were £13.3m, which made it the most significant element of ASC's overall savings plan. Overall £7m of savings were actually achieved in 2014/15.</p> <p>Building on lessons learnt, a plan for 2015/16 is in place. Regular financial and qualitative monitoring is underway to ensure continued achievement of better outcomes at lower cost throughout 2015/16. The 2015/16 MTFP includes savings for FFC of £10m with a further £4m of additional in-year savings relating to direct payment refunds.</p>	<p>There is clear evidence that there are changes to frontline practice that are having the desired effect. The development of FFC has been managed within current resources. With the uncertainty over the funding in future years it will be important that the momentum of FFC continues.</p> <p>High quality information is pivotal to supporting the FFC approach. Some information available to residents via the Surrey Information Point was found to be outdated and some links did not work.</p> <p>Finance has confirmed that to the end of December 2015 savings from reassessments are £3.848m and savings for new community care packages are £0.076m. The average amount saved per reassessment so far in 2015/16 has been around 18%. This is an improvement on the 15% rate achieved in 2014/15.</p> <p>Total FFC savings (excluding direct payment reclaims) for 2015/16 are forecast to be £4.8m against original planned savings of £10m</p>	Some Improvement Needed	<p>Ensure all information on the Surrey Information Point is kept current and links tested to ensure they work. (M)</p> <p>SCC should ensure that all savings targets including those for FFC are realistic. (H)</p> <p>The budgets for Adult Social Care should be revised to reflect additional pressures and realistic savings. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Treasury Management (TM)	<p>Treasury Management is the management of the SCC's investments and cash flows, its banking and money market capital transactions; the effective control of the risks associated with those activities: and the pursuit of optimum performance consistent with those risks.</p> <p>TM activity is carried out by the Pension Fund and Treasury team based in County Hall. As at 2 December 2015, there was £184.6m on short term deposit and there were long term loans totalling £397m.</p>	<p>The TM function complies with all the CIPFA code requirements and performs effectively although there is some scope for marginal improvement in terms of:</p> <ul style="list-style-type: none"> a) producing a comprehensive office manual complete with written procedures, and b) holding paper-based records more securely. 	Effective	<p>An office manual, incorporating the existing treasury management practices, should be produced. (L)</p> <p>A formal procedure for investigating reasons for cash flow forecasting variances should be prepared and incorporated into the office manual. (L)</p> <p>TM staff should continue to periodically review details of deposits recorded on SAP. (L)</p> <p>The contract for the provision of external advisory services should be signed as soon as possible. (L)</p> <p>Paperwork should be held more securely and locked away overnight in the lockable cupboard. (L)</p>

¹ Audit Opinions

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
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
22 February 2016

Statutory Responsibilities Network

Purpose of the report:

To update the Audit & Governance Committee on activity of the Statutory Responsibilities Network.

Recommendations:

It is recommended that:

- i. The Audit & Governance Committee Chairman continues to meet with the Network chairman, the Chief Executive, in order to keep up-to-date with network activity.

Introduction:

- ii. As a result of the Audit & Governance Committee Effectiveness Review, the Committee agreed a protocol for working with the Statutory Responsibilities Network. This report constitutes part of the agreed protocol and provides an update on the activity of the Statutory Responsibilities Network since the last report in September 2015.

What is the Statutory Responsibilities Network?

1. The Statutory Responsibilities Network (SRN) has been established since May 2014 and meets every fortnight on a Monday afternoon. It exists to bring key officers together with a focus on the Council's core legal duties.

Terms of reference

2. The purpose of SRN is to facilitate clear senior officer oversight of our major statutory and other responsibilities, which have been defined as:
 - Ensuring adults and children are safe
 - Ensuring fiduciary duty, i.e. finances are safe
 - Ensuring compliance, including with equalities duties
 - Ensuring health & safety responsibilities are met

- Ensuring highways responsibilities are met
- Ensuring the provision of sufficient school places
- Ensuring public health & wellbeing
- Ensuring organisational resilience and continuity
- Ensuring risks are identified and managed

Membership

3. SRN membership, as of January 2016:

- David McNulty, Chief Executive Officer
- Julie Fisher, Deputy Chief Executive and Strategic Director, Children, Schools and Families
- Russell Pearson, Chief Fire Officer
- Helen Atkinson, Director of Adult Social Care and Public Health
- Sheila Little, Director of Finance
- Ann Charlton, Director of Legal, Democratic and Cultural Services
- Ken Akers, Strategic Human Resources Relationship Manager
- Sue Lewry-Jones, Chief Internal Auditor
- Yvonne Rees, Strategic Director for Customers and Communities

4. The network provides a regular forum for statutory officers to raise key issues, share knowledge and offer challenge. In response to risks, the network may choose to request further information, propose ideas or commission specific work. Where organisational inconsistencies are identified, a strategic solution is agreed, implemented and overseen.

<h3>Summary of Network Activity Over the Past Six Months</h3>
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5. Key items over the past six months include:

Improvement of Children's Services

6. The Children's Improvement Plan is a standing item for SRN meetings, allowing for constructive challenge and strategic oversight of the plan.

Governance of risk, primarily financial risk

7. The Leadership Risk Register is a standing item for SRN meetings. This allows for the regular review of existing risks and the identification of new risks. The financial outlook features as the number one risk for the organisation and the Director of Finance keeps the SRN updated on the strategic financial position of the Council. The Strategic Risk Forum also continues to operate as usual.

8. Other items over the past six months:

- Oversight of Syrian refugee crisis management.

- 'Prevent' agenda, including agreement of protocols for managing terrorism risk.
- Health and safety areas for development (ROSPA report).
- New duties for local government, and the implications of these on the organisation.
- Data breaches and learning points, including strategies to mitigate future risks.
- HR matters including health and safety scorecard.

Protocol arrangements:

9. Performance of SRN will be managed by the Chief Executive Officer, who will continue to provide the Committee with twice yearly reports on progress. Key findings throughout the year will continue to be brought to the Committee by SRN members.

Conclusions:

10. The agreed protocol continues to ensure SRN is joined up with the Audit & Governance Committee, with measures in place to ensure the effective governance of risk.

Financial and value for money implications

11. None

Equalities and Diversity Implications

12. EIA not completed as this report is for information.

Risk Management Implications

13. The Statutory Responsibility Network plays a key role in the identification and management of risk.

Next steps:

A further update report will be submitted to the Committee in September 2016.

Report contact: Ellie Giffard, Executive Assistant to Chief Executive Officer.

Contact details: 020 8213 2502, ellie.giffard@surreycc.gov.uk

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Audit & Governance Committee
22 February 2016

Leadership Risk Register

Purpose of the report:

The purpose of this report is to present the Leadership Risk Register as at 31 January 2016 and update the Committee on any changes made since the last meeting to enable the Committee to keep the Council's strategic risks under review.

Recommendations:

It is recommended that the Committee:

1. Review the Leadership Risk Register; and
2. Determine whether there are any matters that they wish to draw to the attention of the Chief Executive, Cabinet, specific Cabinet Member or relevant scrutiny board.

Leadership risk register:

3. The Leadership Risk Register (Annex 1) is owned by the Chief Executive and shows the council's key strategic risks. The register is regularly reviewed by the Strategic Risk Forum¹ (SRF) (chaired by the Director of Finance) and the Statutory Responsibilities Network² (SRN) on a monthly basis.
4. The Risk Register has been extensively reviewed by SRN during December 2015 and January 2016 and now has eight risks, split into two sections:
 - Strategic risks (L1 to L4) – risks that have the potential to significantly disrupt or destroy the organisation; and
 - Cross-cutting risks (L5 to L8) – high level risks that can be mitigated more effectively through cross working.

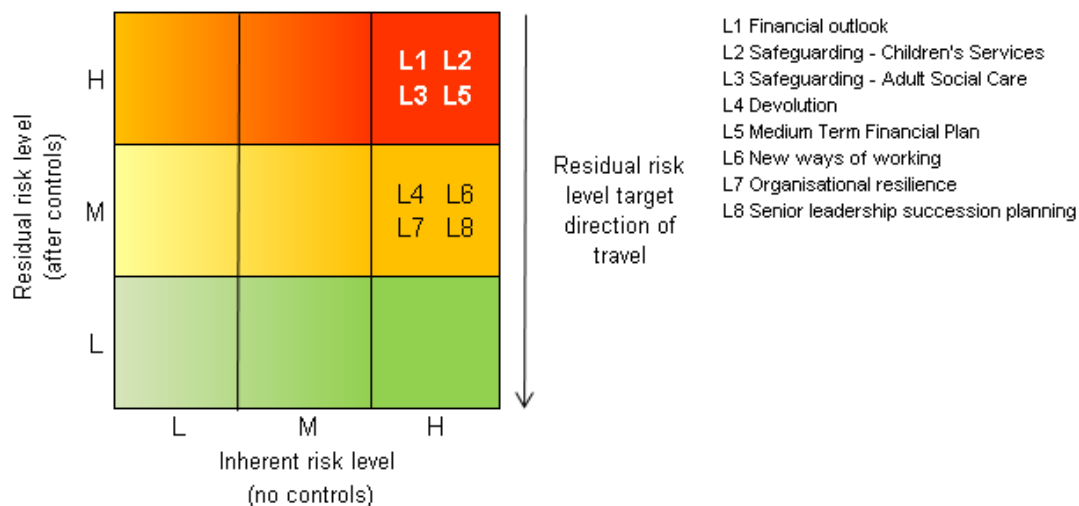
¹ Strategic Risk Forum membership – Director of Finance (Chair), strategic risk leads, Chief Internal Auditor, Head of Emergency Management, Risk and Governance Manager.

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

5. A number of risks have been removed from the risk register due to:
 - Amalgamation with other risks;
 - The risk becoming reality (e.g. Comprehensive Spending Review); or
 - Reviewing and monitoring of the risk taking place at a directorate level.
6. The detailed changes are shown in Annex 2.
7. The directorate risk registers continue to be regularly reviewed and updated and are discussed at each SRF. Emerging strategic risks and, if appropriate, escalation of residually high level directorate risks, are taken to SRN for discussion and possible inclusion on the Leadership Risk Register.

Residual risk level

8. The Leadership risk register includes both the inherent and residual risk levels for each risk. Inherent risk is the level of risk before any control activities are applied. The residual risk level takes into account the controls that are already in place, detailed on the risk register as both ‘processes in place’ and ‘controls.’
9. There are now eight risks on the Leadership Risk Register, all of which have a high inherent risk level, as illustrated in the table below. Despite mitigating actions, four of these risks continue to have a high residual risk level (L1,L2,L3,L5) and four continue to have a medium residual risk level (L4,L6,L7,L8): 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

10. There are no direct financial implications relating to the Leadership Risk Register.

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

The Leadership risk register will be presented to Cabinet on 23 February 2016 and next to Audit and Governance Committee on 11 April 2016.

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

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

Leadership risk register as at 31 January 2015 (covers rolling 12 months) Owner: David McNulty Annex 1

Strategic risks – have the potential to significantly destroy or destroy the organisation

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	FN01	Financial outlook Lack of funding, due to constraints in the ability to raise local funding and/or distribution of funding, results in significant adverse long term consequences for services.	High	<ul style="list-style-type: none"> Structured approach to ensuring Government understands the council's Council Tax strategy and high gearing. Targeted focus with Government to secure a greater share of funding for specific demand led pressures (in particular Adult Social Care). Proactive engagement with Government departments to influence Government policy changes (especially grant distribution and 100% Business Rate Retention strategy). 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). <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. Members proactively take the opportunities to influence central Government 	Director of Finance	High
L2	CSF1,2	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 	<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. 	Deputy Chief Executive and Strategic Director of Children's Schools and Families	High

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Key to references:
 ASC = Adult Social Care risk
 CSF = Children, Schools and Families risk
 C&C = Customers and Communities risk

EAI = Environment and Infrastructure risk
 FN = Finance Service risk
 FR = Fire and Rescue Service risk

ORB = Orbis risk

Leadership risk register as at 31 January 2015 (covers rolling 12 months) Owner: David McNulty Annex 1

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)
				<p>delivered to address areas of improvement from the Ofsted inspection and strengthen service and whole system capability and capacity.</p> <ul style="list-style-type: none"> Strong leadership and governance arrangements. 	<ul style="list-style-type: none"> 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. 		
L3	ASC6,7	<p>Safeguarding – Adult Social Care Avoidable failure in Adult Social Care, through action or inaction, leads to serious harm, death or a major impact on wellbeing.</p>	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. 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. 	<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 reviews are used to inform learning and social work practice. Agree and embed agreed changes resulting from Care Act 2014 consultation. Actively respond to feedback from regulators. 	Strategic Director of Adult Social Care & Public Health	High

Key to references:

ASC = Adult Social Care risk
CSF = Children, Schools and Families risk
C&C = Customers and Communities risk

EAI = Environment and Infrastructure risk
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FR = Fire and Rescue Service risk

ORB = Orbis risk

Leadership risk register as at 31 January 2015 (covers rolling 12 months) Owner: David McNulty Annex 1

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)
				<ul style="list-style-type: none"> Strong leadership, including close involvement by Associate Cabinet Member for Adult Social Care in safeguarding functions. 			
L4		<p>Devolution Failure to achieve a 3SC devolution deal leaves SCC without a coherent response to the strategic challenges facing the county.</p>	High	<ul style="list-style-type: none"> 3SC internal governance arrangements agreed - including a Strategic Oversight Group which manages 3SC risks (and 3SC risk register developed/approved). Programme office and workstream sponsors and leads agreed with roles and responsibilities defined. Regular meetings of local authority Leaders and Chief Executives. Regular engagement with 3SC partners. Regular engagement with central government at both political and official level. Negotiation with Government underway, following a successful Ministerial challenge meeting in January. 	<ul style="list-style-type: none"> Keep all processes under active review. Strategic Oversight Group reviewing risk register quarterly. 	Chief Executive	Medium

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Key to references:
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Cross cutting risks – high level risks that can be mitigated more effectively through cross working

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)
L5	ASC1,2 CSF4 C&C2 EAI1 FN2 FR72, 85 ORB11	<p>Medium Term Financial Plan (MTFP) 2016-21 Failure to achieve the MTFP, which could be 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. • Budget planning discussions held with Cabinet and Scrutiny Boards. • Early conversations are undertaken with all relevant stakeholders to ensure consultations about service changes 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 Directors / Leadership Teams to identify correcting actions. (Evidenced by robust action plans) - Members (Council, Cabinet, Scrutiny Boards) 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
L6	ASC2,9 CSF4 EAI3,15 FR74 ORB4	<p>New ways of working Failure to identify and manage the impacts / consequences of implementing a range of new models of delivery leads to severe service disruption and reputational damage.</p>	High	<ul style="list-style-type: none"> • Shared and aligned strategies to ensure no unintended consequences. • Robust governance arrangements (eg. Inter Authority Agreements, Better Care Board, Health and Wellbeing Board, financial governance framework) in place with early warning mechanisms. • Regular monitoring of progress and risks against work streams. 	<ul style="list-style-type: none"> - Leadership and managers recognise the importance of building and sustaining good working relationships with key stakeholders and having early discussions if these falter. - Progress discussions with Clinical Commissioning Groups in Surrey. 	Chief Executive	Medium

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				<ul style="list-style-type: none"> • Effective transition arrangements with continuous stakeholder engagement. • Continuous focus on building and maintaining strong relationships with partners through regular formal and informal dialogue. • Close liaison and communication with customers. 	- Members continue to endorse approaches to integration across the council.		
L7	ASC4, 5,8 EAI2, 5,17 FR06 ORB5	Organisational resilience Failure to plan for and/or respond effectively to a significant event results in severe and prolonged service disruption and loss of trust in the organisation.	High	<ul style="list-style-type: none"> • Developing an employment framework that supports flexibility in service delivery and organisational resilience. • External risks are regularly assessed through the Local Resilience Forum and reviewed by the Statutory Responsibilities Network. • Active learning by senior leaders from experiences / incidents outside the council informs continual improvement within the council. • Close working between key services and the Emergency Management Team to proactively update and communicate business continuity plans and share learning. • Robust governance framework (including codes of conduct, health and safety policies, complaints tracking). 	- Regular monitoring of effectiveness of processes is in place and improvements continually made and communicated as a result of learning.	Chief Executive	Medium
L8		Senior Leadership Succession Planning A significant number of senior leaders leave the organisation within a short space of time and cannot be replaced effectively	High	<ul style="list-style-type: none"> • Improving collective ownership and risk sharing of organisational goals by introducing a scorecard for organisational performance. • Workforce planning linked to business continuity plans • High Performance Development Programme to increase skills, resilience and effectiveness 	- Transparent and effective succession plans	Chief Executive	Medium

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		resulting in a reduction in the ability to deliver services to the level required.		of leaders <ul style="list-style-type: none"> • Career conversations built into appraisal process looking forward five years • Shaping leaders exercise • Introducing new senior leadership appraisal process that mainstreams feedback (shaping leaders) and succession planning into appraisal process. 			

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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	Financial outlook (previously called future funding)	Aug 12	High	Jan 16	↑	High
L2	Safeguarding – Children’s Services	May 10	High	Jan 15	↑	High
L3	Safeguarding – Adult Social Care	May 10	High	Jan 15	↑	High
L4	Devolution	Jan 16	High	-	-	Medium
L5	Medium Term Financial Plan	Aug 12	High	-	-	High
L6	New ways of working	Jan 16	High	-	-	Medium
L7	Organisational resilience	May 10	High	Aug 12	↓	Medium
L8	Senior Leadership Succession Planning	Mar 15	High	-	-	Medium

Risks removed from the register in the last 12 months

Risk	Date added	Date removed
<i>National policy development</i>	<i>Feb 13</i>	<i>Jan 16</i>
<i>Waste</i>	<i>May 10</i>	<i>Jan 16</i>
<i>Comprehensive Spending Review 2015</i>	<i>Sept 14</i>	<i>Jan 16</i>
<i>Reputation</i>	<i>Oct 14</i>	<i>Jan 16</i>
<i>Staff resilience</i>	<i>May 10</i>	<i>Jan 16</i>
<i>Information governance</i>	<i>Dec 10</i>	<i>Jan 16</i>
<i>Supply chain / contractor resilience</i>	<i>Jan 14</i>	<i>Jan 16</i>

Leadership level risk assessment criteria

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

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

Leadership risk register changes (December 2015 – January 2016)

Old risk ref	New risk ref	Risk	Change
L1	L5	Medium Term Financial Plan (MTFP)	No change to the risk.
L2	-	National Policy Development	Removed – part of MTFP risk
L3	-	Waste	Removed – monitored through the Environment and Infrastructure risk register
L4	-	Integration of health and social care	Integrated into new risk L6
L5	-	Comprehensive Spending Review	Removed – now an issue
L6	L2	Safeguarding – Children’s Services	No change to the risk
L7	L1	Financial outlook	Risk description and controls updated
L8	-	Reputation	Integrated into new risk L7
L9	-	Staff resilience	Removed – monitored at directorate level
L10	-	Business continuity	Integrated into new risk L7
L11	-	Information Governance	Removed – monitored at directorate level
L12	-	Supply chain	Removed - monitored at directorate level
L13	L3	Safeguarding – Adult Social Care	No change to the risk
L14	L8	Senior Leadership Succession Planning	Risk controls updated
L15	-	Integrated working	Integrated into new risk L6
L16	-	Partnership working	Integrated into new risk L6



Audit & Governance Committee
22 February 2016

Audit & Governance Committee – Annual Report 2015

PURPOSE OF REPORT:

For Members to consider and comment on the Committee's Annual Report.

INTRODUCTION:

The attached Annual Report covers the work of the Audit & Governance Committee during the period January to December 2015. It provides a summary of work undertaken by the Committee, highlights how the committee engaged with others during the year, and looks ahead at the Committee's focus for 2016.

RECOMMENDATION:

The Committee is asked to review the report and agree any amendments it wishes to include in the final version.

REPORT CONTACT: Bryan Searle, Senior Manager, Cabinet, Committees & Appeals
020 8541 9019
bryans@surreycc.gov.uk

Sources/background papers: None

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Audit & Governance Committee

Annual Report 2015





Introduction

I am pleased to present this year's Annual Report of the Audit & Governance Committee. The committee is accountable to full Council and welcomes scrutiny of its effectiveness in fulfilling its terms of reference and its impact on the improvement of governance, risk and control within the authority. I hope that this Annual Report aids the Council in this task.

This report covers the work of the Audit & Governance Committee during the period **January – December 2015**. In addition to a summary of work undertaken, the report includes details of committee membership, officer support to the committee and how the committee has engaged with others. In particular, I would like to draw attention to the work of the committee on raising the profile of Internal Audit with Members, while highlighting the findings of individual audits and tracking progress with actions coming out of those audits. The report ends with a look forward to 2016 and the committee would welcome any feedback from Members of the Council on the themes identified.

Stuart Selleck
Chairman
Audit & Governance Committee

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The role of the Audit & Governance Committee

Cipfa (the Chartered Institute of Public Finance and Accountancy) defines the purpose of an audit committee as:

“...to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.”¹

Therefore, the committee is primarily concerned with assuring itself, and advising the Cabinet and County Council as necessary, that the Council's policies are being implemented and has in place systems which provide adequate controls over the Council's resources and assets to prevent the risk of loss through fraud and corruption. It is not the role of the Audit and Governance Committee to be responsible for the arrangements.

An audit committee should be independent of the Cabinet and Scrutiny functions of the authority, have clear reporting lines and rights of access to other committees (primarily the Cabinet and County Council), and its members should be properly trained to fulfil the role. The committee's terms of reference is listed below with a summary of work undertaken:

¹ CIPFA (2013) Audit Committees: Practical Guidance for Local Authorities and Police



Statement of Purpose

The Council recognises the importance of undertaking scrutiny of the management of the internal control systems and the Audit & Governance Committee provides an independent and high-level focus on audit, governance and financial accounts matters.

Terms of Reference	Summary of work and outcomes
<p>Regulatory Framework</p> <ul style="list-style-type: none"> a) To monitor the effective development and operation of the risk management and corporate governance arrangements in the council. b) To monitor the effectiveness of the council’s anti-fraud and anticorruption strategy, including the assessment of fraud risks. c) To monitor compliance with the council’s corporate governance framework and advise or make recommendations to the Cabinet or County Council as appropriate. d) To review the Annual Governance Statement and commend it to the Cabinet. e) To conduct an annual review of the effectiveness of the system of internal audit. f) To provide oversight to the Annual Report of the Council. g) To make proposals to appropriate Select Committees on suggested areas of scrutiny. 	<ul style="list-style-type: none"> • Reviewed and commended the Council’s key risk management and governance policy papers, including: the Council’s Annual Report; the Risk Management Policy Statement and Strategy; the Code of Corporate Governance; and the Annual Governance Statement. • Regularly reviewed the development and operation of the Council’s risk management and corporate governance arrangements. Also, regularly monitored the Leadership Risk Register. • Reviewed control systems and governance arrangements for major IMT projects. • Agreed a process with the Statutory Responsibilities Network to keep updated on activity. The committee now receives a six monthly report from the Network and the Chairman meets the Chief Executive regularly to go through the minutes of Network meetings. • Reviewed the work of Internal Audit in countering and raising awareness of fraud risk. • Conducted an annual review of the effectiveness of the system of internal audit.

Terms of Reference	Summary of work and outcomes
<p>Audit Activity</p> <ul style="list-style-type: none"> a) To consider the Chief Internal Auditor’s annual report and opinion, a summary of internal audit activity and the adequacy of management responses to issues identified. b) To approve the annual Internal Audit & Inspection plan and monitor its implementation. c) To approve the Internal Audit Charter. d) To consider periodic reports of the Chief Internal Auditor and internal audit activity. e) That the Chairman (or in his/her absence, the Vice-Chairman) be consulted upon the appointment or removal of the Chief Internal Auditor. f) To consider and comment upon the reports and plans of the external auditor, including the annual audit letter. 	<ul style="list-style-type: none"> • Approved the Internal Audit Plan 2015/16 and Internal Audit Charter. • Regularly reviewed the work and performance of Internal Audit. • Considered internal audit reports and management responses. Followed up on a number of internal audit reports and progress against the management actions plans with Cabinet Members, Scrutiny Boards and service officers, including: Property Asset Management System, Absence Management, Trust Funds, Operation Horizon and Social Care Debt. The committee was careful to ensure that it worked in collaboration with Scrutiny Boards, avoiding duplication and referring issues on when appropriate. • Reviewed a number of reports from the external auditor Grant Thornton.



Terms of Reference	Summary of work and outcomes
<p>Accounts</p> <ul style="list-style-type: none"> a) To consider and approve the annual statement of accounts and the Surrey Pension Fund accounts. b) To review the Council's Treasury Management strategy and consider periodic reports of treasury management activity. c) To undertake statutory functions as required on behalf of the fire fighters' pension schemes. 	<ul style="list-style-type: none"> • Considered and approved the Statement of Accounts for the Council and the Surrey Pension Fund. • Raised the issue of delayed provision of Collection Fund figures to the County Council with a number of Borough and District Councils, following comments by the Council's external auditors in their audit findings report. • Considered the Statement of Accounts for Babcock 4S. • Considered the audited Statement of Accounts for SE Business Services. • Reviewed treasury management activity.
<p>Ethical Standards</p> <ul style="list-style-type: none"> a) To monitor the operation of the Members' code of conduct. b) To promote advice, guidance and training for Members and co-opted members on matters relating to the code of conduct. c) To ensure the Council's complaints procedures operate effectively. d) To grant dispensations to Members (including co-opted members) from requirements relating to interests set out in the Members' Code of Conduct. 	<ul style="list-style-type: none"> • Conducted an annual review of ethical standards. • Reviewed complaints handling performance for the Council. • Reviewed an update on whistleblowing activity. • Granted a dispensation to Graham Ellwood to enable him to participate in Council business.

Membership of the committee

The Audit & Governance Committee is composed of six elected Members from across the political spectrum.

It is recommended as good practice to have an audit committee which has a good depth of knowledge and experience. A Knowledge & Skills Assessment (based on CIPFA's knowledge and skills framework), undertaken by committee members shows that they bring to the committee broad experience and knowledge of audit, risk management, relevant legal issues, project management and relevant service and local governance knowledge.

One to one training has been provided on specific areas as required following completion of the assessment. Full committee training has been provided this year on local authority accounts, treasury management and risk culture.

Current Membership:

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Stuart Selleck, a member of the Residents' Association/Independent Group of councillors, became Chairman of the committee in May 2015, taking over from outgoing Chairman Nick Harrison. The Council's Constitution specifically sets out that the role of Chairman may be filled by a Member from one of the minority groups. CIPFA recommends that in order to promote objectivity and increase an audit committee's standing in the eyes of the public, the chairman should not be a member of the executive and the committee should be independent from the scrutiny function. To help maintain the Audit & Governance Committee's independence, Stuart Selleck is not a member on any of the Council's scrutiny committees. He is a member of the Surrey Pension Fund Committee.

Denis Fuller, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2009 and became Vice-Chairman in May 2015. Denis Fuller is also a member of the Education & Skills Board.





Bill Barker, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2005. He was Vice-Chairman of the Committee for 2005/06 and then reappointed as Vice-Chairman of the Committee 2009 to May 2015. Bill Barker is also a member of the Surrey Pension Fund Committee and the Wellbeing and Health Scrutiny Board.

Will Forster, a member of the Liberal Democrat Group, has been a member of the Audit & Governance Committee since May 2013.



Tim Hall, a member of the Conservative Group, has been a member of the Audit & Governance Committee since May 2013. Tim is also Chairman of Planning & Regulatory Committee and a member of the Wellbeing and Health Scrutiny Board.



Saj Hussain, a member of the Conservative Group, joined the committee in May 2015. Saj is also a member of the Social Care Services Board and the Resident Experiences Board.



Attendance:

Attendance at Audit & Governance Committee has been good, as evidenced below:

Member	Total expected attendances	Total attendances	Percentage
Stuart Selleck	4 (joined in May 2015)	4	100
Denis Fuller	6	6	100
Bill Barker	6	6	100
Will Forster	6	3	50
Tim Hall	6	5	83
Saj Hussain	4 (joined in May 2015)	3	75
Tim Evans	2 (left May 2015)	2	100
Nick Harrison	2 (left May 2015)	2	100

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Officer support to the committee

The Section 151 Officer

The Section 151 Officer, Sheila Little, has provided key support to the Audit & Governance Committee. The Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs. CIPFA best practice states that a core Chief Finance Officer responsibility within an authority is the support of the audit committee.

The Section 151 Officer or her representative Kevin Kilburn, with the support of the Financial Reporting Team, has provided reports and training in relation to the Statement of Accounts, external audit activity and financial management. They have attended every Audit & Governance Committee meeting and ensured that the Committee has received the information and advice that it needs to do its job effectively.

Chief Internal Auditor

The Chief Internal Auditor, is a role defined by CIPFA as ‘...a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee’. At Surrey County Council, the Chief Internal Auditor, Sue Lewry-Jones has supported the Audit & Governance Committee in relation to internal audit activity and the regulatory framework. The Chief Internal Auditor sits within the Strategy & Performance Service and reports to the Assistant Director, Strategy & Performance.

Risk & Governance Manager

The Risk & Governance Manager, Cath Edwards, is the Council’s lead officer for coordinating risk management arrangements and monitoring the annual review of governance. The Audit & Governance Committee have received regular reports on governance action plans and reviewed the Leadership Risk Register at each meeting.

Pension Fund & Treasury Manager

Phil Triggs is the Council’s Strategic Manager - Pension Fund and Treasury. The Committee is responsible for reviewing the Council’s Treasury Management strategy on an annual basis as well as approving the Surrey Pension Scheme accounts.

External Audit

Grant Thornton is the County Council's appointed external auditors and operates under the Local Audit & Accountability Act 2014 and a code of practice approved by Parliament. The appointed auditor for Surrey County Council is Andy Mack and his primary responsibility is to give his opinion on whether the Council's accounts give a true and fair view of the Council's financial transactions. Grant Thornton also annually assesses the council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Engaging with others

Engaging with the Leadership

The outgoing and incoming Chairmen of Audit & Governance Committee have had regular meetings with senior managers across the Council during 2015. This included 6-monthly meetings with the Head of Communications and meetings with the Section 151 Officer before each Audit & Governance Committee meeting. One to one meetings with the Chief Executive and the Leader of the Council have also taken place on a regular basis.

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The Chief Executive attended the Audit & Governance Committee meetings on 16 February and 28 September 2015 to give updates on the Statutory Responsibilities Network.

The Leader of the Council and the Council's Chief Executive attended the Audit & Governance Committee on 28 May 2015 to present the Annual Governance Statement. The Annual Governance Statement is the Council's comprehensive assessment of the governance arrangements and the internal control environment across all Council activities. It is signed and jointly owned by both the Chief Executive and Leader. The Leader of the Council and Chief Executive also attended the committee on 27 July 2015 to present the Annual Report of the Council.

Making recommendations

The Committee has made a number of formal recommendations to Cabinet and the Council as well as drawing attention to matters of concern, without formal recommendation.

All recommendations, referrals to other individuals and bodies, and other actions (including requests for further information) are followed up through the use of a recommendations tracker which is reviewed at every meeting of the Audit & Governance Committee.

Wider Council engagement

Following the committee's self-assessment of its effectiveness in 2014, it was agreed that the committee would hold annual seminars to raise the profile of the Council's control systems. In July 2015, the committee held its first seminar on Internal Audit. This was directed at Cabinet Members and Scrutiny Board Chairmen but its key messages were also circulated to all members of the Council via email. Following the success of this session, it is intended to hold a similar event in 2016 – possibly on risk management or risk culture.

Since 2009, an Audit & Governance Committee Bulletin has been produced. The Bulletin was originally introduced to help keep Members up-to-date with issues relevant to the Committee's remit between meetings. Over time the Bulletin has evolved to include more information such as updates from the Council's Finance, Policy & Performance and Adult Social Care services, as well as linking to useful websites. To help raise the profile of the Committee's work, the Bulletin is now published alongside agendas on the public website and is available in the [online library](#).

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Working with Select Committees

During 2015, 62 internal audit reports were issued. The working protocol with Scrutiny Boards is that all reports categorised as Unsatisfactory or Significant Improvement Needed, or those with High Priority recommendations are considered by the relevant Scrutiny Board. 19 (31%) of the reports were categorised as such. Scrutiny Boards have engaged well with this process and have either formally considered the Internal Audit Report and Management Action Plan progress at their meetings or informally monitored progress with Internal Audit recommendations.

Next year's focus

The Audit & Governance Committee will continue to review and challenge the Council's arrangements with regards to risk management, corporate governance, internal and external audit and treasury management throughout 2016. It will also focus on raising the profile of risk management and risk culture.