

Notice of Meeting

Audit & Governance Committee



SURREY
COUNTY COUNCIL

Date & time
Monday, 26
September 2016
at 10.00 am

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

Contact
Andrew Baird
Room 122, County Hall
Tel 020 8541 7609

Andrew.baird@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 Andrew Baird on 020 8541 7609.

Members

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

Ex Officio:

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

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING [25 JULY 2016]

(Pages 1
- 10)

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 (*20 September 2016*).
2. The deadline for public questions is seven days before the meeting (*19 September 2016*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER AND INFORMATION BULLETIN

(Pages
11 - 26)

To review the Committee's recommendations tracker.

6 EXTERNAL AUDIT: ANNUAL AUDIT LETTER

(Pages
27 - 46)

The Council's external auditors, Grant Thornton, are presenting their Annual Audit Letter in respect of the audit year 2015/16 (Annex 1). This report summarises the key messages detailed in the Grant Thornton Audit Findings report presented to the Audit & Governance Committee on 25 July 2016.

7 EXTERNAL AUDIT PERFORMANCE

(Pages
47 - 54)

This report provides the Audit & Governance Committee with details of Grant

Thornton's performance during the last 12 months against the Key Performance Indicators (KPIs) previously agreed and approved by this Committee on 7 December 2015.

8 STATUTORY RESPONSIBILITIES NETWORK (Pages 55 - 58)

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

9 HIGHWAYS NETWORK ASSET (Pages 59 - 66)

To inform the Committee about progress on the implementation of the Highways Network Asset for the Statement of Accounts for 2016/17. This is a fundamental change in the accounting treatment of infrastructure assets which will see the value of infrastructure assets held on the balance sheet increase from £364m as at 31 March 2016 to an estimated £30bn as at 31 March 2017.

10 LEADERSHIP RISK REGISTER (Pages 67 - 78)

To present the Leadership risk register as at 31 August 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 COMPLETED INTERNAL AUDIT REPORTS (Pages 79 - 96)

The purpose of this report is to inform Members of the Internal Audit reports that have been completed since this Committee last considered a Completed Internal Audit Reports item in May 2016 - as attached at Annex 1.

12 ANNUAL COMPLAINTS PERFORMANCE REPORT (Pages 97 - 108)

To give the Audit & Governance Committee an overview of the Council's performance in relation to complaint handling in 2015/16 and how feedback from customers has been used to improve services.

13 DATE OF NEXT MEETING

The next meeting of Audit & Governance Committee will be on 5 December 2016.

David McNulty
Chief Executive

Published: 16 September 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 25 July 2016 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

37/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

38/16 MINUTES OF THE PREVIOUS MEETING - 26 MAY 2016 [Item 2]

The Minutes of the meeting held on 26 May 2016 were approved as an accurate record and signed by the Chairman.

39/16 DECLARATIONS OF INTEREST [Item 3]

There were none.

40/16 QUESTIONS AND PETITIONS [Item 4]

There were none.

41/16 ANNUAL REPORT OF SURREY COUNTY COUNCIL [Item 5]

Declarations of interest:

None.

Witnesses:

Julie Fisher, Deputy Chief Executive
Verity Royle, Senior Principal Accountant

Key points raised during the discussion:

1. The Deputy Chief Executive and Senior Principal Accountant introduced the Council's Annual Report explaining that the emphasis had been to maintain the same format of the report with few changes. The only changes to the report related to reporting how the Council operated and its focus. It was also reported that whilst the Council was not required to produce an annual report, it continued to do so as good practice.
2. Some Members felt that there was not enough emphasis put on the inadequacy of Surrey's transport system, which was the cause of much upset with residents. Also, that the Leader had made a

statement to say that the county was not involved in local infrastructure and used examples to explain why this was not a good thing. The Deputy Chief Executive explained that local plans were the local council's responsibility but officers were working closely with them. She also recognised that infrastructure was important which was why the Council were working with Government on a devolution deal which the Leader had addressed in the summary of the annual report.

3. In response to a Member query regarding looking at other ways other than a straight devolution deal the Deputy Chief Executive explained that financial challenges would limit what the Council could do without devolution.
4. There was some discussion about what Members perceived as a disconnect between local and County Council and whilst they recognised that improvements had been made that communication needed to be improved.
5. The Ofsted inspection was discussed and in response to questions the Deputy Chief Executive reported:
 - It was not known when Ofsted would re-inspect, which could happen at any time, but that a quarterly monitoring visit was planned for August.
 - The improvement plan was a three year plan and the Council were a third into that period.
 - The improvement plan would be considered by the Improvement Board on a monthly basis at a detailed level.

Action/Further information to note:

The Committee agreed that the Deputy Chief Executive take away comments made on infrastructure for further discussions rather than making changes to the annual report.

Resolved:

1. That the County Council's annual report, set out in Annex A to the report, was noted and endorsed.

Mr Will Forster attended the meeting from 10.09 am and arrived during the debate on this item.

42/16 STATEMENT OF ACCOUNTS 2015/16 [Item 6]

Declarations of interest:

None.

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer
 Jonathan Evans, Principal Accountant
 Thomas Ball, Grant Thornton
 Andy Mack, Grant Thornton
 Jeff Bannister, Grant Thornton

Key points raised during the discussion:

1. The Principal Accountant introduced the report and tabled a paper of minor changes and amendments to the main report which is attached as annex 1 to these minutes.

2. It was recognised that the balance sheets would be very difficult for the public to read and understand but that the Director's narrative report would help the public to understand what the figures mean in simple terms.
3. That Surrey Choices had been shown to have no significant risks was questioned. The Principal Accountant explained that the report was for the county as a whole and was a high level analytical review. He also said that Surrey Choices would have its own audit and audit opinion which would be reported back to this committee. Auditors were very aware of the issues around Surrey Choices and would aim to provide assurance.
4. In response to a question whether Orbis would be audited separately it was reported that Orbis would be included in a Value for Money (VfM) audit. The external auditor also responded that the council could request they look at specific areas/issues. It was also pointed out by the Principal Accountant that the Council needed to consider the large risks and take account the size of the organisation/partnership with regard to risk.
5. There was some discussion around Committee concerns that there may not be right amount of leadership in terms of time and effort given to roles and skills. That many of the leading members had various roles and maybe were spread too thin. The main concern from this was that it would be easy for something important to be missed. The external auditor explained that further audit work was to be done and they expected next year's plan to deal with these issues.

Action/Further information to note:

None.

Resolved:

1. That the 2015/16 Statement of Accounts , as attached in Annex A to the report, was approved for publication on the Council's website and in a limited number of hard copies.
2. That the contents of the 2015/16 Audit Findings Report in Annex B to the report was noted.
3. That the officer response to recommendations of the external auditor was agreed.
4. That the Director of Finance's letter of representation, as in Annex C to the report was noted.
5. That there were no issues in the Audit Findings Report that should be referred to the Cabinet.

43/16 SURREY PENSION FUND LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2015/16 AND EXTERNAL AUDIT'S AUDIT FINDINGS REPORT [Item 7]

Declarations of interest:

None.

Witnesses:

Phil Triggs, Strategic Manager Pensions and Treasury
 Thomas Ball, Grant Thornton
 Andy Mack, Grant Thornton

Key points raised during the discussion:

1. The Strategic Manager Pensions and Treasury introduced the report and highlighted the audit findings against significant risks and the auditor's action plan. He reported that externally held cash balances would be reconciled on a quarterly basis and that action on late starter letters had been implemented.
2. The external auditor thanked the staff for all their hard work and reported that it has been a much improved process from last year.
3. The committee discussed the potential for teething problems with the new Border To Coast pool. The external auditor reported that there would be no changes as to how the accounts were compiled or presented and that they would be working with other auditors in the pool as a matter of course.
4. It was recognised by those involved in the pool that this was very new ground and officers were taking advice from a wide range of experts in order to avoid any teething issues. The pool was to be set up by April 2018.

Action/Further information to note:

None.

Resolved:

1. That the 2015/16 Pension Fund financial statements in Annex A to the report was approved.
2. That the content of the Audit Findings for Surrey Pension Fund Report in Annex B was noted.
3. That there were no issues that needed to be referred to Cabinet in relation to the external auditor's conclusions and recommendations.
4. That the Director of Finance be authorised to sign the representation letter as set out in Annex C to the report.

44/16 EXTERNAL AUDIT FEE LETTER - REMOVED [Item 8]

This item was removed from the agenda prior to the meeting.

45/16 TREASURY MANAGEMENT OUTTURN REPORT 2015/16 [Item 9]**Declarations of interest:**

None.

Witnesses:

Phil Triggs, Strategic Manager Pensions and Treasury

Key points raised during the discussion:

1. The Committee discussed the low interest rate environment that had continued for the last seven years and that in comparison with other councils, Surrey was in the lower quartile in terms of its debt cost.
2. The Chairman reported that he had invited Arlingclose, the new external Treasury Advisor to the next committee meeting when a training session would be provided following that meeting.
3. There was a discussion regarding Brexit and what assessments were being undertaken to ensure investments were the right ones.
4. In relation to Brexit, the Strategic Manager Pensions and Treasury explained that:

- Brexit was the number one risk on the treasury risk schedule
- There had been some unexpected surprises following Brexit in that the FTSE100 index had seen healthy increases.
- Gilt prices had risen and yields had fallen which was favourable for local authorities.
- The Bank of England's Monetary Policy Committee had met in the previous month and had decided to take no action.
- It was suspected that the current base rate may reduce at the August meeting and the level of quantitative easing may be increased.
- It was reported that officers were carefully monitoring the investment/financial horizon and constantly looking for warning signs in order that there would not be a repeat of the Icelandic issue in Surrey.
- In July, full council approved a revised treasury management strategy that will result in cash balances being further reduced and short term borrowing increased in order to reduce risk.

Action/Further information to note:

The Chairman asked that Members send any questions regarding treasury to the Strategic Manager Pensions and Treasury before the next committee meeting and training session in September.

Resolved:

1. That the content of the Treasury Management Annual Report for 2015/16 was noted.
2. That the revised Treasury Management Risk Register, shown in Annex 3 of the report be adopted.

46/16 RECOMMENDATIONS TRACKER [Item 10]

Declarations of interest:

None

Witnesses:

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

Key points raised during the discussion:

1. A20/15 and A43/15 were taken together. The Chairman would invite the Head of Resources & Caldicott Guardian back to the December meeting of this Committee to give an update on progress.
2. A45/15 – The Chairman reported that the Head of Human Resources & Organisation Development had done most of the work on this and would report back to the Committee at its meeting in September.
3. A1/16 – The Deputy Chief Finance Officer reported that the Shareholder Board would be considering a report tomorrow and that the Council Overview Board (COB) would then scrutinise anything to come out of that. If extra funding was required then that would be a Cabinet decision. Several Members expressed frustration at the delayed meetings and not knowing what was going on.
4. A2/16 - The Chairman reiterated that he would still prefer council finance officers sitting on the partnership boards. Despite the Deputy Chief Finance Officer trying to reassure the Committee that the boards

had high level officers on the boards the Chairman stated that he did not feel assured with the level/skill of officers on those boards.

5. A4/16 – The Chief Internal Auditor reported that an audit of highways works was to be undertaken and the report would come back to this Committee. It was agreed therefore to take this off the tracker and put on the forward plan.
6. A18/15 – The Chairman requested that this item stay on the tracker and for Committee to be updated on the workstreams to be undertaken.

Action/Further information to note:

1. That the Chief Internal Auditor reports to the Chair when the Committee is likely to see the audit report into highways.
2. That Toni Carney, Head of Resources & Caldicott Guardian, be invited to the December meeting of this Committee.
3. That Ken Akers, Head of Human Resources & Organisation Development, be invited to report back to the September meeting of this Committee.
4. To remove A4/16 from the tracker and transfer to the Forward Plan.

Resolved:

That the committee noted the report.

47/16 DATE OF NEXT MEETING [Item 11]

The date of the meeting was noted.

Meeting ended at: 11.34 am

Chairman

Addendum to Item 6

Schedule of changes

Annex A – Statement of Accounts

Note	Page no	Change
Note 16 – Short term debtors	60	Debtors figure at 31/03/2016 for 'Central government bodies' update from £37,577 to £37,559
Note 25 – Pooled budgets	71	Funding provided to the pooled budget from East Surrey CCG update from -£2,960 to -£2,690.
Note 39 – Defined benefit pension schemes	90	Update 'Fair value of plan assets' on the Local Government Pension Scheme in the table at the top the page from £1,554,747 to £1,554,797.

Note 16: Short term debtors

The amounts shown below and on the face of the balance sheet include amounts paid in advance.

31/03/2015		31/03/2016
£000		£000
21,782	Central government bodies	37,559
42,398	Other local authorities	51,289
3,317	NHS bodies	3,242
	Public corporations and trading funds	274
	Bodies external to general government (i.e. All other bodies)	76,534
<u>65,686</u>	Total	<u>168,897</u>
<u>133,183</u>	Less:	
	Provision for bad debts	
-6,146	- Social services and health services	-6,929
-722	- Other services	-1,490
<u>-7,105</u>	- Local taxation arrears	<u>-8,398</u>
<u><u>119,210</u></u>		<u><u>152,080</u></u>

Note 17: Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

31/03/15		31/03/16
£000		£000
-27,007	General account	-22,510
<u>43,600</u>	Money market funds	<u>2,895</u>
<u><u>16,593</u></u>	Total cash and cash equivalents	<u><u>-19,615</u></u>

Note 18: Assets held for sale

Assets held for sale (current)		Assets held for sale (current)
31/03/2015		31/03/2016
£000		£000
6,050	Balance outstanding at 1 April	33,975
	Assets newly classified as held for sale:	
3,219	- Property, plant and equipment	4,684
28,456	Revaluation gains	18,347
<u>-3,750</u>	Assets sold*	<u>-32,846</u>
<u><u>33,975</u></u>	Balance outstanding at 31 March	<u><u>24,160</u></u>

* Of the total assets sold (i.e. £32.846m) in 2015/16, £32.585 relates to land and property included in the opening balance.

2015/16

	North West Surrey LJCG	Surrey Downs LJCG	Guildford & Waverley LJCG	East Surrey LJCG	Surrey Heath LJCG	North East Hampshire & Farnham LJCG	Windsor, Ascot & Maidenhead LJCG	Total
Funding provided to the pooled budget								
- Surrey County Council	-9,681	-8,024	-5,491	-4,594	-2,690	-1,272	-264	-32,015
- North West Surrey CCG	-9,681							-9,681
- Surrey Downs CCG		-8,024						-8,024
- Guildford & Waverley CCG			-5,491					-5,491
- East Surrey CCG				-4,594				-4,594
- Surrey Heath CCG					-2,690			-2,690
- North East Hampshire & Farnham CCG						-1,272		-1,272
- Windsor, Ascot & Maidenhead CCG							-264	-264
	-19,362	-16,047	-10,982	-9,188	-5,379	-2,544	-528	-64,030
Expenditure met from the pooled budget	19,415	16,064	10,867	9,183	5,407	2,542	519	63,997
Surplus or (deficit)	53	17	-115	-5	28	-2	-9	-33
Surrey County Council share	27	9	-58	-3	14	-1	-5	-17

The council is also part of the following pooled budgets arrangements;

- Surrey integrated community equipment service for the supply of equipment to enable people with physical disabilities to live at home;
- Child and adolescent mental health service offering support and advice to young people experiencing mental health, emotional and behavioural problems;
- HOPE is a partnership that provides intensive support for young people with serious mental health needs;
- Surrey safeguarding children's board is a key statutory mechanism for agreeing how agencies in Surrey will cooperate to safeguard and promote the welfare of children in Surrey.
- East Surrey Local Transformation Investment Fund is a pooled budget with East Surrey CCG to transform the provision of Adult Social Care services in the east of the county.

The financial performance of these budgets has been excluded from this note to the account on the basis of materiality.

Pension assets and liabilities recognised in the balance sheet

The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Present value of the defined benefit obligation	-2,436,780	-2,287,583	-581,295	-518,310
Fair value of plan assets	1,521,637	1,554,797		
Net liability arising from defined benefit obligation	-915,143	-732,786	-581,295	-518,310

Assets and liabilities in relation to post-employment benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded Liabilities Local Government Pension Scheme		Unfunded Liabilities Firefighters' pension scheme	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Opening Balance at 1 April	-2,042,976	-2,436,780	-489,324	-581,295
Current service cost	-69,910	-87,093	-12,400	-10,800
Interest cost	-87,567	-78,135	-21,100	-18,700
Contributions by scheme participants	-19,118	-18,992	-2,700	-2,500
Remeasurements:				
- Actuarial gains and losses arising on changes in demographic assumptions				1,500
- Actuarial gains and losses arising on changes in financial assumptions	-314,473	223,972	-71,500	55,400
- Other experience	17,917	30,187	400	22,200
Actuarial gains and losses Pensions and lump sum expenditure			14,900	19,700
Benefits paid	65,103	64,049		
Past service costs (including curtailments)	302	301		
Settlements	16,484	17,146		
Employer contributions adjustment*	-2,542	-2,238	429	-3,815
Closing balance at 31 March	-2,436,780	-2,287,583	-581,295	-518,310

Curtailments include pension fund strain contributions to compensate the pension fund for the loss of contributions from staff that retire early and added years costs for staff that have increased years of service.



Audit & Governance Committee
26 September 2016

Recommendations Tracker and Information Bulletin

PURPOSE OF REPORT:

For Members to consider and comment on the Committee's recommendations tracker. To note the Information Bulletin.

INTRODUCTION:

A recommendations tracker recording actions and recommendations from previous meetings is attached as Annex A, and the Committee is asked to review progress on the items listed. The August version of the Audit & Governance Committee Bulletin is attached as Annex B for information.

RECOMMENDATION:

The Committee is asked to monitor progress on the implementation of recommendations from previous meetings in Annex A.

REPORT CONTACT: Angela Guest, Regulatory Committee Manager
020 8541 9075
angela.guest@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
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Audit & Governance Committee Recommendations Tracking

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	<p>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. At the meeting on 22 February 2016, the Vice-Chairman reported that he had circulated an email to Committee Members from the Chairman of the Education & Skills Board outlining the Board's proposals for its review of the SEND Strategy. This was on the Education Skills Board agenda for 24 March 2016.</p> <p>On 11 April 2016, the Chief Internal Auditor reported that she would be working with, and supporting, the Head of Service over the coming year. This was to be reviewed at the Council Overview Board (COB) in June.</p> <p>SEND Strategy 2020 and development plan agreed and published. Informal talks are taking place regarding having a formal multi-board group set up to monitor the four workstreams of the plan. The ToR for the multi board group to go to COB in Sept for approval. The Boards involved will be SCS, ESB and REB. The Education & Skills Board and the Social Care Services Board and the Wellbeing & health Scrutiny Board have submitted a task group scoping document to COB for approval at its September meeting.</p> <p>http://www.surreycc.gov.uk/_data/assets/pdf_file/0007/75436/SEND-one-page-strategy-2015-2020-final.pdf</p> <p>http://www.surreycc.gov.uk/_data/assets/pdf_file/0008/84680/SEND-Development-Plan-2016-2020-online.pdf</p>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
					At the July meeting of A&G it was agreed to keep this on the tracker and to monitor the four workstreams of the multi board.
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	<p>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 in April 2016.</p> <p>There was a concern with collection of long term outstanding balances – Finance was talking with Business Services on how to collect balances due. Direct debit is now the default collection method for new users. This would be rolled out to existing customers.</p> <p>This was discussed in conjunction with A43/15 at the Committee meeting on 11 April 2016.</p> <p>Toni Carney to be invited to Dec meeting to give progress report.</p> <p>Audit Committee to be invited to SCSB for this item when they debate it. Audit Members to be allowed to ask questions at that meeting rather than have Toni come to the Dec Audit Committee meeting.</p>

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 financial assessments.	Chairman	<p>A signed letter was sent dated 17 December 2015, and a response from the Strategic Director for Adult Social Care and Public Health was tabled at the meeting. The Strategic Director was invited to attend the meeting on 11 April 2016 with the project manager and someone from the client side to discuss the Committee's continuing concerns.</p> <p>An Annual Report was to go to the SCS Board in June 2016. Work had been undertaken to identify areas that were slowing up the collection process. These areas were being worked on and communication between the different teams of staff involved was being improved. The 'annual report' (reports regarding the IT system and debt collection) due to go to SCS Board in June has been delayed until October due to changes in agenda setting of the Board.</p> <p>Toni Carney to be invited to Dec meeting to give progress report.</p> <p>Audit Committee to be invited to SCSB for this item when they debate it. Audit Members to be allowed to ask questions at that meeting rather than have Toni come to the Dec Audit Committee meeting.</p>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
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	<p>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. (Response to be chased – once received this item is resolved) – Response received 25 May 2016 - a further update will come to committee when the initial audit and action plan are completed.</p> <p>A review has been undertaken and the Statutory Responsibilities Network will be reviewing the findings. A briefing will be provided to the Committee on the outcomes from this.</p>
A1/16	22/2/16	2014/15 Audit Findings Report for Surrey Choices	The Surrey Choices Annual Business Plan to be shared with the Committee after it has been approved by the Shareholder Board.	Strategic Finance Manager	<p>A letter from Chairman of A&G was sent to the Chairman of Council Overview Board on 19 April 2016 highlighting specific areas of concern in relation to the Business Plan. The Shareholder Board has delayed reviewing the Business Plan due to the resignation of Surrey Choice's Managing Director and therefore no decision has been taken on the provision of additional funding for Surrey Choices. This was reported to A&G at its meeting in May and to COB at its meeting on 1 June. Surrey Choices has now been given until October to complete a final business plan. It is therefore anticipated that scrutiny of the Business Plan could be scheduled for COB's meeting in December.</p>

Audit & Governance Committee Recommendations Tracking

A2/16	22/2/16	2014/15 Audit Findings Report for Surrey Choices	That a financial expert from the Council be appointed to serve on each of the boards of the Council's trading companies in a non-executive capacity.	Director of Finance	At the 11 April 2016 Committee meeting the Director of Finance explained that it was not appropriate for her staff to provide the financial expertise on the Council's trading companies. That it was vital that each had the right financial capacity and her staff were not necessarily skilled in commercial business accounting. At the May A&G meeting Members continued to have concerns and agreed the Chairman would speak with Director of Finance outside of meeting. At the July A&G the Members were still not assured.
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COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update

Audit & Governance Committee

Welcome...

Welcome to the Audit & Governance Committee Bulletin.

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

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Update from previous Audit & Governance Committee meetings

Surrey County Council Annual Report	<p>The Annual Report has now been published and can be found on the link below:</p> <p>http://www.surreycc.gov.uk/your-council/how-the-council-works/our-performance/our-corporate-strategy/annual-report</p>
Social Care Services Debt (Tracker Items A20/15 and A43/15)	<p>The Audit and Governance Committee has requested an update on social care debt to come to their meeting in December. The Social Care Services Board is due to receive a report on social care debt on 26 October 2016. This item was originally scheduled for June, but deferred - with the Chairman's consent - due to a full agenda.</p> <p>On discussion with the Chairmen of both the Board and the Committee, it was felt, given the relative proximity of these meetings, that instead of two formal updates the Board would invite the Committee to attend the Board meeting and participate for this item on 26 October. This has the benefit of reducing duplication, and making best use of officer and Member time. To that end, you will have received an electronic invite to SCSB on 26 October.</p>

Internal Audit update

<p>Current Audits</p>	<p>The following audits are currently in progress or at the planning stage:</p> <ul style="list-style-type: none"> • Surrey Choices Follow-up • Community Equipment • Carers • No Recourse to Public Funds • Schools - Regulatory Compliance • Highways Contract - Gullies/Drainage • Community Transport • Public Services Transformation • Pensions Administration • Managed Print Service <p>Members are encouraged to contact the Chief Internal Auditor (sue.lewry-jones@surreycc.gov.uk) if they have insight they wish to contribute to the above audit reviews.</p>
<p>Counter Fraud</p>	<p><u>Strategy against Fraud and Corruption</u></p> <p>We have undertaken a complete refresh of the Strategy against Fraud and Corruption to ensure our arrangements align with the requirements and good practice set out by CIPFA and the Local Government Fighting Fraud & Corruption Locally Strategy. The council's counter fraud policies and processes are now contained in the new 'Counter Fraud Strategy and Framework', which includes two new policies relating to anti-bribery and sanctions. Key managers in Finance, HR and Legal are currently reviewing the draft document, which will be shared with Audit and Governance Committee in September before being formally presented at the December meeting.</p>
	<p><u>Surrey Counter Fraud Partnership</u></p> <p>The partnership has now been running for over 18 months and has proved effective at preventing and detecting fraud. The cumulative total of fraud and error savings for the partnership is now over £4.8m, this includes over £780k for business rates; and, council tax support and discount savings total over £165k.</p> <ul style="list-style-type: none"> • 43 properties have now been recovered allowing reallocation to families in genuine need. • 37 property allocations have been prevented on the basis that the applicants were not eligible or had lied to enhance their application. • 11 Homeless applications have been rejected on the grounds that the applicants were not in genuine need or had lied on the application. • 29 Right-to-Buy applications have been rejected on the ground that applicants were not entitled to the discount or had lied on the application. This has also resulted in the tenancy being recovered in a number of these cases. <p>The partnership has recently run an awareness campaign on bus shelters across the county highlighting the social cost of tenancy fraud; and is developing a data hub for partners to share intelligence and coordinate data matching. Discussions are also taking place with a number of suppliers with a view to conducting a countywide review of single person discount.</p>

	<p><u>National Fraud Initiative</u></p> <p>Internal Audit is currently preparing for the latest National Fraud Initiative (NFI) data matching exercise. This is a biennial process coordinated by the Cabinet Office which aims to identify fraud across the public sector. The council is required to provide data including: payroll data and contact information for employees and pensioners; vendor data and payment information; insurance claimant information; and adult social care data about individuals in residential care or receiving direct payments. Internal Audit will ensure the relevant data is available and in the correct format for submission using the secure facility within the NFI website by the October 2016 deadline.</p>
<p>Orbis Partnership</p>	<p>We held another joint Internal Audit (OrbisIA) team meeting in July, when the SCC Internal Audit team got together with audit colleagues from East Sussex County Council and Brighton and Hove City Council to draft team priorities and objectives for 2016/17.</p> <p>We have agreed the vision for OrbisIA as follows:</p> <p style="text-align: center;"><i>A leading public sector provider of high quality audit and counter fraud services.</i></p> <p>We have also drafted new Internal Audit opinion categories and definitions, and developed a new Internal Audit report format. These will be shared with key stakeholders over the coming weeks, to seek feedback and agree an implementation timeframe.</p>
<p>Staffing News</p>	<p>We are sorry to say farewell to Florentin (Flo) Pojoranu, Senior Auditor, who leaves at the end of September to take up a work opportunity outside the council. Flo has recently worked on audits of Contract Monitoring in Children, Schools and Families; and, School Data Analysis.</p> <p>We are pleased to welcome Richard Abigail who joined the team in August as an Auditor. Richard is a qualified Internal Auditor with many years of experience of working within Internal Audit at the Department of Communities and Local Government.</p> <p>Congratulations to Revinder Hothi on passing the Certified Internal Auditor (CIA) Part 2 examination.</p>

Finance Update

<p>External Auditor</p>	<p><u>Appointing an External Auditor</u></p> <p>The current external audit contract with Grant Thornton will end after the audit of the 2017/18 accounts. For the 2018/19 financial year, the council is required to appoint its own external auditors, by 31 December 2017 under the Local Audit and Accountability Act 2014. The attached briefing provides more details and outlines the two options that the council has in order to appoint an external auditor. The final decision must be made by full Council but the Audit and Governance Committee are a group of stakeholders that should be informed of the changes and the proposed approach.</p> <p>Please see that <u>attached</u> briefing note that sets out options, considerations and timings.</p>
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Further information

Local Government Association	<p>Business rates inquiry</p> <p>The Government must address a range of issues, including problems with appeals and withdrawing Revenue Support Grant (RSG), before bringing in 100 per cent business rates retention for councils, the Communities and Local Government Committee has said in its report.</p>
Local Government Association	<p>Business Rates Retention</p> <p>The joint working between the sector and DCLG is now well under way. All the working groups have met, as has the steering group. All papers are published on our business rates hub.</p>
DCLG	<p>Business Rates Retention – Consultation – Ends 12am, 26 September 2016</p> <p>This consultation seeks views on the government’s commitment to allow local government to retain 100% of the business rates that they raise locally. Specifically this consultation seeks to identify some of the issues that should be kept in mind when designing the reforms.</p> <p>Consultation document link</p> <p>The government has announced it will undertake a fair funding review of what the needs assessment formula should be following the implementation of 100% business rates retention. As a first step, alongside this consultation, the government has issued a call for evidence which sets out the key questions that will need to be addressed as part of this review.</p> <p>Call for evidence on needs and redistribution</p>
LocalGov	<p>The County Councils’ Network (CCN) has found counties raise far less in business rates than their urban counterparts and face a more volatile picture – which could leave them lagging behind when it comes to rate retention.</p> <p>http://www.localgov.co.uk/County-leaders-warn-of-unfair-business-rate-returns/41457</p>
Public Finance	<p>Public Sector Audit Appointments</p> <p>Public Sector Audit Appointments expects to gain government approval to become a body through which local authorities can opt to have their auditors chosen, a workshop at the CIPFA conference has heard.</p>
LocalGov	<p>Treasury’s commitment to replace EU funding ‘falls short’, councils warn</p> <p>Whitehall’s promise to honour EU funding commitments in the event of a Brexit ‘falls well short’, council chiefs say.</p>

Updates from other Committees

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

Cabinet	<p>At its meeting on 24 May 2016, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • Appointment of a Number of Operators for the Provision of Special Education Needs Home-To-School Transport • Approval to enter into Enterprise Agreement for Microsoft Licences <p>At its meeting on 21 June 2016, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • Annual Report of the Shareholder Board • Annual Governance Statement 2015/16 • Finance and Budget Monitoring Report for May 2016 <p>At its meeting on 14 July 2016, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • Municipal Bond Agency • Business Removal Services Contract Award
Council Overview Board	<p>At its meeting on 1 June 2016, the Council Overview Board considered the following reports:</p> <ul style="list-style-type: none"> • Trust Fund Task Group Report • Annual Report of the Shareholder Board • Investment Strategy: Property Portfolio <p>At its meeting on 6 July 2016, the Council Overview Board considered the following reports:</p> <ul style="list-style-type: none"> • Municipal Bonds Agency • Public Value Transformation Programme • Budget Scrutiny
Education and Skills Board	<p>At its meeting on 8 June 2016, the Education and Skills Board considered the Procurement for Special Educational Needs and Disabilities Transport Services</p>
Economic Prosperity, Environment and Highways Board	<p>At its meeting on 9 June 2016, the Economic Prosperity, Environment and Highways Board considered the Revised Asset Management Strategy for Highways and Transport</p>
Surrey Pension Fund Committee	<p>At its meeting on 13 May 2016, the Surrey Pension Fund Committee considered the following reports:</p> <ul style="list-style-type: none"> • Choice of Discount Rate Methodology: 2016 Valuation • Pooled Ill Health Retirement Self Insurance • Key Performance Indicators & Administration Update • Pension Fund Business Plan 2015/16: Outturn Report • LGPS Investment Regulations - Consultation Report • Corporate Governance Share Voting • Revised Statement of Investment Principles • Pension Fund Risk Register <p>At its extra ordinary meeting on 11 July 2016, the Surrey Pension Fund Committee considered the following reports:</p> <ul style="list-style-type: none"> • National Pooling: Proposal to Government • Consideration Process: Diversified Growth Manager

Upcoming

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The next meeting of the Audit & Governance Committee is on 26 September 2016. The following items are on the agenda:

- External Audit: Annual Audit Letter
- External Audit Performance
- Leadership Risk Register
- Completed Internal Audit Reports
- Statutory Responsibilities Network
- Council complaints
- Property Asset Management System: Update
- Security Group (Tracker item A45/15)
- Accounting for Highway Network Assets 2016/17

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Appointing an External Auditor

Introduction

Surrey County Council's current external audit contract with Grant Thornton will end after the audit of the 2017/18 accounts. This will mark the end of the current mandatory system for auditor appointments.

The Local Audit & Accountability Act 2014 established new arrangements for the audit and accountability of local authorities, which include the ability of local authorities to appoint their own auditors from the 2018/19 financial year. Therefore Surrey County Council must have appointed its own external auditors by 31 December 2017.

The council has two options in order to appoint an external auditor:

- Option 1. Opt for a sector-led appointment (no need for an auditor panel); or
- Option 2. Establish an auditor panel.

The final decision on whether the council opts in or establishes an auditor panel must be made by County Council. This will need to be presented to Council on Tuesday 11 October 2016 in order to fit in with the timeframe.

More information on the two options is detailed below.

Option 1 – Sector led appointment

Surrey County Council can decide to 'opt in' to a sector led appointment provided by Public Sector Audit Appointments Ltd (PSAA) instead of setting up an auditor panel. The process will be similar to the current arrangements whereby a joint procurement process will be undertaken by PSAA and the Council is then allocated an external auditor along with a fee for a fixed period of time.

PSAA is aiming to award contracts to firms by June 2017, and it is therefore expected that authorities will need to commit to 'opting-in' by the end of 2016.

This option transfers the role of procuring and administering the contracts to the PSAA and represents the least resource intensive option in relation to officer time and administrative cost.

Option 2 – Establish an Auditor Panel

The council can decide to establish an auditor panel in order to advise the authority on:

- maintaining an independent relationship with the external auditor;
- selecting and appointing the external auditor; and
- whether to adopt a policy on the purchasing of non-audit services (and the contents of any such policy).

The composition of the auditor panel is prescribed as a minimum of 3 members (quorum is three), majority of independent members (must meet a number of specific conditions) and an independent chair.

There are 4 ways to establish an auditor panel:

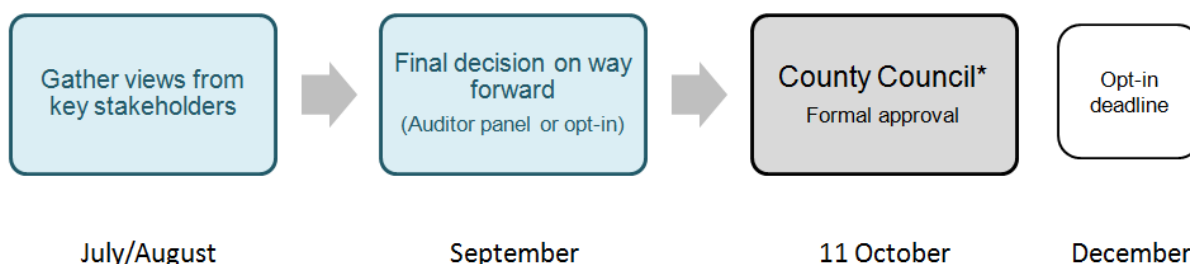
- A. Set up a Surrey County Council auditor panel for only appointing our own external auditor;
- B. Set up a joint panel with other organisations;
- C. Use an existing committee (or create a sub-committee of an existing committee); or
- D. Designate another authority's auditor panel to appoint.

Establishing an auditor panel gives the council full ownership of the auditor appointment process and the opportunity to potentially achieve economies of scale. However, due to the extensive criteria that needs to be adhered to in relation to ensuring the independence of the audit panel members and the requirements of running a formal procurement process, it may prove both difficult and time consuming to administer.

Other considerations

There are concerns that the council's freedom to choose its own auditors may be severely limited in practice, due to the availability of potential audit firms. For the majority of authorities, there is currently one active firm in their area who operate at fees so low that they are effectively unchallengeable by anyone who can't duplicate their economies of scale. Also, NHS bodies are required to appoint local auditors by the end of 2016 and therefore audit firms will be selling capacity to the NHS first.

Decision timeline



* Legislation dictates that approval of the final decision (to opt in or establish an auditor panel) must be made by County Council

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August 2016



Audit & Governance Committee
26 September 2016

Annual Audit Letter 2015/16

Purpose of the report:

The Council's external auditors, Grant Thornton, are presenting their Annual Audit Letter in respect of the audit year 2015/16 (Annex 1). This report summarises the key messages detailed in the Grant Thornton Audit Findings report presented to the Audit & Governance Committee on 25 July 2016.

Recommendations:

The Audit and Governance Committee is asked to note the contents of the Annual Audit Letter attached as Annex1.

Introduction:

1. The Annual Audit Letter summarises the key findings arising from the work carried out by Grant Thornton for the year ended 31 March 2016. It details:
 - the key messages arising from the external audit of the Council's 2014/15 financial statements; and
 - the key findings from Grant Thornton's work undertaken to reach a conclusion on the economy, efficiency and effectiveness in the Council's use of resources (the value for money conclusion).
2. The Annual Audit Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public.
3. A more detailed report outlining the detailed findings from the audit work to those charged with governance was included in the Audit Findings Report which was shared with this Committee on 25 July 2016 along with the report on Value for Money.

Conclusions

4. The Annual Audit Letter of the external auditors is attached at Annex 1 for consideration by this Committee.

5. The report confirms that in respect of the audit of the Surrey County Council (SCC) 2015/16 financial statements:
 - Grant Thornton issued an unqualified opinion on the Council's accounts and the group accounts on 27 July 2016, well in advance of the 30 September 2016 national deadline.
 - The Council made the accounts available for audit in line with the agreed timetable and provided a good set of working papers to support them.
6. The report confirms that in respect of the 2014/15 value for money conclusion:
 - Grant Thornton issued a VfM conclusion for 2015/16 which was qualified on an 'except for' basis in respect of one matter. This a consequence of the Ofsted inspection that took place in October and November 2014 which concluded that Children's Services were inadequate. Ofsted has yet to publish a subsequent inspection report and as such the judgement from June 2015 remains in place.
 - Grant Thornton concluded that they were satisfied that in all significant respects, except for the matter in respect of Ofsted, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.
7. The report also confirms that Grant Thornton have:
 - issued their audit findings report to the Audit and Governance Committee in relation to the Pension Fund Accounts;
 - certified the Whole of Government Accounts return without raising any issues; and
 - reviewed the Council's Annual Governance Statement and Narrative Report.

Financial and value for money implications

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

Equalities and Diversity Implications

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

Risk Management Implications

10. There are no direct risk management implications of this report.
-

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The Annual Audit Letter for Surrey County Council

Year ended 31 March 2016

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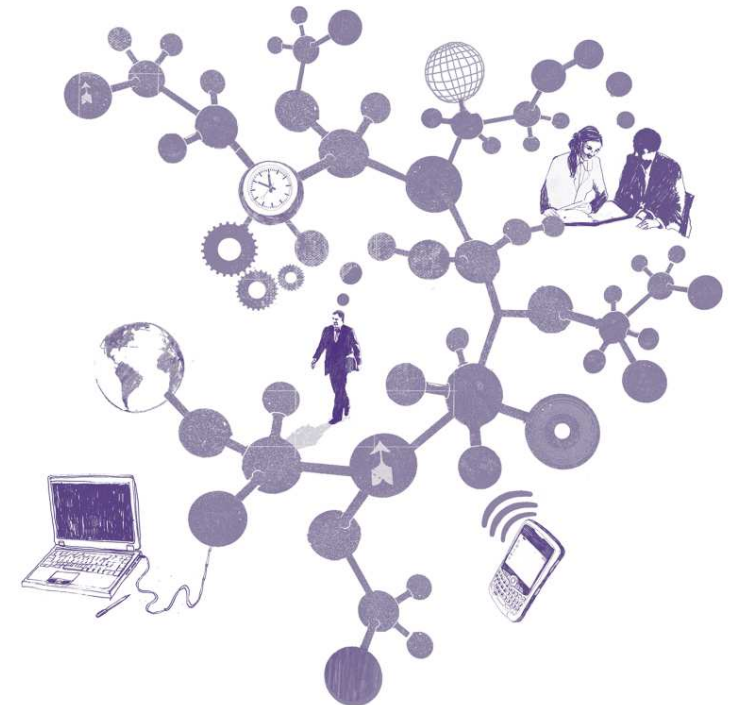
September 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Surrey County Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 25 July 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 27 July 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016 except for the matters arising from Ofsted's inspection report on children's services in 2014/15. The Council is working hard to address the issues raised by Ofsted. Until such time as Ofsted confirm it is satisfied with progress, the qualification remains in place. We therefore qualified our value for money conclusion in our audit opinion on 27 July 2016.

Use of additional powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Local Audit and Accountability Act 2014.

Whole of government accounts

We completed work on the Council/Authority's consolidation return following guidance issued by the NAO and issued an unqualified report.

Certificate

We are currently unable to certify that we have completed the audit of the accounts of Surrey County Council as we have not yet completed the work required under the Code on giving an audit opinion on the pension fund annual report. We are liaising closely with the pensions team to conclude this area of our work.

Certification of grants

We also carry out work to certify the Council's Teachers' Pensions return. Our work on this claim is not yet complete and will be finalised by 30 November 2016 and we will report the results of this work to the Council.

Other work completed

We have also worked with the Council as auditor of its three subsidiary trading companies. We have reported back findings for S.E. Business Services and Surrey Choices and will do so also for Halsey Garton Property. In particular, we have invested significant time in regular liaison with Surrey Choices officers to ensure the necessary improvements in internal control, governance and financial management have been made since 2014/15. We will formally report on the outcome of this process on conclusion of the 2015/16 audit of Surrey Choices in early October 2016.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
September 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £27,787k (being 1.5% of prior year audited gross revenue expenditure). We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year. We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and disclosure of related party transactions.

Pension Fund

For the audit of the Surrey Pension Fund accounts, we determined materiality to be £31,236k (being 1% of net assets from the year audited accounts). We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits. We set a lower level of specific materiality for certain areas such as related party transactions and cash.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>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>	<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 the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register and financial statements. • Procedures to confirm the reasonableness of the 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 satisfied themselves that these were not materially different to current value. <p>Our audit work did not identify any material issues in respect of the risk identified.</p>
<p>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>	<ul style="list-style-type: none"> • Identification of the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assessment of whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. Confirmed our understanding of the basis on which the valuation is carried out. • Procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>Our audit work did not identify any material issues in respect of the risk identified.</p>

Audit of the accounts – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk
<p>Level 3 Investments – valuation is incorrect Under ISA(UK&I) 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<ul style="list-style-type: none">• We gained an understanding of the transaction including a review of supporting documentation.• We considered and documented management's controls over the valuation of these investments.• We carried out walkthrough tests of the controls identified in the cycle.• Tested a sample of private equity investments by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period.• Reviewed the qualifications of fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached.• Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.• Reviewed the competence, expertise and objectivity of any management experts used. <p>Our audit work did not identify any material issues in respect of the risk identified.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 July 2016, well in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit. We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Governance Committee on 25 July 2016.

Pension Fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Audit and Governance Committee on 25 July 2016.

We recommended that given the potential sensitivity of cash balances, unreconciled differences on cash balances should be fully adjusted on at least an annual basis. Management agreed to ensure that any variances will be fully adjusted as part of a quarterly reconciliation.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were materially consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have no matters to report.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that, in all significant respects, except for the matter we identified below, in respect of Ofsted, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

We focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The publication of an inspection report by Ofsted dated 3 June 2015 concluded that the overall arrangements for Children's Services in the Surrey County Council area were judged to be 'inadequate.' This matter is evidence of weaknesses in leadership and proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities. The Council has since agreed an Improvement Plan to address the issues highlighted in the report. We note that the Council has considerable corporate ownership of these issues in Children's Services and that improvements are in hand. Ofsted has yet to publish a subsequent inspection report and as such the judgement from June 2015 remains in place.

Value for Money Conclusion (continued)

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial Health 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.</p>	<p>We have:</p> <ul style="list-style-type: none"> •reviewed the Council's progress in updating its medium term financial strategy and the reports to members •reviewed the outturn position for 2015/16 and the budget plans for 2016/17 and 2017/18 •met with key officers to discuss key strategic challenges and the Council's proposed response 	<p>The Council has a very good recent history of coping with change in its financial environment, and after successfully completing 2015/16 with a £8.7m underspend, it is preparing its next five-year plan. The Council has set a balanced 2016/17 budget through a mixture of savings and planned use of £25m of reserves. There is an as yet unbridged funding gap rising to £50m by the end of 2018/19, which has arisen as a consequence of a difficult financial settlement from the Government with both reduced funding and some increased costs and burdens anticipated. The Council is continuing to drive transformational change across all departments but recognises that difficult decisions may be unavoidable.</p> <p>The Council continues to demonstrate sound arrangements for sustainable resource deployment in a very challenging external environment.</p>
<p>Orbis partnership 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.</p>	<p>We have:</p> <ul style="list-style-type: none"> •met with officers to understand the nature and extent of progress with the project •reviewed key decision papers and reports presented to Council committees 	<p>Early in 2015 both East Sussex and Surrey County Council Cabinets approved the business case to establish a public sector partnership to create an integrated business services organisation called Orbis, delivering business and support services to both authorities.</p> <p>The Council has invested significantly in the partnership and Orbis now has 1,400 staff and a £53m operating budget.</p> <p>The partnership is aiming to deliver potential savings of 10-15% (£6m-£8m) across both East Sussex and Surrey over a three year period through management delayering, process improvement and reduction of duplication. Orbis is also exploring the possibility of Brighton and Hove City Council joining the partnership. Good progress has been made to date including the appointment of Directors, and the development of the Orbis brand. A risk around licensing arrangements has been identified and a task force established to investigate any potential breach of terms and conditions as a result of working in partnership. Orbis will need to be clear about the impact of utilising software across the partnership when the contract is with only one sovereign organisation. This may require renegotiation of the contract to enable use across the partnership or even re-procurement. Key challenges ahead will include the development of a single culture and the integration of IT and data sharing/confidentiality, as well as licensing agreements.</p> <p>The Council has demonstrated proper arrangements in place for partnership working in respect of Orbis.</p>

Value for Money Conclusion (continued)

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Ofsted inspection of children's services 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 confirm adequate arrangements are in place this remains a significant risk.</p>	<ul style="list-style-type: none"> We have reviewed the Council's progress in addressing Ofsted's recommendations including meeting with key officers, reviewing internal reports and further information from Ofsted as available. 	<p>The Council invited Ofsted to carry out an inspection of its children's services based on the new multiagency framework, following a reorganisation of its children in need teams and the establishment of the referral, assessment and intervention service (RIAS). Ofsted undertook its review in October and November 2014. Its report was published on 3 June 2015 with the overall judgement that children's services are inadequate. It states that 'there are widespread and serious failures that potentially leave children at risk of harm.' The main failing relates to the lack of management oversight of cases which were stepped down, with the risk that children do not receive the services that they need. The Council accepts this finding.</p> <p>An action plan was developed as soon as the inspection had concluded. This was divided into immediate short-term actions to correct failings, and longer-term more sustainable solutions. The Children's Improvement plan was refreshed in February 2016 showing that the Council had made some good progress, changes are underway, there is an understanding of the underlying challenges and that plans are in place to tackle these issues. Challenges for the Council include ensuring that there are sufficient and stable numbers of effective operational staff, reducing a reliance on agency staff which currently runs at 30%, ensuring leadership behaviours consistently promote high quality of practice, and building effective working with partners based on trust and clarity of respective roles and responsibilities. The Council recognises that, whilst it has made progress, there continues to be work required to achieve the consistent level of performance it aspires to.</p> <p>We concluded that there were weaknesses in leadership and in proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.</p>



Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit over 2 months before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule, releasing your finance team for other important work.

Improved processes – during the year we reviewed your IT controls and proposed recommendations for improvement that, if implemented, may facilitate a more efficient audit approach in the future.

Through the Value for Money conclusion we provided you with assurance on your operational effectiveness of your financial planning, Orbis partnership and addressing the issues raised by the Ofsted inspection of children's services.

Ad-hoc advice – we have provided support to the Council in advising on certain areas as required, such as accounting for the Better Care Fund, revising your approach to the Minimum Revenue Provision and your proposed approach to utilising capital receipts more flexibly in 2016/17.

Sharing our insight – we provided regular updates to the Audit and Governance Committee covering best practice. Areas we covered included our reports on Innovation in public financial management, Knowing the Ropes – Audit Committee; Making devolution work and Reforging local government.

Supporting development – we met with the Audit Committee Vice-Chair to discuss the key elements of Audit Committee effectiveness and highlighted areas that may wish to be considered for improvement.

We will also continue to work with you and support you over the next financial year. We recognise the strategic importance the Council attaches to its trading companies and will continue to support in this area in the future by:

- Continuing to liaise closely with Surrey Choices senior management, supporting them to deliver the company's Strategic Action Plan
- Reflecting the strength of partnership arrangements between the Council and its companies as part of our Value for Money conclusion work
- Continuing to communicate promptly to the Council our findings from our work with the companies

Working with the Council (continued)

Working with you in 2016/17 Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with the finance team. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect. Our discussions with Council Officers to date has highlighted the following:

- The Council has had an implementation plan in place since 2014 and is well-advanced in preparing the required disclosures in its 2016/17 financial statements
- Work is on-going to finalise completion of inventory and accounting records, and in particular to ensure the required assurance is gained over the completeness of records held
- We have agreed with the Council's finance and highways teams that we will undertake early work in this area in October 2016, with the Council being a model case for our planned audit approach across our portfolio of local authority clients

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Final fee £
Council audit	142,098	142,098
S. E. Business Services Limited*	15,000	15,000
Surrey Choices Limited*	18,000	18,000
Halsey Garton Property Limited*	9,000	9,000
Total audit fees (excluding VAT)	184,098	184,098

Fees for other services

Service	Fees £
Audit related services:	
Certification of Teachers' Pensions return (2015/16)**	4,000
Non-audit services:	Nil
None	

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The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

* Work still in progress – completion due in September 2016.

** To be completed in Autumn 2016.

Reports issued

Report	Date issued
Audit Plan	February 2016
Audit Findings Report	July 2016
Annual Audit Letter	September 2016



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Audit & Governance Committee
26 September 2016

External Audit Performance Report 2015/16

Purpose of the report:

This report provides the Audit & Governance Committee with details of Grant Thornton's performance during the last 12 months against the Key Performance Indicators (KPIs) previously agreed and approved by this Committee on 7 December 2015.

Recommendations:

It is recommended that the Audit & Governance Committee considers the contents of the report.

Introduction:

1. As part of the performance management framework between the Council and Grant Thornton, a set of key performance indicators were developed from December 2014. This was as the result of a previous request by the Audit and Governance Committee. These indicators are approved by this Committee in advance, monitored throughout the year and formally reported in the September meeting of the Audit & Governance Committee each year.
2. The report in Annex 1 details Grant Thornton's performance against the ten agreed indicators covering the following areas:
 - response time
 - achievement of planned input
 - reporting arrangements
 - quality assurance
3. In previous years there have been seven agreed indicators but for 2015/16 three further indicators were added, which built on feedback from the 14/15 audit and reflected changes in the approach to undertaking work on the Value for Money conclusion.
4. The new indicators relate to:

- timeliness of audit information requests from third parties;
- agreeing areas of focus of our 2015/16 Value for Money work; and
- communication of audit progress throughout the year through monthly updates, in addition to the existing weekly meetings in June and July

Performance against key performance indicators:

5. The report confirms that Grant Thornton has met all KPI targets as agreed with the Council in late 2015.

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

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

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

9. The Committee should consider the process for agreeing KPIs for the next 12 months and which indicators would be especially useful, including any new ones.

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2015/16 Performance Management Framework - Surrey County Council

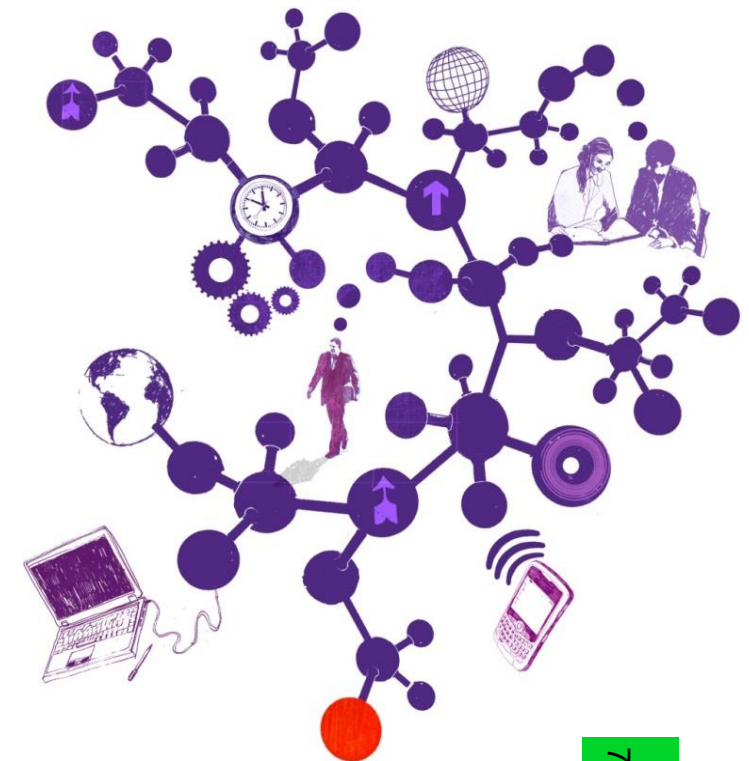
September 2016

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Performance management framework

Performance against Key Performance Indicators (KPIs)

We set out below performance against our KPIs. The indicators below were agreed with the Audit and Governance Committee in December 2015. The actual performance is based on our self assessment and has been agreed with the Deputy Chief Finance Officer. We welcome any comments on the assessment below as well as on potential changes to indicators for 2016/17.

Area	Proposed service level and indicator	Target	Actual Performance – Assessment at September 2016
Response time	<ul style="list-style-type: none"> We will provide an initial response to all major enquires or requests for assistance within 5 working days, with full responses within 15 working days 	100%	100% We met with the Council promptly throughout the year and supported discussions on ad hoc queries regarding the minimum revenue policy calculation, more flexible use of capital receipts and accounting for the Better Care Fund.
	<ul style="list-style-type: none"> We will ensure all requests for information from third parties are made as early in the audit process as possible 	100%	100% We ensured all requests for information from the Council's bank, actuary, financial institutions and schools were made by the end of May. This enabled responses to be obtained and reviewed in a timely manner before conclusion of the audit.
Achievement of planned input	<ul style="list-style-type: none"> The total approved audit fee will not be exceeded, except by prior approval by the Director of Finance 	100%	100% The 2015-16 audit was completed to budget and in accordance with the planned timescales.
	<ul style="list-style-type: none"> In light of the National Audit Office's new approach to Value for Money, we will agree in advance the areas of focus in 2015/16 with the Director of Finance 	100%	100% The three key risks identified were discussed and agreed with the Director of Finance in early 2016, ahead of completion of the detailed work. The areas of focus were communicated to members in our Audit Plan in February 2016.

Performance management framework (continued)

Area	Proposed service level and indicator	Target	Actual
Achievement of planned input	<ul style="list-style-type: none"> We will provide monthly updates on audit progress to the Deputy Chief Finance Officer and principal accountant and, during the final accounts process, meet weekly to discuss emerging issues and agree our approach to tackling them 	100%	<p>100%</p> <p>During the planning and interim stages of the audit we provided monthly email updates on audit progress to the finance team and had monthly phone calls with the Deputy Chief Finance Officer and the Finance Manager. Throughout the final accounts audit we held fortnightly meetings with the Finance Manager and weekly meetings with the Principal Accountant and Capital Accountant to discuss emerging issues. We also held an audit debrief 1 month after audit completion to discuss the 15-16 audit process and significant audit areas anticipated for 16-17.</p>
Reporting arrangements	<ul style="list-style-type: none"> We will ensure that reports are made available to Audit and Governance Committee members 7 working days before the Audit and Governance Committee meeting 	100%	<p>100%</p> <p>We met all required timescales for submitting papers to the Committee</p>
	<ul style="list-style-type: none"> We will provide a final list of any proposed amendments to the financial statements 7 working days before the relevant Audit and Governance Committee meeting 	100%	<p>100%</p> <p>Proposed amendments to the financial statements were provided to the Committee in accordance with the relevant deadlines</p>
	<ul style="list-style-type: none"> We will report progress against recommendations previously raised to each Audit and Governance Committee, and by exception, the effectiveness of any remedial action taken 	100%	<p>100%</p> <p>We have continued to support Surrey Choices by meeting the company finance team on a monthly basis and holding individual meetings with all members of the Executive team ahead of completion of the 2015/16 audit. Through our tax specialists, we were also able to support S.E. Business Services, another of the Council's trading subsidiaries, in applying group tax relief and receiving a tax rebate in excess of £145,000 across 2014/15 and 2015/16.</p>

Performance management framework (continued)

Area	Proposed service level and indicator	Target	Actual
Quality assurance	<ul style="list-style-type: none"> We will report to the Audit and Governance Committee the results of any internal or external quality reviews of Grant Thornton Client satisfaction score (people indicating how satisfied they are with their audit service on a scale of 0 – 10 where 10 is very satisfied) 	100%	<p>100%</p> <p>Our work at Surrey in 2014/15 was subject to internal review this year and was rated 'good'.</p> <p>The Financial Reporting Council's Audit Quality Review Team (AQRT) issued their annual report on the firm in May 2016. This showed that of seven files reviewed, six achieved the highest score, and the seventh was also a pass.</p> <p>We have shared this report with officers and a copy can be found online at this location: https://frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-May-2016-Grant-Th.pdf</p>
		9 or above	Most recent survey undertaken in October 2015, scored as 9/10. Next survey due in 2017.



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Audit & Governance Committee
26 September 2016

Statutory Responsibilities Network

Purpose of the report:

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

Recommendations:

It is recommended that 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:

1. 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 February 2016.

What is the Statutory Responsibilities Network?

2. 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

3. The purpose of SRN is to facilitate clear senior officer oversight of Surrey County Council's (SCC) 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

4. SRN membership is as follows:
 - 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

5. 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.

Summary of network activity over past six months

6. Key items over the past six months include:

Improvement of Children's Services

7. The Children's Improvement Plan is a standing item for SRN meetings, allowing for constructive challenge and strategic oversight of the plan. The network has discussed ways to address the areas for improvement identified by the Department for Education (DfE) including high case loads and consistency of practice – for example, the social care handbook and recruitment of social workers, together with updates on the Multi Agency Safeguarding Hub (MASH).

Governance of risk, primarily financial risk

8. 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.

9. Other items over the past six months have included:
 - oversight of pay and reward consultation, ensuring consistency and transparency;

- oversight of health and social care integration governance;
- prevent agenda, including agreement of protocols for managing terrorism risk;
- internal audit annual opinion;
- following up on coroners' reports;
- oversight of pension partnership arrangements;
- scrutiny of fraud and irregularity work; and
- policy on unaccompanied asylum seeking children

Protocol arrangements:

10. 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:

11. 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

12. None

Equalities and Diversity Implications

13. An Equalities Impact Assessment has not been completed as this report is for information.

Risk Management Implications

14. The SRN plays a key role in the identification and management of risk.

Next steps:

None

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Audit & Governance Committee
26 Sep 2016

Highways Network Asset

Purpose of the report:

To inform the Committee about progress on the implementation of the Highways Network Asset for the Statement of Accounts for 2016/17. This is a fundamental change in the accounting treatment of infrastructure assets which will see the value of infrastructure assets held on the balance sheet increase from £364m as at 31 March 2016 to an estimated £30bn as at 31 March 2017.

Recommendations:

It is recommended that the Audit and Governance Committee notes that Surrey County Council is on target to implement the Highways Network Asset valuation requirements for the financial year 2016/17 in line with the required timetable.

Introduction:

1. The Council holds assets on its balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice. The long-term assets of the Council include £1,793m¹ of property, plant and equipment of which one component is infrastructure assets.
2. Infrastructure assets are currently held on the Council's balance sheet at historical cost in accordance with the CIPFA Code of Practice and are depreciated in accordance with the Council's accounting policies. For the 2016/17 financial year, CIPFA are introducing a change in how these assets are to be valued and shown in the Council's Statement of Accounts. Infrastructure assets will be re-grouped and classified as a single Highway Network Asset (HNA), which will be held on the balance sheet at depreciated replacement cost (DRC).
3. The Highways Network Asset (HNA) is a network and grouping of interconnected infrastructure components, expenditure on which is only recoverable by continued use of the asset created. The assets cannot be

¹ As at 31/03/16

transferred to another organisation so there is no prospect of sale or alternative use. The interconnected network is made up of carriageways, footways and cycle-tracks and the structures, street lighting and other components that are directly associated with them.

4. One of the main drivers for this change in accounting policy is to ensure consistency. Central government (Department for Transport) already use this valuation method for estimating the value of roads that they hold and maintain. One of the reasons the Whole of Government Accounts are qualified by their auditors is due to the discrepancy between central and local government in infrastructure valuations and the belief that local government highways assets are significantly undervalued in the consolidated government accounts.

Change in Valuation Methodology

5. DRC is a method of valuation defined in the CIPFA Code of Practice on Local Authority Accounting as the current cost of replacing an asset with its modern equivalent asset, less deductions for physical deterioration and obsolescence. It is generally used where there is no active market for the asset being valued and is therefore applicable to the Highways Network Asset.
6. To estimate DRC, gross replacement cost (GRC) is first estimated based on the cost of constructing a modern equivalent (new) asset. The difference between the gross and depreciated replacement cost is the value of the asset that has been consumed by the Authority during its useful life. Depreciation is estimated by allocating the GRC over the useful life of the asset.
7. The 2016/17 CIPFA Code of Practice on Local Authority Accounting requires the adoption of the asset valuation requirements of the Code of Practice on Transport Infrastructure Assets (The Transport Code). The Transport Code was first published in 2010 with the objective of using an asset management based approach to produce financial information in relation to HNA. The working group for highways asset management finance information group (HAMFIG) was set up to develop the Transport Code with CIPFA.
8. The valuation techniques for measuring GRC and DRC included in the Transport Code are based on inventory data such as length and width of carriageways. The age and condition of assets are also incorporated into valuations. For certain assets, central replacement costs and toolkits developed by CIPFA and HAMFIG are provided to local authorities to calculate valuations.
9. Since 2011, the Council has been required to submit HNA valuations on a DRC basis for the annual Whole of Government Accounts (WGA). This exercise has been completed on an unaudited basis at the request of HM Treasury to monitor the preparedness of local authorities.

Accounting Implications

10. The change in valuation methodology will have a significant impact on the financial statements of the Council. It will see the value of non-current assets increase substantially.
11. Currently infrastructure assets are held on the balance sheet under Property, Plant and Equipment at depreciated historic cost. A comparison with the new HNA valuation, as estimated in the 2015/16 WGA return, is shown in the table below. The infrastructure asset figure has been independently audited as part of the 2015/16 Statement of Accounts but the HNA figure is unaudited.

Treatment	Asset Class	Valuation basis	Valuation at 31.03.2016 £m
Current	Infrastructure Assets	Depreciated Historic Cost	364
Proposed	Highways Network Asset	Depreciated Replacement Cost	29,369

12. The Highways Network Asset valuation is broken down into seven component types

Component	Valuation as at 31.03.2016 £m
Carriageways	7,106
Footways & cycletracks	807
Structures	351
Streetlighting	229
Street Furniture	9
Traffic Management System	48
Land	20,819
Total	29,369

13. The tables above show that the change to DRC represents a significant increase to the total net assets on the Council's Balance Sheet for 2016/17. However, it should be noted that a corresponding entry in the Revaluation Reserve will mean the overall change to the net worth of the Council is zero.
14. Land makes up a significant component of the HNA valuation. The recognition requirements in the CIPFA Code of Practice on Local Authority Accounting means that all highway land where the Council controls the economic benefit and service potential of using the land, should be recognised on its balance sheet regardless of whether it is actually owned by the Council. This means that whilst the Council may not own the land under or at the side of the road, under the Code the value of that land needs to be included on the balance sheet.

15. The land valuation method uses the length of roads and the size of verges to estimate the relevant area of land used for the local highway. This is then multiplied by a centrally provided land value rate applicable to the Council. The combination of a large road network and high land values in Surrey combine to produce a high land valuation.
16. The increase in the net book value of assets will lead to increased depreciation charges and therefore increased costs of service in the Council's Comprehensive Income and Expenditure Account. However, as regulations prevent depreciation from being charged to the General Fund, there is no associated funding requirement and therefore no impact on the Council's budget.
17. There are additional disclosure requirements for HNA in the Statement of Accounts including a reconciliation of the carrying amount at the beginning and end of the financial year. This will be done at the HNA level and will not need to be broken down into each component type.
18. CIPFA have removed from the Local Authority Accounting Code of Practice the standard requirement to produce previous year comparator figures on a consistent basis. This will reduce the burden on local authorities as it means there is no requirement to restate preceding year information to provide the comparator figures.
19. The Finance team have continued to keep the Council's external auditors, Grant Thornton, up to date with progress on the implementation of the HNA. The project plan (annex 1) was shared with the auditors in December 2015 and regular communications are had regarding progress to date. As a result of this Grant Thornton have asked the Council to be a pilot authority for audit testing of HNA data and processes. They feel the Council is well prepared for the change compared to other authorities and therefore they intend to start auditing HNA information during October.

Progress to date

20. The project is being jointly managed by teams in Finance and Highways. As per CIPFA guidance, a project plan (annex 1) has been developed that provides a breakdown of the key tasks.
21. The key factor to successful implementation is the collection of robust asset data. For assets such as roads and structures robust inventory and condition data already existed as Surrey carries out accredited surveys in line with the Codes of Practice for Highway and Structures Management. The condition of these assets are assessed using nationally accredited survey equipment by qualified surveyors and for roads, the survey results are further audited by the Transport Research Laboratory annually.
22. For other assets a gap analysis was undertaken in 2010 to identify the completeness and accuracy of inventory and condition data for highway network assets. Over the past five years a programme of data collection has taken place where gaps were identified, some examples of this are;
 - A five year data collection exercise took place to collect both inventory and condition data for all footways in Surrey;

- a complete inventory and rolling programme of condition data collection for all safety barriers has been collected; and
 - inventory and condition data for various elements of street furniture were collected via a video survey.
23. In terms of calculating the required data, for the most significant assets (Carriageways, Footways and Structures) the market leading Asset Management Systems used by SCC to manage inventory and condition data have been adapted to provide calculations for DRC. The system used to calculate the data for Carriageways and Footways, the largest value assets other than land, is one of the systems recommended by HAMFIG; a nationally accredited United Kingdom Pavement Management System (UKPMS) which undergoes an “annual health check” which includes ensuring compliance with the Transport Code. The condition data used by UKPMS is data provided annually to Department for Transport and the rates which determine its modern equivalent value are provided centrally by CIPFA. Calculation of the data for other material assets is generated using toolkits provided by HAMFIG.
24. A large proportion of the inventory data and IT systems and processes are in place to hold and calculate the required data and officers have engaged fully with CIPFA and other authorities to ensure correct usage of toolkits and to benchmark data. Therefore we are on target to produce materially accurate data for the 2016/17 Statement of Accounts.

Conclusions:

25. The introduction of the HNA and the changes required in the valuation method will have significant implications for the Council’s balance sheet at 31 March 2017 and onwards.
26. The preparations made so far mean we are well placed for a transition to the new valuation of Highway Network Assets. There will be continual review of the asset data to ensure we achieve the objectives of the project.

Financial and value for money implications

27. There are no direct financial implications of this report, all financial implications in the 2016/17 accounts will be made in line with the Code of Practice.

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

30. Finance and Highways Teams to continue progress on compiling accurate asset data and ensure the information is held within the highways asset management systems.
31. Detailed accounting guidance is due to be issued by CIPFA in September. The Finance team will use this as the basis for the

accounting entries that need to be made into the council's accounting system, SAP, in relation to the HNA.

32. The Finance team will continue to keep the council's external auditors, Grant Thornton, up to date with progress on the implementation of the HNA and maintain a close relationship with Grant Thornton as the accounting deadlines approach.

Report contacts:

Jonathan Evans, Principal Accountant

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Sources/background papers:

The CIPFA Code of Practice on Transport Infrastructure

The Code of Practice on Local Authority Accounting in the United Kingdom
2016/17 CIPFA

Annex 1: Project plan for implementation of HNA

Step	Task	Target deadline	Status
1	Impact Assessment	Dec-14	Complete
2	Identify changes in accounting policy	Dec-14	Complete
3	Identify key staff (finance & highways)	Dec-14	Complete
	Assess adequacy of resources	Dec-14	Complete
	Allocate responsibilities	Dec-14	Complete
4	Brief / train key stakeholders & staff	On-going	On-going
5	Identify asset data requirements for Statements of Account in accordance with the Accounting and Transport Codes.	Sep-15	Complete
6	Identify systems changes (both finance and highways)	Dec-15	Complete
7	Implement required changes to asset data and systems	Jan-16	90%
8	Submit 2015/16 WGA submission	Jul-16	Complete
9	Balances at 1 April 2016	Jul-16	Complete
10	Draft amendments for 2016/17 Statements of Account (ie draft accounting policies, and draft disclosure for transport infrastructure assets under new measurement requirements)	Jul-16 to Dec-16	
11	Identify and implement any procedure or data omissions following review of 9 and 10.	Dec 16 to Feb 17	
12	Produce 2016/17 Statement of Accounts	Mar 17 to May 17	
13	Submit 2016/17 WGA information	Jul-17	
14	Audit of 2016/17 Statements of Account	Jul 17	

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Audit & Governance Committee
26 September 2016

Leadership Risk Register

Purpose of the report:

To present the Leadership risk register as at 31 August 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 Audit & Governance Committee:

- i. review the Leadership risk register; and
- ii. 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:

1. 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 strategic risk leads from across the Council, senior management and Members.
2. Since it was last presented to the Committee in May, the risk register has been reviewed by the Strategic Risk Forum¹ twice (chaired by the Director of Finance) and three times by the Statutory Responsibilities Network².

Changes to the Leadership risk register

3. Updates to the 'processes in place' and 'controls' columns have been made to all the risks, in particular:
 - reference to Government changes and the EU referendum (Financial outlook - L1);
 - changes regarding the Care Act (Safeguarding – Adult Social Care (L3));

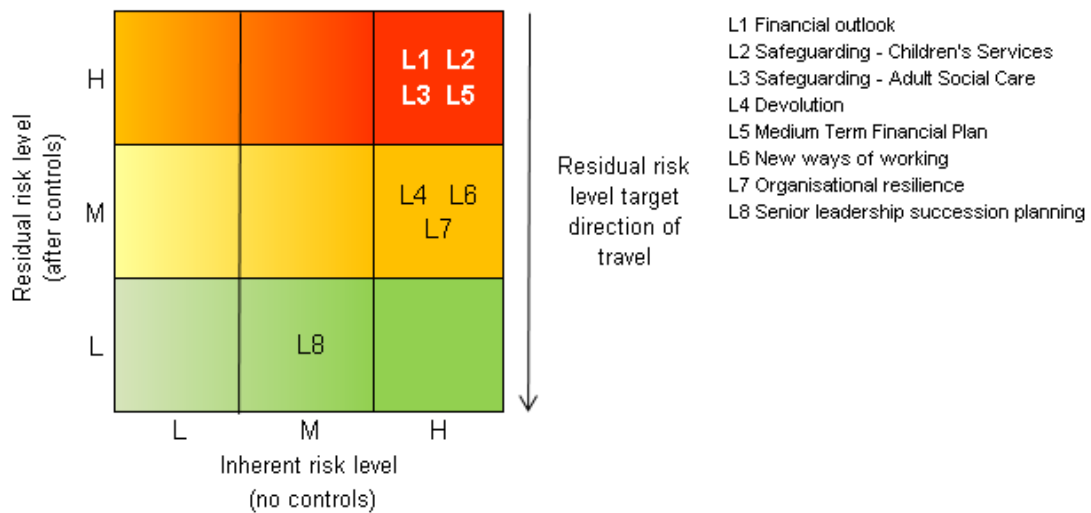
¹ Strategic Risk Forum membership – Director of Finance (Chair), strategic risk leads, Chief Internal Auditor, Head of Emergency Management, Risk and Governance Manager.

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.

- updates on government negotiations and meetings (Devolution – L4); and
- reference to the work of the Public Value Transformation (PVT) Board (Medium Term Financial Plan - L5).

Residual risk level

- 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.’
- There are eight risks on the Leadership risk register, seven 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), three have a medium residual risk level (L4, L6, L7) and one has a low residual risk level (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

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

Equalities and Diversity Implications

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

Risk Management Implications

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

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Leadership risk register as at 31 August 2016 (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	CSF7 EAI1 FN1 ORB1 0	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 relative needs assessment, 100% business rate retention strategy and Better Care Fund). 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 / political uncertainty due to changes in ministerial responsibilities and the result of the EU referendum 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 Officers continue to analyse events and create budget scenarios. 	Director of Finance	High
L2	CSF3, 4,9	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 and the Social Care Services 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. 	<ul style="list-style-type: none"> Timely interventions by well recruited, trained, supervised and managed professionals ensures appropriate actions are taken to safeguard and promote the well being of children in Surrey. Actively respond to feedback from regulators. Robust quality assurance and 	Deputy Chief Executive and Strategic Director of Children's Schools and Families	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

FN = Finance Service risk

ORB = Orbis risk

Leadership risk register as at 31 August 2016 (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"> Children's Services Improvement Plan is being delivered to address the improvement notice dated 26 January 2016 and strengthen service and whole system capability and capacity. Ofsted visit on a monthly basis to monitor progress. Assistant Director roles and responsibilities have been reshaped to strengthen leadership and governance. 	<p>management systems in place to identify and implement any key areas of learning so safeguarding practice can be improved.</p> <ul style="list-style-type: none"> 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, 7,13,14	<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. 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. Strong leadership, including close involvement by Associate Cabinet Member for Adult Social Care in safeguarding functions. 	<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. Actively respond to feedback from regulators. One year on from the implementation of the Care Act, a new strategic plan for safeguarding within ASC will be implemented. 	Strategic Director of Adult Social Care & Public Health	High

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Leadership risk register as at 31 August 2016 (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)
L4		<p>Devolution Failure to achieve a 3 Southern Counties (3SC) devolution deal leaves Surrey County Council 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. Meeting with senior officials from DCLG and the Treasury took place on 14 September. • Negotiation with Government underway – Heads of Terms sent to officials as basis for negotiations. 	<ul style="list-style-type: none"> - Keep all processes under active review. - Strategic Oversight Group reviewing risk register quarterly. - 3SC Leaders meeting took place on 19 September 2016. 	Chief Executive	Medium

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Leadership risk register as at 31 August 2016 (covers rolling 12 months) Owner: David McNulty Annex 1

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	ASC1,2,12 CSF1,2,7 C&C4 EAI1,3 FN2 ORB01,10	<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. • Regular meetings of the Public Value Transformation (PVT) Board (Leader of the Council (Chair), Chief Executive and Director of Finance) to ensure savings are being delivered and stakeholders are engaged. • 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 CSF1,2,5,6,8 ORB01,02,07	<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</p>	High	<ul style="list-style-type: none"> • Shared and aligned strategies to ensure no unintended consequences. • Robust governance arrangements (eg. Inter Authority Agreements, Health and Social Care Integration Board, Health and Wellbeing Board, financial governance framework) in place with early warning mechanisms. 	<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. - Work with Clinical 	Chief Executive	Medium

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Leadership risk register as at 31 August 2016 (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)
		disruption and reputational damage.		<ul style="list-style-type: none"> Regular monitoring of progress and risks against work streams. 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. 	Commissioning Groups on models of integrated care. - Members continue to endorse approaches to integration across the council.		
L7	ASC4, 5,8 CSF5 EAI2,3,4 ORB02, 03, 08	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. Robust governance framework (including codes of conduct, IT security policies, health and safety policies, complaints tracking). 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. 	- 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 resulting in a reduction in	Medium	<ul style="list-style-type: none"> Enhance distributed leadership by focus on organisational goals and 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	Low

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Leadership risk register as at 31 August 2016 (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)
		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 programme. • Senior leadership appraisal process incorporates 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	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	Medium	Apr 16	↓	Low

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

AUDIT & GOVERNANCE COMMITTEE
26 September 2016

Completed Internal Audit Reports

SUMMARY AND PURPOSE:

The purpose of this report is to inform Members of the Internal Audit reports that have been completed since this Committee last considered a Completed Internal Audit Reports item in May 2016 - as attached at Annex 1.

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 11 audit reports issued since the last report to this Committee in May 2016. The table below lists those audits and shows the audit opinion and number of high priority recommendations included in the Management Action Plan.

	Audit	Opinion	Number of recommendations rated as High Priority
1	Surrey Arts Follow-up	Effective	0
2	Payroll	Some Improvement Needed	0
3	School Improvement Strategy	Effective	0
4	Contract Monitoring - CSF	Some Improvement Needed	2
5	Risk Management	Some Improvement Needed	0

6	Adult Social Care IT Solution Follow-up Audit	Significant Improvement Needed	1
7	0-5 Health Visitors	Effective	0
8	Surrey Youth Centres	Unsatisfactory	13
9	Gifts & Hospitality	Significant Improvement Needed	3
10	PAMS Income Module	n/a	2
11	Carbon Reduction Commitment and Greenhouse Gas Emissions	Some Improvement Needed	0

- 4 Annex 1 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:

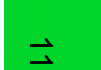
- 9 See Recommendations above.

REPORT AUTHOR: Sue Lewry-Jones, Chief Internal Auditor, Strategy 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

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Surrey Arts Follow-up	An audit in 2015/16 resulted in a Significant Improvement Needed opinion and found that while Surrey Arts undertook some aspects of asset management, activities were not coherently aligned to maximise the value of its musical instruments or to provide sufficient assurance over their safe stewardship.	<p>The Auditor concluded that appropriate actions had been taken to implement previous audit recommendations.</p> <p>Notably:</p> <ul style="list-style-type: none"> • A Musical Instrument Asset Management Policy was agreed by the Surrey Arts Senior Management Team (SMT) in November 2015 • Work has been undertaken to ensure instruments are documented on the Paritor database • There are now specific documents that are filled in when instruments are hired/ replaced/returned • Surrey Arts has reviewed its business model and some changes are planned including the introduction in September 2016 (new academic year) of charges to schools to cover the maintenance of instruments used in Tuning Up/ First Access programmes • Volunteers working for a local charity have been assisting in the approved disposal of instruments where they are no longer serviceable 	Effective	No additional recommendations were made.

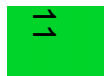


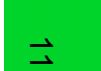
Completed Audit Reports (May - September 2016)

Annex 1

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Payroll	Surrey County Council's (SCC) Payroll Team provides payroll services to its employees as well as to 128 external organisations. Total gross salaries for Surrey CC monthly staff in 2014/2015 was in excess of £236 million	Although there were no significant concerns, the auditor identified some improvements to the system and procedures operated in payroll to minimise the risks to achieving the objectives of the system; which are primarily that staff are paid on time and correctly; and that payments are recorded accurately and accounted for correctly	Some Improvement Needed	<p>The leaver form should be submitted by the leaver's line manager and a copy of the form should be held on the leaver's file. (M)</p> <p>A report of the total salaries overpaid and the reasons for the overpayment should be produced for review by the Payroll Manager. (M)</p> <p>A report of advances to staff should be produced for review by the Payroll Manager. (M)</p> <p>The Finance Team should review the various control accounts. Balances brought forward from previous years should be investigated/addressed. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
School Improvement Strategy (SIS)	The SIS, known as 'Every School a Good School' was introduced in April 2013. The provision of appropriate support and challenge to increase children's attainment levels is managed by Babcock International Group (B4S) through a joint venture partnership with SCC.	<p>Schools identified as 'Requiring improvement' via Ofsted ratings are subject to a programme of support and development to ensure improvement.</p> <p>B4S specify that schools categorised as Focussed Support Schools (FSS) should have improved over 6 terms (2yrs). The Auditor noted that schools are identified as FSS but could not determine when they became FSS. It is therefore unclear as to how the timescales are achieved if dates are not specified.</p>	Effective	In order to ensure that schools categorised as FSS improve within the required 2 year period, the date of their categorisation should be included in the school spreadsheet. This will assist the monitoring of performance. (M)



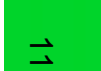


Completed Audit Reports (May - September 2016)

Annex 1

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Contract Monitoring – Children’s School and Families</p>	<p>Children’s Schools and Families (CSF) has 19 contracts that are specifically deemed to be ‘strategic and critical contracts’.</p> <p>The Auditor selected the following contracts to review: Virgin Care Services Limited; Hillcrest Care Limited (Orange Grove); Priory Trust and Radius Trust.</p>	<p>Overall, contract management arrangements in CSF for Virgin Care and Hillcrest contracts are satisfactory, with some scope for improvement.</p> <p>Hillcrest Care Services Ltd (Hillcrest - Orange Grove) is an Independent Fostering Agency (IFA) providing independent foster carers. It is apparent that the Contract manager has no details about the financial monitoring of this contract.</p> <p>SCC has in place contracts with Priory Trust and Radius Trust to provide SEND education services for children in need. The Auditor cannot provide assurance that adequate contract management arrangements are in place for the Priory and Radius Trust contracts.</p>	<p>Some Improvement Needed</p>	<p>CSF in liaison with Finance should implement a thorough financial monitoring process for the Hillcrest contract and proper price analysis should be undertaken for spot and block placements to ascertain if further block placements will provide better value for money. (H)</p> <p>Regular contract and financial monitoring processes with a focus on the higher cost for SEND education packages with Priory and Radius Trusts should be introduced to ensure value for money and quality is achieved and consistency across placements with the same level of assessed needs. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Risk Management	<p>The Council's approach to Risk Management (RM) is set out in its Risk Management Strategy. The RM Plan provides an overview of the governance arrangements within the Council and defines the roles and responsibilities of officers and Members who are key in ensuring that governance arrangements support the aims and objectives of the Council.</p>	<p>The Council has sound governance arrangements in place for monitoring and reporting risks.</p> <p>Risk Management processes are embedded within the business planning cycle through periodic review of risks at strategic, directorate and service level. Responsibility for and ownership of risks and associated mitigation actions are recorded and reviewed by management at meetings.</p> <p>Training (facilitated through workshops, seminars and meetings) has been provided to Members, risk representatives and members of the Audit & Governance Committee during 2015/2016 to ensure that there is awareness of risk management across the Council and clear understanding of roles and responsibilities.</p>	Some Improvement Needed	There were no High or Medium Priority recommendations.

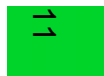


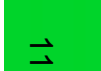
Completed Audit Reports (May - September 2016)

Annex 1

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Adult Social Care IT Solution Follow-up	<p>As part of the 2014/15 annual Internal Audit Plan a review of the Provider Portal was carried out and a position statement issued. Due to the potential risks highlighted in the report an additional review of the project was included in the 2015/16 audit plan</p> <p>The Auditor met with the Project Sponsor and Digital Information Officer to establish the progress made in the implementation of the project</p>	<p>While the phase 1 e-market place module was implemented on 5 May 2015 it remains that the phase 2 e-brokerage module has not progressed as planned. In August 2015 the project was put on hold to align the project with wider ASC IT systems. The project team reconvened in January 2016 and a review of project documentation indicates that neither the action plan nor the risk register have yet been refreshed.</p> <p>The effectiveness of the phase 2 e-brokerage module may be limited as only 300 of the 3600 ASC providers are registered on the e-market place module at this time.</p> <p>The implementation timescales for phase 2 are being revised. At the time of this review the service had not provided a revised implementation date.</p> <p>It is unclear if the envisaged benefits of; improving visibility of demand and supply and of accessing real time service availability information to make placements will be realised. The Auditor has made recommendations to support the project delivery but it may be appropriate to pause and consider whether further investment of resources in this project will reap any tangible benefits.</p> <p>Subsequent to the audit field work the Auditor has seen updated project documentation including: a project plan; milestone plan and a high level communication plan.</p>	Significant Improvement Needed	<p>The service should continue developing both a high level project plan and a supporting action plan to inform implementation of the phase 2 e-brokerage module. (H)</p> <p>The service should devise, document and implement a strategy to increase the number of providers registered on the e-market place module. (M)</p> <p>The service should refresh the risk register to include all significant project risks. Notable changes in project scope should also be reflected in the risk register. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
0-5 Health Visitors	<p>Children’s public health commissioning responsibilities transferred from NHS England to local authorities on 1 October 2015.</p> <p>The Auditor reviewed the arrangements for the transfer and continuation of the Health Visiting service. Contract monitoring meeting notes; budget and finance reports and service specification were examined to inform the audit.</p>	<p>Overall governance for the transition of the service was provided by the early establishment of the Transition Board. This enabled consultation between the CCGs; providers and from SCC representatives from: Public Health; Children’s and Early Years Services. The board has since disbanded.</p> <p>The service is reviewing the need and focus of a new board in light of the wider Child and Young Person partnership commissioning strategy. Currently governance is provided through the quarterly provider contract meetings.</p> <p>The recruitment and retention of health visitors is a recognised risk across all providers and as such is recorded in the service’s risk register.</p>	Effective	No recommendations were made





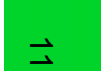
Completed Audit Reports (May - September 2016)

Annex 1

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Surrey Youth Centres- Governance and Business Management Arrangements	<p>In September 2014 the Cabinet approved the decision to commission a new Community Youth Work Service (CYWS) to support the Council's strategic goal of employability for young people.</p> <p>The Cabinet also approved the Outcomes Framework which is used as a tool to measure outputs in relation to achieving the strategic goal of employability.</p> <p>The change was effective from 1 April 2015 and responded to an overall funding reduction of 11%</p>	<p>The Quality Mark is an assessment tool used to measure the quality of youth work delivered at the youth centres. In the 2014/15 year under the managing agents arrangements three youth centres achieved a level 3 Quality Mark assessment. Since being brought in-house on 1 April 2015 a new Quality Mark assessment tool has been devised. At the date of audit (May 2016) - over 1 year and 1 month later - these assessments have not yet taken place.</p> <p>The Annual Report for Young People 2014/15 contains information on Centre Based Youth Work including data on attendance, hours of youth work delivered, average hours per youth and a narrative on performance, lessons learnt and recommendations. The Auditor scrutinised the backing data for accuracy and validity and found at least 368 (6.2%) records appeared to be duplicated, which means that the number of contacts reported is too high and performance is overstated.</p>	<p>Some Improvement Needed - (for governance and strategic arrangements)</p> <p>Unsatisfactory - (for business and management support arrangements)</p>	<p>The Annual Report for Young People could include a report of progress which aligns the delivery outputs at youth centres to the Outcomes Framework. (M)</p> <p>Youth centre session evaluation forms should include the Outcomes Framework as a minimum to ensure consistency over reporting on outcomes. (M)</p> <p>Delivery plans should link to the Quality Mark Framework and be seen to be contributing to the Outcomes Framework. (M)</p> <p>The service should make effective use of the available data through its data bank tools to maintain data integrity and eliminate duplicate data on attendance. (M)</p> <p>Financial information reported by the service should be validated for accuracy. Where a report includes financial information it is recommended the Finance Lead for Children and Young People should validate the data before it is presented to Local Committees. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Surrey Youth Centres- Governance and Business Management Arrangements cont'd</p>	<p>On 23 September 2014 the Cabinet approved the decision to commission a new Community Youth Work Service (CYWS) to support the Council's strategic goal of employability for young people.</p> <p>The Cabinet also approved the Outcomes Framework which is used as a tool to measure outputs in relation to achieving the strategic goal of employability.</p> <p>The change was effective from 1 April 2015 and responded to an overall funding reduction of 11%.</p>	<p>A web based application to record attendance data at youth centres was developed in 2012 which was intended to work on a tablet style device called a BB Playbook. Due to technical issues the BB playbooks were replaced within 2 years by 56 mini Ipads. 57 of the decommissioned BB playbooks were not returned to IMT so there was no opportunity to recover any associated monetary value.</p> <p>Senior Practitioners and Youth Workers at Youth Centres were of the opinion that they did not receive sufficiently timely or detailed information to enable effective budget monitoring.</p> <p>The Auditor was concerned that there were not up to date inventories of assets held. This was particularly surprising in view of the service having been brought back in-house on 1/4/2016. Furthermore valuable assets had not been tagged as owned by the council.</p>	<p>Some Improvement Needed - (for governance and strategic arrangements)</p> <p>Unsatisfactory - (for business and management support arrangements)</p>	<p>Assets belonging to the Authority should be clearly identified and when no longer in use, should be returned to the Authority. (H)</p> <p>The service should present adequate information to budget holders to enable them to effectively monitor individual centre budgets. This should include income and expenditure transactions for each centre. (H)</p> <p>Compile an inventory of assets owned by the Community Youth Work Service. (H)</p> <p>Ensure assets are appropriately tagged and watermarked. (H)</p>



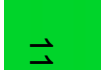


Completed Audit Reports (May - September 2016)

Annex 1

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Surrey Youth Centres- Governance and Business Management Arrangements cont'd	<p>On 23 September 2014 the Cabinet approved the decision to commission a new Community Youth Work Service (CYWS) to support the Council's strategic goal of employability for young people.</p> <p>The Cabinet also approved the Outcomes Framework which is used as a tool to measure outputs in relation to achieving the strategic goal of employability.</p> <p>The change was effective from 1 April 2015 and responded to an overall funding reduction of 11%</p>	<p>The Auditor's queries in relation to cash handling resulted in the discovery of significant irregular practices. As a result the Auditor is unable to provide assurance on the completeness of cash generated through youth centre activities.</p> <p>The Auditor performed searches online to determine the existence of any social media sites and websites related to Surrey's youth centres. Various websites and Facebook sites linked to the youth centres were found which were not set up in line with Surrey's guidance. These sites also included images of the young people.</p> <p>Appropriate signage advising of CCTV surveillance inside/outside the youth centres was not in place in all cases.</p> <p>During the 2015/16 financial year full time youth workers were issued with purchase cards to facilitate purchases related to centre based activities. Review of a sample of 20 transactions, found that VAT was not being correctly accounted for. The Authority was claiming VAT on non VAT-able purchases resulting in poor accounting practices.</p>	<p>Some Improvement Needed - (for governance and strategic arrangements)</p> <p>Unsatisfactory - (for business and management support arrangements)</p>	<p>Approve cash handling procedures and Business Support to ensure that guidelines are understood and applied in practice. (H)</p> <p>Regular management overview for cash handling to be implemented to ensure accountability over cash received at youth centres. (H)</p> <p>The service should provide clear procedure notes in relation to when consent should be obtained in relation to images of young people. (H)</p> <p>Ensure the closedown of all youth services-related websites and social media sites that do not comply with SCC guidelines. (H)</p> <p>Review the use of CCTV at sites to ensure compliance with the Data Protection Act and Information Commissioner's Office guidance. (H)</p> <p>Treat VAT correctly in relation to purchase card expenditure. VAT cannot be claimed without a valid tax invoice. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Surrey Youth Centres- Governance and Business Management Arrangements cont'd</p>	<p>On 23 September 2014 the Cabinet approved the decision to commission a new Community Youth Work Service (CYWS) to support the Council's strategic goal of employability for young people.</p> <p>The Cabinet also approved the Outcomes Framework which is used as a tool to measure outputs in relation to achieving the strategic goal of employability.</p> <p>The change was effective 1 April 2015 and responded to an overall funding reduction of 11% for Services for Young People.</p>	<p>Purchase cards were being used to pay for travel and subsistence expenditure by management contrary to the Rules and Guidance for the use of purchase cards. The Auditor is of the view that this could be avoided through correct use of the Portal for claiming such expenses. From a review of the organisational structure it was apparent that in some instances the responsible officer was not at a level to challenge expenditure of this nature incurred by more senior colleagues.</p> <p>The Auditor also noted that fuel costs for a vehicle were being paid for using a purchase card. In addition items ordered using an SCC purchase card were being delivered to personal addresses.</p> <p>A sample of 25, procure to pay items was randomly selected for by the Auditor for testing. Two invoices for £293.97 and £200 were queried as they appeared to be duplicates. It was found that a credit note has since been passed for the £293.97 and £200 had been paid to the wrong bank account as the bank details originally provided by the service were incorrect. To date the money has not been reclaimed.</p>	<p>Some Improvement Needed - (for governance and strategic arrangements)</p> <p>Unsatisfactory - (for business and management support arrangements)</p>	<p>Expenditure using purchase cards should be approved by officers who have the authority to challenge such expenditure appropriately. (H)</p> <p>Banking information provided by new suppliers should always be shared with the payments team on the supplier's headed paper. (H)</p>

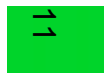


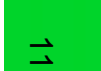
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Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Gifts & Hospitality (Officers)</p>	<p>The Council's Code of Conduct and Gifts & Hospitality policies set out guiding principles for the acceptance / refusal and registration of any gifts or hospitality offered to any SCC officer or contractor.</p> <p>All gifts and hospitality, whether accepted or declined, must be registered in the Council's Gifts & Hospitality register. This was formerly paper based but moved to an electronic system powered by SurveyMonkey. There has since been a further change to a register hosted via the 'Surrey Says' website. The previous audit was in 2011 - in line with DCLG guidance, a review of officer Gifts & Hospitality compliance was included within the 'Fighting Fraud and Corruption' element of the 2016/17 Audit Plan.</p>	<p>There are no formal procedures in place for the validation or verification of disclosures made to the Gifts & Hospitality register.</p> <p>Data quality within the previous electronic gifts & hospitality register system was assessed as having been weak. Controls in the new system appear to have improved, but weaknesses were detected re non-mandatory questions and free text entry, which may impair data integrity.</p> <p>The policy identifies a paper version of the register for officers unable to access council IT systems. Testing revealed that no such records are requested or monitored centrally. Testing identified that this practice is prevalent across the SCC Children's Homes with limited evidence of this within ASC establishments / reablement teams. Analysis of the Gifts & Hospitality register from one establishment revealed significant concerns in terms of the value and nature of gifts received.</p>	<p>Significant Improvement Needed</p>	<p>Management should ensure that there are formal processes within HR which document roles, responsibilities and frequencies of the monitoring and verification of disclosures made. In addition, management should instigate sample checking of authorised disclosures to validate the authorisation given. (H)</p> <p>Management should review the current Gifts & Hospitality register (Surrey Says) to ensure that robust controls are in place in respect of data validity and completeness. (H)</p> <p>Management should review record-keeping arrangements at out-posted establishments to ensure that a designated officer has responsibility for inputting all applicable gifts & hospitality data to the central electronic register. Management should conduct a thorough review of all out-posted establishments to gain assurance that arrangements for the acceptance and authorisation of gifts received are compliant with SCC policy. (H)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Gifts & Hospitality (Officers) – cont'd</p>	<p>The Council's Code of Conduct and Gifts & Hospitality policies set out guiding principles for the acceptance / refusal and registration of any gifts or hospitality offered to any SCC officer or contractor.</p> <p>All gifts and hospitality, whether accepted or declined, must be registered in the Council's Gifts & Hospitality register. This was formerly paper based but moved to an electronic system powered by SurveyMonkey. There has since been a further change to a register hosted via the 'Surrey Says' website. The previous audit was in 2011 - in line with DCLG guidance, a review of officer Gifts & Hospitality compliance was included within the 'Fighting Fraud and Corruption' element of the 2016/17 Audit Plan.</p>	<p>There is a lack of corporate guidance in certain key areas; procedures for customer-facing staff for receiving gifts from potentially vulnerable service users; whether acceptance of alcohol, 'luxury' items (e.g. perfume), or cash should be permissible. There was evidence of all of the above having been accepted by officers.</p> <p>The audit identified that current arrangements represent two areas of non-compliance with the Gifts & Hospitality policy; the register is not published on the SCC website, and there is no process for reporting disclosures to an appropriate Council committee.</p> <p>There is no requirement for officers to register an annual 'nil return' if not offered any Gifts & Hospitality, which is the expected control in such circumstances.</p>	<p>Significant Improvement Needed</p>	<p>As part of the wider review of the gifts & hospitality policy, management should consider including prescriptive guidance covering the following areas: - gifts from potentially vulnerable service users / relatives - gifts of luxury items to named individuals (e.g. alcohol / perfume) - gifts of cash. (M)</p> <p>Management should ensure that there is auditable evidence of compliance with aspects of the gifts & hospitality policy, specifically the requirement to publish the register online (to permit inspection by the public), and the requirement that the Chief Executive (or delegated officer) prepares an annual report covering G&H "to an appropriate committee of the Council for scrutiny". (M)</p> <p>Management should consider introducing a requirement for all officers to make a 'nil-return' if no gifts & hospitality have been received during the year to date. Management should consider the feasibility of introducing this through SAP in tandem with the realigned appraisal and performance management process. (M)</p>





Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Review of Property Asset Management System (PAMS) Income Module</p>	<p>The Works Delivery Module of PAMS which holds all financial and non-financial data on projects across Property Services and enables payments to be made via SAP interface has been operating for more than 2 years.</p> <p>Tenancy related payments and receipts are dealt with via the PAMS Estates Module (also referred to as PAMS Income Module) and it was decided to implement this module in two phases. Phase 1 was to upload tenancy data which was completed in Summer 2015 and Phase 2 was to develop the interfaces between PAMS and SAP and vice versa and 'go-live'.</p>	<p>The 'go-live' of Phase 2 has been delayed on numerous occasions in the last 12 months and at the time of the audit, no 'go-live' date had been set.</p> <p>The Orbis Partnership and the absence of a senior officer on maternity leave to lead the project resulted in either decisions not being taken in a timely manner or disagreements on proposed solutions remaining unresolved.</p> <p>The Senior Estates Surveyors look after the numerous property types that are leased in and out. The 'As is' process does not detail the flow of information in the form of a flowchart or the content of the information that needs to flow or the method of communication at each step which can be helpful to users.</p> <p>The current arrangements for monitoring customer accounts to keep track of debts outstanding for debt management is a very time consuming process and prone to inaccuracies.</p>	<p>n/a – position statement</p>	<p>The Chief Property Officer should nominate a member of his Senior Management Team as a priority to sponsor the implementation of PAMS rent interface going 'live'. The nominated officer should steer the consultation of all stakeholders impacted by PAMS Estates Module and provide resources and clear direction of travel by taking decisions to move the project forward. (H)</p> <p>The Estates Delivery Team should incorporate their written procedure notes to create a flowchart which will detail the flow of information between different services that are impacted by the creation of tenancies. (M)</p> <p>The Property Asset Management System (PAMS) Estates Module including the rent interface should be implemented as a priority to enable the council to maximise its property income generating potential and manage its debts effectively. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>Review of Carbon Reduction Commitment (CRC) and Green House Gas (GHG) Emission Schemes</p>	<p>Surrey County Council (SCC) has a statutory responsibility to comply with the Government's CRC scheme.</p> <p>Property Services fulfil this obligation by undertaking numerous tasks such as maintaining energy information systems, purchasing energy units in advance at reduced rates, employing an independent reviewer to provide assurance etc.</p> <p>SCC is also required to publish an annual report of their GHG Emissions on their external website each year under the Single Data List. This informs Surrey residents of SCC's environmental stewardship and delivery on its sustainability policy.</p>	<p>The London Energy Project audit was completed in June/July and the CRC return was submitted to the Environment Agency on 20 July 2016, before the deadline of 31 July 2016.</p> <p>The carbon dioxide emissions were in keeping with expected emissions and the allowances purchased in advance enabled an annual saving of £36,825 to SCC.</p> <p>Payment made for purchasing CRC allowances in advance for 2016/17 and the acknowledgement from the Department for Energy and Climate Change (DECC) were completed in a timely manner. However, due to confusion, the payment of £400k was duplicated and subsequently recovered from the bank by SCC.</p> <p>One of the objectives of the Carbon and Energy Policy is to engage staff to be active in saving energy. However, the auditor found this to be not happening as is further evidenced by the findings of a current Premises Security audit across many council buildings.</p>	<p>Some Improvement Needed</p>	<p>Staff in Property Services and Procure to Pay Team should be reminded to follow the correct payment and business procedures and keep line managers informed of actions taken. (M)</p> <p>Property Services and Place and Sustainability Team within Environment and Infrastructure should actively raise awareness and communicate the implications (cost & reputation) of conserving energy for SCC and Surrey residents. (M)</p> <p>The methods used in raising awareness of energy saving should be recorded, reviewed and reported on a regular basis. (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



Audit & Governance Committee
26 September 2016

Annual Complaints Performance Report

Purpose of the report:

To give the Audit & Governance Committee an overview of the Council's performance in relation to complaint handling in 2015/16 and how feedback from customers has been used to improve services.

Recommendations:

It is recommended that the Audit & Governance Committee note the Council's complaint handling performance in 2015/16 and how feedback from customers has been used to improve services.

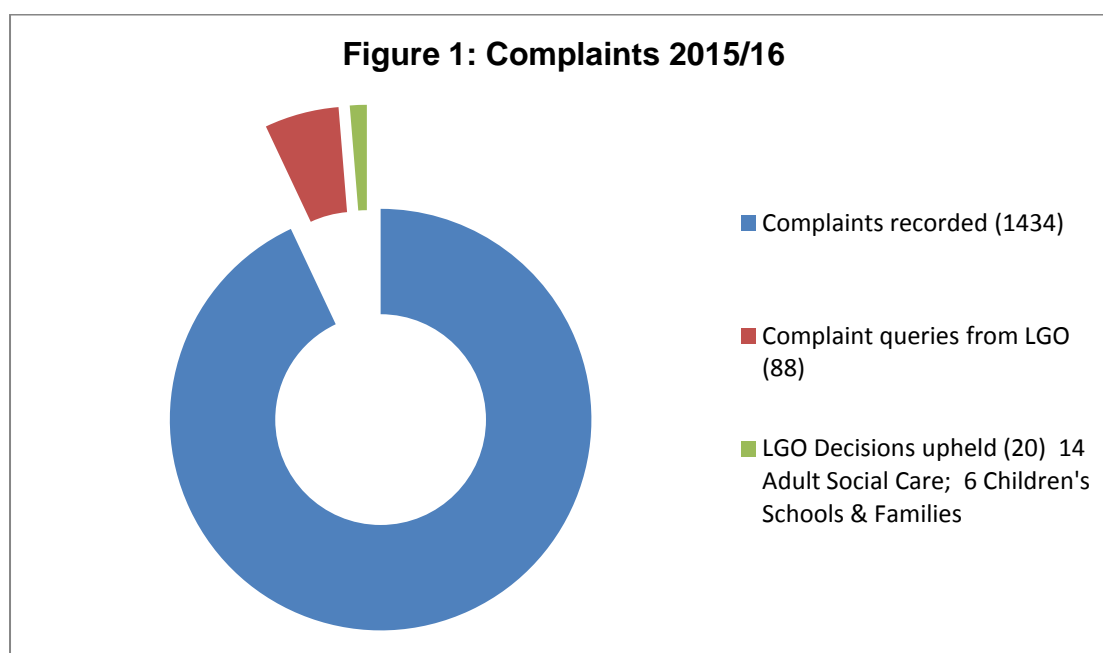
Introduction:

1. The Council recognises that effective complaint handling is critical to delivering good customer service and in keeping the Council's Customer Promise. As well as putting things right for the customer, every complaint presents a potential opportunity to learn and improve.
2. Where fault is found Corrective Action Plans (CAPs) / improvement actions are put in place to resolve the complaint for the customer and improve service. Specific examples are highlighted later in this report.
3. Even if a complaint is not upheld, there is always the opportunity to learn about why the customer has complained and a need to understand their motives and feelings.
4. There are different statutory procedures for dealing with complaints about children's and adults' social work services. Adult Social Care and Children, Schools and Families produce separate annual reports where more detailed information and analysis about the types of complaints received about these services, outcomes and improvement actions can be found.

5. Schools and Learning have other routes that parents are expected to take for resolution of certain types of dispute; such as Special Educational Needs (SEN) tribunals and School Transport appeals panels.
6. The Local Government Ombudsman (LGO) is the final point for complaints about councils and some other organisations providing local public services. Customers can refer their complaint to the LGO for independent investigation if they remain unhappy, normally once they have completed the Council's complaints procedure.
7. It is important to capture a balanced view of services and to recognise and learn from good service which is why compliments and comments received by customers are also recorded.

Complaint categories and performance in 2015/16:

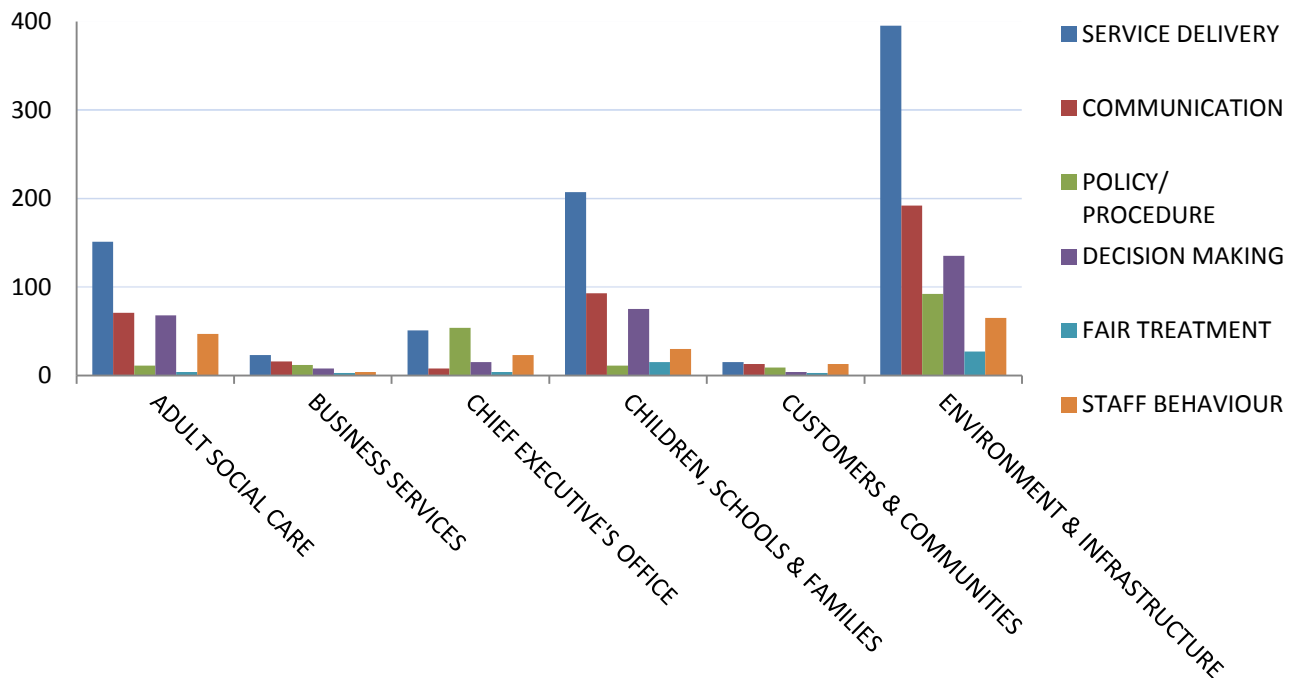
8. During the year 2015/16, Surrey County Council received 1434 complaints, a 6% decrease from the previous year. This represents just 1.3 complaints per 1000 of Surrey's population.
9. 20 complaints were upheld by the LGO following independent investigation. This represents only 1.4% of the total number of complaints received. This suggests that, in the main, complaints are being handled well and that services are correctly following policies and procedures and providing explanations to customers where preferred outcomes cannot be delivered.



10. Given the significant budget pressures facing the public sector and the need to meet this challenge by changing how services are delivered, it is interesting to note that complaints to Surrey County Council decreased in 2015/16 rather than increased as might have been expected.

11. Every complaint is assigned one or more categories which describe the nature of the complaint. Complaints by Directorate and the assigned categories are shown in Figure 2 below.

Figure 2: Complaints by service and categories in 2015/16



Complaint Trends & Performance

13. A breakdown of complaints received and response times per service compared to 2014/15 can be found in the Annex 1 to this report. The following was noted:
- 6% decrease in total number of complaints;
 - fewer complaints received about Environment & Infrastructure, Customers & Communities, Children's Social Care and Chief Executive's office;
 - similar numbers of complaints received about Adult Social Care; and
 - complaints about Schools & Learning significantly increased when compared to the previous 12 months. Initial analysis of the data shows that, as anticipated, the substantive concerns relate to the change from SEN Statement to Education Health and Care Plans (EHCP).
14. Not unsurprisingly given the high demand on Surrey's roads with around 66% more traffic than the national average on 'A' roads, Environment & Infrastructure continued to receive the highest number of complaints. It should though be highlighted that there was a 15% decrease from 2014/15, reflecting the improvement work Surrey Highways has been undertaking through the Customer Service Excellence programme.

15. The main subjects of complaint for Environment & Infrastructure in 2015/16 were:
- Lack of contact
 - Resurfacing
 - Works (pavements, traffic-calming)
 - Vegetation
 - Road works
 - Flooding
 - Poor utility works
 - Potholes
 - Parking
16. Despite the decrease in the total number of complaints, response times dropped across all services with the exception of Business Services and Schools & Learning. This led to an average of 82% of complaints responded to within timescale, compared to 89% for 2014/15. This may reflect the more complex nature of complaints being received and budget pressures impacting available resources.
17. The complexities of complaints in Children's Services continue to impact on their ability to respond within the statutory timescales.
18. Where the Council is found at fault, compensation can be paid if deemed appropriate. All compensation awards are approved by the relevant Head of Service and, if greater than £1,000, in consultation with the portfolio holder. There was a significant decrease (54%) in the amount of compensation paid in 2015/16 compared to 2014/15, which is positive to note.

Figure 3: Compensation payments 2015/16

COMPENSATION 2015/16		COMPENSATION 2014/15	
Children, Schools & Families	£11,779	Children, Schools & Families	£29,786
Corporate	£276	Corporate	£1,296
Adult Social Care	£3,050	Adult Social Care	£1,750
SCC Total	£15,105	SCC Total	£32,832

19. The top three compensation payments were:
- £3,300 to compensate for the lack of suitable education provision for a child for three terms;
 - £3,000 following a decision by the LGO that the Council failed to take appropriate action to find a school place for a disabled child, provided unsuitable home to school transport for two terms and delayed in completing a statutory assessment of special educational needs; and

- £2,274 to compensate an individual who ended up with housing and Council Tax arrears and was accused of benefit fraud after the Leaving Care Service wrote to the wrong authority to inform them of the person's change of work and did not follow up after the letter was returned.

Complaint Escalation

20. SCC aims to resolve complaints satisfactorily at the earliest opportunity; however customers who remain dissatisfied can escalate their complaint, both to the next stage of the Council's complaints process (where this option applies) and to the LGO for independent investigation.
21. Only 9% of complaints escalated to Stage 2 of the Council's corporate complaints procedure in 2015/16, a decrease from 12% the previous year. This shows an improvement in the quality of complaints handling at service level.
22. The percentage of complaints referred to the LGO for 2015/16 was comparable to 2014/15.
23. In their annual report, the LGO reported that they received 167 complaints and enquiries about Surrey County Council (of which the Council was formally notified of 88). The top three areas were:
 - Adult Social Care (69)
 - Children, Schools & Families (57)
 - Highways & Transport (29)
24. The LGO can close complaints as invalid or incomplete, or after initial enquiries if there is no evidence of maladministration or service failure. Alternatively, complaints can be referred back to the Council for local resolution or progressed by the LGO to detailed investigation. 36 complaints progressed to investigation; 20 were upheld and 16 not upheld.
25. Surrey County Council had a 100% compliance rate in remedying LGO complaints.
26. The number of complaints investigated by the LGO about Adult Social Care remained broadly consistent.

Learning from complaints

27. Every complaint presents an opportunity to put things right for the complainant and also to learn and improve. An individual complaint may result in corrective action being identified that is specific to that complaint, or a number of complaints about the same service may identify a need to review a process or the information provided to customers.

28. Specific examples of learning identified through complaints are listed below:
- a) Following a complaint about transport for an adult with learning disabilities, the transport booking system has been revised. Adult Social Care and Transport managers now meet regularly to review the booking process to ensure it is robust and efficient.
 - b) After receiving a complaint about that a decision to refuse a blue badge was not properly explained, the Blue Badge Team reviewed their decision letters to provide clearer information in line with Department of Transport guidance.
 - c) Following a complaint about overhanging vegetation impeding street lights, a new process was introduced between Skanska (street lighting contractor) and Surrey Highways to improve how reports of overhanging vegetation are managed and resolved, in respect of both the maintenance of street lights and where the amount of light being emitted is impeded by vegetation.
 - d) Following a complaint from prospective adopters SCC guidance regarding spent convictions when completing DBS disclosure applications has been revised
 - e) Following a number of complaints regarding confusion over financial support available to care leavers in apprenticeships and part time education settings, a review of the Care Leavers Finance Policy and Procedures has been completed.
 - f) Following a complaint about an alleged breach of confidentiality, the content of return labels for written letters sent via Royal Mail has been revised, so that correspondence received from the Child Protection Unit is discreetly managed
 - g) Adult Social Care received a complaint about the wording of an assessment for a customer moving into a nursing home. The Department's position was that social work staff should provide sufficient information to support customers in their services while also respecting their confidentiality. The customer's assessment was amended and staff reminded to be rigorous when checking case notes in advance of sharing information.
 - h) Parents were contacting the Council to discuss their child's individual transport needs and were unhappy when they were referred back to the contracted service provider. In order to prevent unnecessary contact, the wording on the letter to parents confirming their child's transport arrangements was changed to make clear it was the service provider they should speak to about individual needs and requirements. Leaflets were also updated with this information.
 - i) After discussions about charging for care, a customer made a complaint that they felt harassed by a joint visit by a social worker and a Finance officer. The Team Manager recognised that this particular

meeting was not held at the right time for the service user and that explaining the need for the conversation and agreeing an appointment for a later date would have been better. This led to a system wide improvement on joint visits by staff.

29. As the case study below shows, there are also occasions where analysing the learning from complaints alongside other information sources can lead to new ways of working.

Case Study 1 – Creation of the Works Communication Team (Surrey Highways)

By analysing complaints data alongside other sources of feedback, Surrey Highways identified that customer communication was an area that needed improvement. As a result, the Works Communication Team was created. This team is responsible for ensuring that residents and other stakeholders are informed about all planned works taking place across the county. 69 complaints about planned works were received in the first six months of the 2015/16 financial year. Following the introduction of the Works Communication Team in October 2015 complaints reduced to 21 for the second half of the year, representing a fall of over 60%.

Since November 2015 compliments for this team have exceeded complaints. This has confirmed the findings from complaints and highlighted to the team how crucial timely and accurate communication is. They are now building on their success and working on ways to increase customer satisfaction further by making improvements to all of their published information.

30. The next case study shows the value a robust complaints process can have in resolving situations for customers and giving them confidence that the Council listens to its customers and seeks to learn from individual experiences to improve its services.

Case Study 2: Using complaints to build public trust and confidence

Mr X made a complaint about the lack of notice of a temporary 8 week closure of a highway and the inconvenience caused to residents as a result. The complaint investigation identified that the Council did not have a robust procedure to ensure that applicants complied with conditions regarding notification and signing prior to a road closure. The investigation also identified errors in the statutory advertising of the Temporary Traffic Regulation Order. As a result, it was recommended that the procedure for processing requests for Temporary Traffic Regulation Orders from private developers be reviewed to ensure;

- *clearly defined responsibilities within Surrey County Council; and*
- *robust monitoring of developers to make sure conditions regarding notifications and signing are fully complied with prior to commencement of Temporary Traffic Regulation Order*

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After receiving the report of investigation and being advised of the recommendations, Mr X commented:

'Your considered investigation has gone a long way to rebuilding my confidence in SCC as an organisation'

Compliments

31. It is important to present a balanced view of services and recognise and learn from good service. Throughout the year Surrey residents and customers have taken the time to contact the Council to compliment the standard of service they have received.
32. In 2015/16 the Council received 2945 compliments about its services, over double the amount of complaints received.
33. Here are some extracts of compliments received:

'I wish other organisations had the same level of customer service as Surrey CC'

'I had to write to commend your team on the prompt way it dealt with our pothole problem. The repair was carried out more or less within a week of my reporting it. Given the workload Surrey Highways must be under, that's as good a reaction as a reasonable person could wish for...Thank you'

'You were very respectful and patient and kept me fully informed and up to date with my support plan'

'You are an absolute pleasure to speak to and nothing is ever too much trouble'

'You really go out of your way to help as much as you are able and you are a genuine caring individual'

'K did some brilliant work with O's mum and this largely contributed to the decision to end the Child Protection plan...K is a credit to the family support worker's in the team; she is really hardworking, thorough, and gives a great deal of thought into how she will undertake direct work with families. O's mum responded very well to K and really took on board the work they did together'

'RK and Mrs M have really gone the extra mile, supporting and advising me regarding my son's bullying problems and provision issues. I won't bore you with details but just seeing my son smiling and being truly excited about attending the new school, the way he hugged me when I told him that Mrs M found him a place and said 'thank you mummy, that would give me a break from bullies' makes everything worthwhile'

'Dear Highways, it's probably rare you get a 'thank you' but your recent 1 day operation resurfacing the High Street slip roads deserves a pat on the back to all! Well done to all from grateful Esher residents!'

'A big thank you for all your staff's hard work and for an excellent library. I'm moving and I hope my new library service is half as good'

Conclusions:

34. What are we doing well?

- a) Ongoing work with services across the Council has improved the quality of complaint responses and increased the resolution of complaints at the earliest stage.
- b) Improved identification and recording of learning and corrective actions arising from complaints at all stages of the process, and subsequent monitoring to ensure actions are implemented within agreed timescales.
- c) Adults' Customer Relations team continues to deliver a robust training strategy to support staff through the complaints process which has led to an increased confidence and knowledge in responding to complaints.
- d) Proactive work with Surrey Highways building on learning from complaints to identify opportunities for service improvements.
- e) Continued promotion of the Customer Promise has led to a greater awareness and commitment to delivering excellent customer service.
- f) Re-established the Complaints Lead network to build better working relationships and drive customer service improvement across the Council.

35. What do we need to continue to work on?

- a) Review ways to improve complaint response times in order to provide timely responses while recognising the importance to the customer of securing positive outcomes wherever possible.
- b) Continue to develop training packages to support the Customer Promise and best practice in complaint handling.
- c) Continue to review our systems and procedures to make it easier to leave feedback and make a complaint.
- d) Children's Rights Service to continue to work with Children's Services to promote:
 - clear messages for parents on the reasons for assessments needing to be completed;
 - clear messages for families explaining the reasons for the threshold for intervention being met; and
 - improved management of policies and procedures for Care Leavers

- e) Continue to work collaboratively across Adults' Customer Relations, Corporate Customer Relations and Children's Rights Service to improve the collection, analysis and reporting of complaints information.

Financial and value for money implications

36. Payment of compensation, as outlined in paragraph 18 of this report, is a financial implication of complaint handling. Responding to complaints quickly and getting issues resolved early ensures complaints do not escalate unnecessarily through the process.

Equalities and Diversity Implications

37. Ensuring SCC maintains good complaint handling processes enables services to remain accessible to all.

Risk Management Implications

38. The complaints process does not have any direct risk management implications; however complaints do carry a risk to the Council's reputation if not handled appropriately.

Next steps:

39. The Audit & Governance Committee to receive information on operation of the council's complaints procedures on an annual basis.
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Annex: Annex 1 - Complaint handling performance comparing 2014/15 and 2015/16

Sources/background papers:

- SCC complaints database, Adult Social Care Customer Relations team, Children's Rights Service.

Annex 1: Complaint handling performance comparing 2014/15 and 2015/16

Area	Response target	2014/15		2015/16	
		Complaints received	Performance against response target	Complaints received	Performance against response target
Business Services	90% in 10 working days	30	97%	57	98%
Chief Executive's		138	87%	117	76%
Customer & Communities		72	92%	21	84%
Environment & Infrastructure		726	94%	614	88%
Adult Social Care	90% in 20 working days	194	92%	200	86%
Schools & Learning and Services to Young People	80% in 10 working days (extendable to 20 if necessary)	51	61% (within 10 working days) 86% (within 20 working days)	116	70% (within 10 working days) 82% (within 20 working days)
Children's Social Care	80% in 10 working days (extendable to 20 if necessary)	321	53% (within 10 working days) 78% (within 20 working days)	309	41% (within 10 working days) 69% (within 20 working days)
Total/weighted average		1532	89%	1434	82%

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