

Notice of Meeting



SURREY
COUNTY COUNCIL

Audit & Governance Committee

Date & time
Monday, 5
December 2016
at 10.00 am

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

Contact
Angela Guest
Room 122, County Hall
Tel 020 8541 9075

Chief Executive
David McNulty

angela.guest@surreycc.gov
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We're on Twitter:
@SCCdemocracy

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

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Angela Guest on 020 8541 9075.

Members

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

Ex Officio:

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

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING - 26 SEPTEMBER 2016

(Pages 1
- 8)

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

3 DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter

(i) Any disclosable pecuniary interests and / or

(ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest
- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)
- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

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 (*29 November 2016*).
2. The deadline for public questions is seven days before the meeting (*28 November 2016*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER AND BULLETIN

(Pages 9
- 24)

To review the Committee's recommendations tracker and note the Bulletin which has been previously circulated.

6 REVIEW OF ENTRIES TO THE ONLINE GIFTS AND HOSPITALITY REGISTER

(Pages
25 - 32)

To ensure compliance with the Gifts and Hospitality guidance and address the related Internal Audit recommendation, this report presents a summary of the gifts and hospitality recorded online during the period 1 April 2011 to 31 March 2016 for consideration by this Committee.

- 7 PROPERTY ASSET MANAGEMENT SYSTEM: UPDATE** (Pages 33 - 36)
- The purpose of this report is to update the committee on progress made in the business as usual use of the Property Asset Management System (PAMS).
- 8 BABCOCK 4S LIMITED - DIRECTOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 2016** (Pages 37 - 80)
- The annual report and financial statements of Babcock 4S (formally VT4S) for the year ended 31 March 2016 were considered at a private meeting of the committee and the committee's findings are presented for noting.
- 9 EXTERNAL AUDIT UPDATE REPORT** (Pages 81 - 100)
- This paper provides the Committee with a report on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors. The paper also includes a summary of emerging national issues and developments.
- 10 2015/16 AUDIT FINDINGS REPORT FOR SE BUSINESS SERVICES AND HALSEY GARTON** (Pages 101 - 128)
- This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2015/16 financial statements of S. E. Business Services Ltd and Halsey Garton Ltd.
- 11 TREASURY MANAGEMENT HALF YEAR REPORT 2016/17** (Pages 129 - 142)
- This report summarises the council's treasury management activity and the council's Prudential and Performance Indicators for the first half of 2016/17.
- 12 INTERNAL AUDIT HALF-YEAR REPORT** (Pages 143 - 186)
- This interim report summarises the work of Internal Audit during the first six months of 2016/17.
- 13 COMPLETED INTERNAL AUDIT REPORTS** (Pages 187 - 202)
- The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting.
- 14 HALF-YEAR SUMMARY OF INTERNAL AUDIT IRREGULARITY INVESTIGATIONS AND COUNTER FRAUD MEASURES APRIL - SEPTEMBER 2016** (Pages 203 - 234)
- The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations and proactive counter fraud work undertaken by Internal Audit in the first half of this financial year from 1 April to 30 September 2016.

- 15 RISK MANAGEMENT HALF-YEAR REPORT** (Pages 235 - 248)
 This half-year risk management report has been produced to enable the committee to consider the risk management activity from April 2016 to date. To include the Leadership Risk Register.
- 16 GOVERNANCE UPDATE REPORT** (Pages 249 - 252)
 The purpose of this report is to provide a half year update on the 2015/16 areas of focus outlined in the 2015/16 Annual Governance Statement.
- 17 DRAFT WORK PROGRAMME 2017** (Pages 253 - 260)
 The Committee's draft workplan for 2017 is attached for information.
- 18 EXCLUSION OF PUBLIC**
Recommendation: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following item(s) of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Schedule 12A of the Act.
- 19 DATE OF NEXT MEETING**
 The next meeting of Audit & Governance Committee will be on 20 February 2017.

David McNulty
Chief Executive

Published: 25 November 2016

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Thank you for your co-operation

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 26 September 2016 at Members Conference Room, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

(*Attended)

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

48/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

49/16 MINUTES OF THE PREVIOUS MEETING [25 JULY 2016] [Item 2]

Concerns were raised regarding the action recorded in relation to item 41/16 in the minutes. Members stated that actions should be recorded in such a way that enabled the Committee to monitor their progress and avoided any ambiguity regarding when they had been completed.

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

50/16 DECLARATIONS OF INTEREST [Item 3]

There were none.

51/16 QUESTIONS AND PETITIONS [Item 4]

There were none.

52/16 RECOMMENDATIONS TRACKER AND INFORMATION BULLETIN [Item 5]

Declarations of interest:

None

Witnesses:

Denise Le Gal, Cabinet Member for Business Services and Resident Experience

Kevin Kilburn, Deputy Chief Finance Officer

Sue Lewry-Jones, Head of Internal Audit

Key points raised during the discussion:

1. Discussions took place regarding A20/15 on the Recommendations Tracker and Members were reminded that they had been invited to the Social Care Services Board meeting on 26 October 2016. This was to contribute to the discussion arising from the item on Social Care Debt,

- specifically relating to the Adult Social Care Directorate's collection of long term outstanding balances from service users.
2. In relation to Action A45/15, Members were informed that arrangements were being made to provide the Committee with a private briefing on the outcomes of the review into the security of County Hall.
 3. Members inquired about the progress that had been made in compiling the Surrey Choices Business Plan, highlighted in the recommendations tracker as A1/16. The Committee asked whether the Business Plan had been submitted for consideration by the Shareholder Board. Members were informed that it was the role of the Council Overview Board (COB) to scrutinise Surrey Choices' Business Plan and that this would take place at the COB meeting scheduled for 14 December 2016. The Shareholder Board had, however, received an update on the Business Plan
 4. The Committee was advised that the previous Managing Director had departed Surrey Choices in July 2016 and that it had been necessary to appoint an interim Managing Director. It was highlighted that the interim Managing Director has had experience of creating and developing a limited company and, as a result, there was an expectation that they would be able to deliver a strong Business Plan and take the Surrey Choices forward.

Will Forster arrived at the meeting at 10.10am during the discussions on this item.

The Committee discussed recommendations A1/16 and A2/16 after item 12 on the agenda due to the availability of the relevant officer.

Action/Further information to note:

None.

RESOLVED:

The committee noted the report.

53/16 EXTERNAL AUDIT: ANNUAL AUDIT LETTER [Item 6]

Declarations of interest:

None

Witnesses:

Geoffrey Banister, Grant Thornton
Nikki O'Connor, Finance Manager (Assets & Accounting)

Key points raised during the discussion:

1. Geoffrey Banister introduced the report that was required to be brought to the Committee.
2. In response to a query as to why the report showed that Children's Services was inadequate Mr Banister reported that Grant Thornton have to show that Children's' Services are inadequate and continue to do so until there is a revised Ofsted opinion. Ofsted had been in but a report would not be expected until January 2017. Grant Thornton acknowledged that it had been a long journey for the council and recognised that improvements had been made.

3. In response to a member query it was stated that Audit & Governance Committee would see Surrey Choices audit accounts report in December after it had been to Surrey Choices Board.
4. The Chief Internal Auditor, in response to a query, explained that the council's internal audit team had right of access to the council's private companies and a number of audits had been undertaken around the governance in place for those businesses. Recommendations from internal audit had been taken on board.
5. With regards to the Highways Network Asset, Grant Thornton would look at arrangements to ensure sound valuations were done properly. The committee expressed concern that this may cause a few issues around what the council actually own and therefore make it difficult to know if the valuation was correct. Grant Thornton would be happy to share the client briefings with members with the caveat that they were primarily operational detail and may not be that valuable to committee members.
6. The Committee were informed that Grant Thornton could not give an audit opinion on whether the pension fund was well invested but did provide advice on whether the pension accounts were a true and fair value.
7. There was some discussion about council's forecasting their budget spend correctly which was endemic across local authorities. Overall SCC had underspend in 2015/16 but with social services there was always an overspend and a member queried whether there was a will to deliberately under-budget in certain cases. Control was provided through review of variances every year and relevant committees were informed if there was to be an over or under spend.

Actions/ further information to be provided:

None.

Resolved:

The committee noted the report.

54/16 EXTERNAL AUDIT PERFORMANCE [Item 7]

Declarations of interest:

None

Witnesses:

Geoffrey Banister, Grant Thornton
Nikki O'Connor, Finance Manager (Assets & Accounting)

Key points raised during the discussion:

1. Geoffrey Banister introduced this report and stated that audit was a partnership and figures reflected joint performance of the council and Grant Thornton during the process.
2. It was reported that the number of requests and the performance in responding to requests rapidly had improved over the last few years.

Actions/ further information to be provided:

None.

Resolved:

The committee noted the report.

55/16 STATUTORY RESPONSIBILITIES NETWORK [Item 8]**Declarations of interest:**

None

Witnesses:

David McNulty, Chief Executive

Key points raised during the discussion:

In response to member questions it was reported that:

1. There had been huge savings in adult social care despite increasing demand pressures. There had been a 7-8% increase in demand this year and there were other parts of the council where spending was also difficult to predict. There were a series of uncertainties in the budget and the S151 Officer had highlighted that the budget was unsustainable which seemed likely to remain the case in February 2017.
2. It is forecast that there will be a council overspend in 2016/17 – the first time in many years.
3. The Statutory Responsibilities Network did not strictly look at finance but more the implications of finance on the organisation.
4. Asylum seekers had put pressure on the Children's Services budget but the council were dealing well with it.
5. Whether the Improvement Board was to be permanent following the Ofsted report was a decision for the council.

Actions/ further information to be provided:

The Ofsted report to be sent to all councillors once published.

Resolved:

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.

56/16 HIGHWAYS NETWORK ASSET [Item 9]**Declarations of interest:**

None

Witnesses:

Jonathan Evans, Principal Accountant, and
Amanda Richards, Network and Asset Management Group Manager

Key points raised during the discussion:

1. The Principal Accountant introduced the Highways Network Asset (HNA) report who outlined the changes required as a result of the report introduction.
2. It was reported that no highway authority knows the value of its drainage and a set figure from Government was used to assess all drainage across the council areas.
3. The committee expressed concern around the practicalities of the introduction of HNA and whether there were sufficient resources within the highways team to ensure that HNA's can be input correctly.

4. It was explained that data inputting would be relatively straightforward. The IT system used would need a few tweaks but no new software of major changes would be needed. Toolkits were also provided by CIPFA to ensure the calculations were done correctly. HNA reporting had been on the cards for a while so resources had been allocated in advance and the project worked on over time. Grant Thornton felt that the council were ahead of the game and could be used as a pilot.
5. In response to a member query regarding differentiation of footways and footpaths it was reported that highways and environment teams were working closely together to share knowledge and expertise.

Actions/ further information to be provided:

None.

Resolved:

The Committee noted that Surrey County Council was on target to implement the Highways Network Asset valuation requirements for the financial year 2016/17 in line with the required timetable.

57/16 LEADERSHIP RISK REGISTER [Item 10]

Declarations of interest:

None

Witnesses:

Cath Edwards, Risk and Governance Manager

Key points raised during the discussion:

1. The Risk and Governance Manager introduced the report and reported that there were no significant changes to the risk register. Devolution was being updated as discussions with Government progressed.
2. Information Governance has been flagged as an emerging risk and discussions were taking place on whether it should have its own entry on the Leadership risk register.
3. The Committee were uncomfortable with the wording of L4 – Devolution and also thought this should be a medium risk, rather than a high risk, as devolution was an opportunity as opposed to a threat.

Actions/ further information to be provided:

None.

Resolved:

1. The Director of Finance and Chief Internal Auditor to take back the committee's comments on L4 – Devolution to the next SRN meeting.
2. The committee noted the report.

58/16 COMPLETED INTERNAL AUDIT REPORTS [Item 11]

Declarations of interest:

None

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor
Charlotte Langridge, Business Intelligence Lead, Adult Social Services

Key points raised during the discussion:

1. A verbal update was provided on what adult social services had done following the audit report. The Business Intelligence Lead explained that the e-brokerage system went live in May and that there had been positive feedback from the market for the system on initial testing. Engaging providers with e-brokerage needed to be done in stages as the system was rolled out. There was no more development required as the software was created and managed externally. The e-brokerage system was necessary to provide savings and to deliver home based care efficiently. Staff and providers were being taught how to use the system. The management team were aware of the challenge of staff turnover and were ensuring that all were aware of how to use new systems. It was expected that the roll out would be completed by the end of the year. There would be a further follow up report from Audit when there were enough providers on board. At that point a discussion would take place as to what to bring back to committee.
2. The Chief Internal Auditor gave an overview of audit reports issued since the last meeting of the committee. Council Overview Board (COB) had discussed the Youth Centres audit report and were keen to see another report as soon as possible. There would be a follow-up audit in six months time.
3. Members expressed concern about monitoring of the Hillcrest contract to which it was reported that a Management Action Plan had been agreed and audit were looking to ensure that recommendations were addressed through progress updates which would, in turn, be reported to the committee.
4. The committee sought assurance that staff were not on zero hours contracts. The Chief Internal Auditor to provide a response on what assurances the council sought on provider staff management and employment conditions.
5. Members expressed concern about the appearance of an extended delay with Property Asset Management System (PAMS) income module and were told that it could take up to a year before PAMS was operational enough to be audited. The Council Overview Board had been given assurances that no income had been lost due to it not being operational but equally not realising the savings that were expected from the system. PAMS was being implemented in modules so some were operational and others not. Members queried if there was still a partnership with Hampshire County Council.
6. The committee asked if there was someone dedicated to overseeing PAMS and was told that this was the case but there had been an issue due to capacity constraints created by Orbis. Denise Le Gal undertook to provide an informal update to the committee.

Actions/ further information to be provided:

1. The Chief Internal Auditor to provide a response on what assurances the council sought on provider staff management and employment conditions and information regarding duplication of hospital discharge teams of the council and the NHS.
2. Adult social care IT follow up report to this committee early 2017.
3. The Chief Internal Auditor to provide a response on whether there was still a partnership with Hampshire CC.
4. Denise Le Gal to provide committee members with an informal update on the overseeing of PAMS.

Resolved:

The committee noted the report.

59/16 ANNUAL COMPLAINTS PERFORMANCE REPORT [Item 12]**Declarations of interest:**

None

Witnesses:

Mark Irons, Head of Customer Services, and
Sarah Bogunovic, Corporate Customer Relations Manager

Key points raised during the discussion:

1. The Head of Customer Services introduced the report and stated that good complaint management is very important for the Council's reputation. It was reported that complaints offer the opportunity to correct mistakes for complainants, as well as an opportunity to learn and improve service delivery.
2. Members were advised that the percentage of complaints escalating through the complaints procedure was a good indication of how complaints were being dealt with.
3. It was reported that monthly complaint reports were created and sent to service areas. Improvement actions undertaken as a result of complaints received were also recorded.
4. In response to a member comment regarding non-response by operational managers to some customer correspondence, it was agreed that customer complaints needed to be prioritised alongside operational duties. The Customer Relations Team would look into any specific examples received of non-response to customer correspondence. Customers who had used the corporate complaints procedure were also being surveyed to gather insight on their experience.
5. Members were advised that a high-level corporate customer service training package was being designed for managers which would include a section on complaints.
6. It was noted that a small proportion of customers were persistent complainants. It was reported that there was a policy in place for dealing with people whose behaviour was considered to have become unreasonable, impacting the ability of officers to deliver services or respond to other customers. Work was needed by the customer services team to increase awareness of this policy and the circumstances in which it should be applied.
7. It was said that it would be helpful for members to be informed about problems at an early stage as they may be able to play a part in helping to resolve and prevent escalation of customer complaints.

Actions/ further information to be provided:

The Head of Customer Services to look at informing members of problems at an early stage and using them to assist with helping resolve and prevent escalation of complaints where appropriate.

Resolved:

The Council's complaint handling performance in 2015/16 and how feedback from customers has been used to improve services was noted.

60/16 DATE OF NEXT MEETING [Item 13]

The date of the next meeting was noted.

Meeting ended at: 12.15 pm

Chairman



Audit & Governance Committee
5 December 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 November version of the Audit & Governance Committee Bulletin is attached as Annex B for information.

RECOMMENDATION:

The Committee is asked to:

1. Monitor progress on the implementation of recommendations from previous meetings in Annex A.
2. To note the information bulletin.

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
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>Members from Audit & Governance Committee were invited to attend the Social Care Services Board on 26 October to take part in discussions on this item. Denis Fuller and Tim Hall attended.</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>Members from Audit & Governance Committee were invited to attend the Social Care Services Board on 26 October to take part in discussions on this item. Denis Fuller and Tim Hall attended.</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 would be provided to the Committee on the outcome of the review.</p> <p>The update is contained in the November Bulletin.</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> <p>The Shareholder Board have worked with Surrey Choices and will be receiving the Business Plan at their meeting in November.</p> <p>Date of this going to COB is still to be decided.</p>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
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.
A3/16	26/09/16	Statutory Responsibilities Network	The Ofsted monitoring report on Children's Services to be circulated to Audit Committee members once published.	Chief Executive/ Committee Manager	Ofsted are visiting on 11 and 12 January for a monitoring visit to review our improvement progress. They will be specifically focussed on reviewing our progress with regard to CSE, missing and the care Leavers service. They will publish their findings on their website.
A5/16	26/09/16	Completed internal audit reports	Adult social care IT follow up report to this committee early 2017.	Chief Internal Auditor	Having conducted two Internal Audit reviews of this IT project since February 2015, it is proposed that any further audit activity in this area is postponed until the system is fully implemented/operational. As such an audit of this system will be considered as part of the audit planning process for 2017/18.
A6/16	26/09/16	Completed internal audit reports (PAMS)	To provide a response on whether there was still a partnership with Hampshire CC	Chief Internal Auditor	Hampshire County Council (HCC) and SCC signed an original contract to jointly implement PAMS. However, SCC has progressed further in implementing PAMS than HCC. SCC still works in partnership on any developments of the system that are required and there is another 18 months remaining before the contract ends.

Audit & Governance Committee Recommendations Tracking

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

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>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A18/15 contd.					<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.pdfAt 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.</p> <p>The first meeting of the multi-Board task group takes place on 15 December 2016.</p> <p>It is suggested that A&G may wish to delete this off its tracker as the original goal was to get a Strategy agreed and published which has been done. Ofsted have also visited recently. A&G Committee may feel that this is being more than covered by others.</p>
A7/16	26/09/16	Completed internal audit reports (PAMS)	To provide committee members with an informal update on the overseeing of PAMS	Cabinet Member for Business Services	An update report is on A&G agenda for December.

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A4/16	26/09/16	Completed internal audit reports - (Hillcrest contract)	A response on what assurances the council sought on provider staff management and employment conditions and information regarding duplication of hospital discharge teams of the council and the NHS to be provided.	Chief Internal Auditor	<p>Procurement Service has advised that there has been significant work around the impact of the national living wage and on ensuring our providers are following national policies. Providers are required to confirm they comply with the Modern Slavery Act, minimum wage, working time and so on. We do not currently exclude the possibility of use of zero-hour contracts, since they are a legal form of contract.</p> <p>Adult Social Care Service has confirmed that hospital based social care teams work jointly with NHS discharge teams to facilitate the patient's discharge home. There is no duplication as the teams carry out their own statutory duties.</p>

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Audit & Governance Committee

Welcome...

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

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Update from previous Audit & Governance Committee meetings

Social Care Services Debt (Tracker Items A20/15 and A43/15)	Members from Audit & Governance Committee were invited to attend the Social Care Services Board on 26 October to take part in discussions on this item. Denis Fuller and Tim Hall attended.
Security Issues at County Hall - Tracker item A45/15	<p>Audit and Governance Committee previously invited officers to note the national guidelines in relation to the terrorism threat being raised. In response to this, an audit was commissioned and conducted by a member of the National Counter Terrorism security Office (NaCTSO) of the Security policies and the security of County Hall.</p> <p>The audit determined a number of conclusions in relation to:</p> <ul style="list-style-type: none"> • The effectiveness of the existing building access control system • Access and egress for onsite parking • Intruder systems • Bomb threat policy and procedures • Mail handling policies <p>The findings have been discussed by the Statutory Responsibilities Network and an action plan agreed to improve and address security</p>

	<p>threats for County Hall. This includes training for the workforce as well as cultural and physical changes.</p> <p>Officers are now working with representatives across the organisation from Emergency planning, Premises and Fire and Rescue to carry out an audit of other key council premises using the National Counter Terrorism Security Office (NaCTSO) methodology and guidance. The delivery of these audits will be phased to review arrangements for higher risk premises as a priority.</p>
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Further information

Local Government Association	<p>Autumn Statement 2016</p> <p>Ahead of the Chancellor's Autumn Statement on 23 November, the LGA submitted their representation to HM Treasury. The submission spells out the urgent need to achieve financial stability for local government. The LGA calculates an overall £5.84 billion funding gap for the sector by 2019/20</p>
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Internal Audit update

Current Audits	<p>The following audits are currently in progress or at the planning stage:</p> <ul style="list-style-type: none"> • Safeguarding in Schools • Accounts Receivable • Early Years/MASH • Information Governance • Trust Funds Follow-up • Foster Care Admin Arrangements Follow-up • Adecco (agency staffing) Contract • Control Risk Self Assessment – Governance Framework • Highways Delivery/Commissioning Model <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>
Counter Fraud Work	<p>Overseas pensioner verification</p> <p>We are undertaking a review of SCC pensioners who live overseas to ensure that money is being paid to the intended person. Letters have been sent to all pensioners living abroad and, to date, responses have been received from over 60% of the 455 pensioners contacted. Follow up enquiries will be made in all cases where no response is received.</p> <p>National Fraud Initiative</p> <p>We have now submitted SCC's data for the 2016 National Fraud Initiative data matching exercise. This comprised almost a million records across nine data sets including payroll, creditors and concessionary travel passes. We expect the results from the Cabinet Office to be available from the end of January 2017.</p>

	<p>Surrey Counter Fraud Partnership (SCFP)</p> <p>The SCFP continues to deliver significant savings across the County with over £5.4m of fraud prevented or detected since January 2015. All 11 boroughs and districts are now represented in the partnership allowing greater sharing of joint working and best practice to ensure that all councils in Surrey take a robust approach to protecting their services from loss through fraud and error.</p> <p>The partnership is now in the process of developing a data hub. The hub will be administered by SCC and will enable the regular bulk matching of data to support targeted campaigns as well as a robust means of verifying individuals who apply for services.</p>
Orbis Partnership	<p>Work on integrating the SCC Internal Audit team with audit colleagues from East Sussex County Council and Brighton and Hove City Council has continued apace.</p> <p>We have recently agreed an OrbisIA Data Sharing Agreement which will enable joint working across the teams.</p> <p>Ultimately the aim is to implement a single integrated audit management system, and work is currently underway to assess options.</p>
Staffing News	<p>We are pleased to welcome Zahir Khan who joined the team in September as an Auditor.</p> <p>Congratulations to Lead Auditor Tim Semken, who recently became a Chartered Internal Auditor through the Institute of Internal Auditors. Tim is now a designated CMIIA.</p>

Finance Update

Highways Network Asset	<p>At its meeting on the 26 September 2016, the Audit & Governance Committee received a report outlining the upcoming changes in the accounting treatment of highways infrastructure assets and the Council's progress on the implementation of these changes. The change in methodology was due to have a significant impact on the financial statements of the Council and would result in substantial increases in the value of non-current assets.</p> <p>At its meeting on 9 November, the CIPFA/LASAAC1 Local Authority Accounting Code Board decided to postpone the full implementation of the move to measuring the Highways Network Asset (HNA) at Depreciated Replacement Cost in local authority accounts.</p> <p>This decision will require an update to the 2016/17 Code of Practice which will need to be considered by the Government's Financial Reporting Advisory Board (FRAB)</p> <p>In making the decision, CIPFA/LASAAC recognised the commitment and work of local authorities in preparing for this change. A key part of the implementation is the provision of central Gross Replacement Cost (GRC) rates. CIPFA has been working closely with key stakeholders, including</p>
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	<p>the Department for Transport, to ensure the review of the central rates for measuring the HNA would be ready for the 2016/17 implementation date. It has become clear recently that these rates will not be ready in good time for the 2016/17 financial statements and this is the reason given for deferring the implementation. CIPFA/LASAAC are due to review this position in March 2017, with a view to implementation in 2017/18.</p> <p>Finance will continue to monitor the changes to the current advice and codes of practice in this area. They will also continue to work with both Highways and our auditors, Grant Thornton, to ensure that they are ready to implement any changes to the requirements as and when they develop.</p>
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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 20 September 2016, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • Finance and Budget Monitoring Report to 31 August 2016 • Budget and Business Planning 2017 to 2022 <p>At its meeting on 18 October 2016, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> • Local Government Finance Settlement - Technical Consultation • Finance and Budget Monitoring Report to 30 September 2016
Council Overview Board	<p>At its meeting on 21 September 2016, the Council Overview Board considered the following reports:</p> <ul style="list-style-type: none"> • Financial Sustainability and Budget Planning 2017 To 2022 • Internal Audit: Review of Property Asset Management System Income Module • Internal Audit: Surrey Youth Centres - Governance and Business Management Arrangements
Education and Skills Board	<p>At its meeting on 15 September 2016, the Education and Skills Board considered the following reports:</p> <ul style="list-style-type: none"> • Surrey Education In Partnership
Economic Prosperity, Environment and Highways Board	<p>At its meeting on 8 September 2016, the Economic Prosperity, Environment and Highways Board considered the following reports:</p> <ul style="list-style-type: none"> • Risk Management for the Environment and Infrastructure Directorate • Report of the Winter Maintenance Task Group <p>At its meeting on 19 October 2016, the Economic Prosperity, Environment and Highways Board considered the following reports:</p> <ul style="list-style-type: none"> • Developing a Single Waste Approach
Surrey Pension Fund Committee	<p>At its meeting on 23 September 2016, the Surrey Pension Fund Committee considered the following reports:</p>

	<ul style="list-style-type: none"> • Key Performance Indicators & Administration Update • Pension Fund Accounts 2015/16 • Pension Fund Risk Register • Consultation on Amendments to the Local Government Pension Scheme Regulations: Response of the Council • Consultation on Developing an Insolvency Regime for Higher Education Colleges: Response of the Council <p>The Annual Meeting of the Surrey Pension Fund will take place on 18 November 2016.</p>
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Upcoming

The next meeting of the Audit & Governance Committee is on 5 December 2016. The following items are on the agenda:

- Gifts and Hospitality (officers)
- Property Asset Management System: Update
- External Audit Update Report
- 2015/16 Audit Findings Report for SE Business Services
- Babcock 4S Limited - Director's Report and Financial Statements for the Year Ended March 2016
- Treasury Management Half Year Report 2016/17
- Internal Audit Half-Year Report
- Half-Year Irregularities Report
- Completed Internal Audit Reports
- Ethical Standards - Annual Review
- Risk Management Half-Year Report
- Governance Update Report
- Work Programme 2017

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AUDIT & GOVERNANCE COMMITTEE
5 December 2016

Review of entries to the online Gifts and Hospitality Register

SUMMARY AND PURPOSE:

The Gifts and Hospitality Guidance and Register requires the Chief Executive or a designated officer to present an annual report to an appropriate committee of the council for consideration.

A recent Internal Audit review of Gifts and Hospitality Arrangements identified that a report was last presented to this Committee in 2011.

To ensure compliance with the Gifts and Hospitality guidance and address the related Internal Audit recommendation, this report presents a summary of the gifts and hospitality recorded online during the period 1 April 2011 to 31 March 2016 for consideration by this Committee.

The report also includes a broader review of the recommendations in the Internal Audit report.

RECOMMENDATIONS:

The Committee is asked to note the content of this report, the detail of which has been shared with the Statutory Responsibility Network.

BACKGROUND:

Surrey's Officer Code of Conduct and Gifts and Hospitality guidance set out guiding principles for the acceptance/refusal and registration of any gift or hospitality offered to any officer or contractor during the course of their duties.

All employees of, and those working on behalf of Surrey County Council, are expected to refuse the offer of inappropriate and disproportionate gifts or hospitality made as part of the discharge of their duties unless there are compelling reasons or exceptional circumstances for doing so.

The gifts and hospitality register changed from a paper based to an electronic system powered by Survey Monkey in November 2010. In April 2016 the register was transferred to the Surrey Says website.

Prior to June 2015, all gifts and hospitality with a value of £5 or more, whether accepted or declined, were required to be recorded in the Council's gifts and hospitality register, with acceptances with a value of £25 or more requiring line manager approval. In June 2015, the

People, Performance and Development Committee (PPDC) agreed that only gifts and hospitality with a value of £25 or more should be recorded on the register. Line manager approval is still required for acceptances.

FINDINGS:

An analysis of the gifts and hospitality recorded on the register from 1st April 2011 to 31st March 2016 by directorate is provided in Appendix 1 at the end of this report. The following tables show a summary of this analysis presented by financial year.

Table 1 – The total number and value of gifts and hospitality recorded

	Gifts/hospitality accepted	Total value of gifts/hospitality accepted	Gifts/hospitality declined	Gifts/hospitality donated
FY 2011/12	162	£11,441*	5	5
FY 2012/13	93	£8002	7	1
FY 2013/14	107	£4,471	9	16
FY 2014/15	105	£7,348	5	1
FY 2015/16**	45	£1,807	1	4

* The high value of gifts accepted during FY 2011/12 was due in part to one acceptance of conference sponsorship in the Customers & Communities directorate with a value of £5000.

** In June 2015 the minimum value for a gift or hospitality to be recorded increased from £5 to £25

Table 2 – The range of values of individual gifts and hospitality recorded as accepted

	Lowest value gift	Highest value gift/hospitality	Average value gift/hospitality
FY 2011/12	£1.00	£5000.00	£70.60
FY 2012/13	£4.99	£2,000.00	£86.04
FY 2013/14	£4.99	£1,500.00	£41.78
FY 2014/15	£3.00	£1,800.00	£69.98
FY 2015/16	£5.00	£150.00	£40.15

The Children, School's and Families directorate has consistently recorded the most receipts of gifts and hospitality, with recordings of receipts by Adult Social Care and Deputy Chief Executive's Office falling noticeably after FY 2011/12.

Table 3 – The total number of gifts and hospitality recorded with a value of £25 or over

	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
Total number of records	61	40	37	41	23
Total value	£10,343	£7,330	£3,742	£6,667	£1,425

Table 4 – The total number of records identifying appropriate authorisation

	No. of records confirming appropriate authorisation*	No. of records with no evidence of appropriate authorisation	No of records with authorisation by recipient
FY 2011/12	53	4	4
FY 2012/13	28	6	6
FY 2013/14	35	2	0
FY 2014/15	35	3	3
FY 2015/16	15	8	0

* Receipt of gifts or hospitality with a value of £25 or more require line manager approval.

CONCLUSION:

The Internal Audit Report on gifts and hospitality (August 2016) and the register analysis identify a notable decrease in the number of gifts and hospitality recorded during the last financial year. This reduction may be a reflection of the changing economic climate or that the register is not being used appropriately by staff.

The analysis confirms the need to review and address the promotion of the register to raise awareness of each employee's responsibility for recording and seeking authorisation for gifts and hospitality. Additional measures are also required for the monitoring and management of the records made.

IMPLICATIONS:

There are no direct implications relating to finance, equalities or value for money arising from this report. These findings may impact the management of risk in relation to fraud and corruption should employees not be aware of their individual responsibilities in relation to the acceptance and recording of gifts and hospitality.

WHAT HAPPENS NEXT:

The actions to address the conclusions from this report and the recommendations from the Internal Audit report are summarised below.

Policy and guidance

The gifts and hospitality policy has been reviewed and a number of changes made to reflect the Audit recommendations. The revised policy will be reviewed by the Reward Board in December 2016 and the People performance and Development Committee in February 2017.

The gifts and hospitality guidance has also been reviewed to clearly distinguish between the protocols for the acceptance of gifts and hospitality (the policy) and the process by which gifts and hospitality should be recorded (the guidance).

The new policy and guidance will contain specific reference to the acceptance of gifts from vulnerable service users, and to accruing values from any one individual or organisation.

Audit and scrutiny

The online register has been reviewed with colleagues in Strategy and Performance to ensure field controls are in place to optimise data consistency and completeness.

In response to the Audit report, additional measures have been put in place for the senior leadership team in HR&OD to scrutinise activity on the register each quarter.

Entries which do not show appropriate authorisation or which have a high value are being identified monthly and escalated to the appropriate Strategic HR Business Partner for review with the Senior Manager of the relevant service.

The process for recording gifts and hospitality at out posted establishments is being reviewed to ensure appropriate arrangements that reflect both the policy and guidance.

Promotion and engagement

The renewed policy will be communicated through a proactive and multi-channel communication strategy to raise awareness of individual and managerial responsibility in the recording of gifts and hospitality. The promotion campaign will include specific measures to support staff not based in main council buildings.

REPORT OWNER: Ken Akers, Head of HR&OD

CONTACT DETAILS: Telephone: 020 8541 8614
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Background papers: Gifts & Hospitality policy/guidance
Internal Audit report on Gifts and Hospitality Arrangements

APPENDIX 1 : Summary of gifts and hospitality from 01.04.2011 to 31.03.2016

FY2011-2012	No of records	No of recorders	Gifts accepted	Value of gifts received	Gifts declined	Value of gifts declined	Gifts donated	Value of gifts donated	Unknown if received	Values of gifts unknown
ASC	44	31	44	£1,096.00	0	£0.00	0	£0.00	0	£0.00
C&C	20	16	19	£5,831.00	0	£0.00	1	£6.00	0	£0.00
CEO	6	1	6	£385.00	0	£0.00	0	£0.00	0	£0.00
CSF	51	37	44	£1,176.00	2	£70.00	3	£29.00	2	£220.00
DCEX/BS	41	28	37	£2,219.00	3	£150.00	0	£0.00	1	£18.00
E&I	9	9	9	£544.00	0	£0.00	0	£0.00	0	£0.00
L&DS	1	1	1	£15.00	0	£0.00	0	£0.00	0	£0.00
Member	3	1	2	£175.00	0	£0.00	1	£500.00	0	£0.00
TOTAL	175	124	162	£11,441.00	5	£220.00	5	£535.00	3	£238.00

FY2012-2013	No of records	No of recorders	Gifts accepted	Value of gifts received	Gifts declined	Value of gifts declined	Gifts donated	Value of gifts donated	Unknown if received	Values of gifts unknown
ASC	13	10	13	£2,627.00	0	£0.00	0	£0.00	0	£0.00
BS	18	13	15	£1,063.00	2	£200.00	1	£20.00	0	£0.00
C&C	13	9	11	£519.00	1	£40.00	0	£0.00	1	Unknown
CEO	15	8	14	£1,202.00	1	£50.00	0	£0.00	0	£0.00
CSF	42	34	31	£1,911.00	3	£89.00	0	£0.00	0	£0.00
E&I	9	9	9	£680.50	0	£0.00	0	£0.00	0	£0.00
TOTAL	110	83	93	£8,002.50	7	£379.00	1	£20.00	1	£0.00

FY2013-2014	No of records	No of recorders	Gifts accepted	Value of gifts received	Gifts declined	Value of gifts declined	Gifts donated	Value of gifts donated	Unknown if received	Values of gifts unknown
ASC	33	33	33	£509.00	0	£0.00	0	£0.00	0	£0.00
BS	18	12	14	£1,175.00	4	£400.00	0	£0.00	0	£0.00
C&C	18	9	5	£179.00	0	£0.00	13	£1,389.00	0	£0.00
CEO	5	5	4	£250.00	0	£0.00	1	£100.00	0	£0.00
Change & Efficiency	1	1	1	£23.00	0	£0.00	0	£0.00	0	£0.00
CSF	52	40	45	£2,000.00	5	£200.00	2	£15.00	0	£0.00
E&I	5	5	5	£335.00	0	£0.00	0	£0.00	0	£0.00
TOTAL	132	105	107	£4,471.00	9	£600.00	16	£1,504.00	0	£0.00

FY2014-2015	No of records	No of recorders	Gifts accepted	Value of gifts received	Gifts declined	Value of gifts declined	Gifts donated	Value of gifts donated	Unknown if received	Value of gifts unknown
ASC	22	19	22	£2,036.00	0	£0.00	0	£0.00	0	£0.00
BS	24	21	21	£1,256.00	2	£55.00	1	£20.00	0	£0.00
C&C	8	6	8	£675.00	0	£0.00	0	£0.00	0	£0.00
CEO	11	4	11	£605.00	0	£0.00	0	£0.00	0	£0.00
CSF	41	30	38	£1,026.00	3	£180.00	0	£0.00	0	£0.00
E&I	5	4	5	£1,750.00	0	£0.00	0	£0.00	0	£0.00
TOTAL	111	84	105	£7,348.00	5	£235.00	1	£20.00	0	£0.00

FY2015-2016	No of records	No of recorders	Gifts accepted	Value of gifts received	Gifts declined	Value of gifts declined	Gifts donated	Value of gifts donated	Unknown if received	Value of gifts unknown
ASC	13	13	10	£302.00	1	£10.00	1	£15.00	1	£70.00
BS	15	14	13	£854.00	0	£0.00	1	£15.00	1	£200.00
CEO	2	2	2	£110.00	0	£0.00	0	£0.00	0	£0.00
C&C	2	2	2	£40.00	0	£0.00	0	£0.00	0	£0.00
CSF	18	15	16	£351.00	0	£0.00	2	£35.00	0	£0.00
E&I	2	2	2	£150.00	0	£0.00	0	£0.00	0	£0.00
TOTAL	52	48	45	£1,807.00	1	£10.00	4	£65.00	2	£270.00

In June 2015, the minimum acceptable amount for registered gifts increased from £5 to £25.

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Audit & Governance Committee
5 December 2016

Property Asset Management System - Update

Purpose of the report:

The purpose of this report is to update the committee on progress made in the business as usual use of the Property Asset Management System (PAMS).

Recommendations:

1. The Committee is asked to:
 - a) Note progress made since the conclusion of the joint implementation project with Hampshire County Council.

It is therefore anticipated that this will be the final report to come to this Committee.

Introduction:

2. This is a progress update on the PAMS system that has been implemented in Property Services. PAMS is an externally hosted web based system, called Atrium Enterprise Asset Management.
3. PAMS provides a fully integrated property information system that will facilitate partnership working, bringing together property asset data, financial information, maps, spatial data from CAD plans, and document management.
4. The system was procured jointly with Hampshire County Council and was implemented in collaboration with them. The Framework Contract is open to in excess of 50 public sector organisations in the southeast including all SE7 partners and associated district and borough councils.
5. Although the joint implementation project concluded in 2015, PAMS is managed by Surrey and Hampshire County Councils, as lead partners.
6. At the time of the last full report to Committee in September 2015, it was reported that the system was fully implemented apart from an interface to/from SAP for rent and service charge transactions.

Progress Update

7. The Performance Team in Property Services is managing the ongoing development and maintenance of the system. Since the system was implemented, the focus has been to make best use of the functionality and the workflow processes that it offers.
8. All modules of PAMS are being utilised to deliver standard business activities across the service and operating processes are continually evolving to reflect the new ways of working.

Area	Status - November 2016	Comment/Benefit
Fire Risk Assessments	Survey built on PAMS for data collection through tablet devices. Final testing being carried out.	Was previously a paper based exercise and reports produced manually rather than by the system
Maintenance Operative Portal and App (New functionality)	Currently being tested. Estimated go-live Feb 2017	Will enable operatives on site to record information directly on the system through hand held devices/phones.
Landlord/Tenant Rent Interface	IMT to rewrite SCC part of interface in new standard format for go live in Last quarter of 2016/17.	Full retesting of interface is planned as there have been significant recent changes in SAP configuration.
Automated Project Reporting	In use	Automated reports for project managers that are automatically generated and emailed at month end to assist with financial monitoring.
Asset Valuations	All asset, insurance and rating valuations have been added into PAMS for the past 5 years (2011 to 2015).	From 2016/17 onwards, all valuations will be imported into PAMS through import template.
Recording of historical property acquisitions & disposals data.	Ongoing - capture of historical data from hard copy files.	This will enable automated reporting on restrictions against properties.
Linking Land Registry Data to PAMS	Matching process planned for early 2017.	This will enable cross referencing to Land Registry GIS data.
CAD Floor Plans	Creation of room level data from CAD drawings.	Rooms can be linked to leases in the Estates module. Also enables detailed asset data to be stored at room level.
Document Management	Planned use of Sharepoint from April 2017	SharePoint has been identified as the solution for the Property's

		document management and will be linked to PAMS for storage of project related and other documentation.
Tableau – reporting and business intelligence software	In use.	This is a third party product that can use PAMS data for reporting and analysis purposes.

9. Some examples of use are as follows:
 - management of all projects/works, from the largest capital project to the smallest reactive maintenance job
 - cyclical inspections and details of property plant assets
 - tenancy agreements for leased in and out properties
 - property valuations
 - condition surveys
 - acquisitions and disposals

10. There has been work on some significant developments since the last report to committee which fall into three main categories.
 - improvement to the breadth and quality of information in the system (bringing in data from other sources such as spreadsheets/hard copy)
 - use of system functionality to improve business process and operate more efficiently (surveys and reporting).
 - development of satellite systems to support, and make use of the improved information held on PAMS.

Areas of progress can be seen in the table below.

Partnership Working:

11. Surrey CC and Hampshire CC will continue to work together as lead partners in the Framework and will manage the Service Panel that oversees changes to the shared PAMS system.

12. Since the launch of Orbis in April 2015 there has been a focus on aligning systems and processes across the Orbis Property Service. East Sussex had already purchased PAMS from the Surrey/Hampshire framework contract and we are now implementing the system with them.

13. Although the sovereign authorities may manage their property assets differently, PAMS works to a standard data structure that is shared by all partners. Also, being a single database, staff at East Sussex and Surrey will be authorised to access each other’s property information through security settings.

14. PAMS will be an enabler of partnership working across the Orbis Property Service.

Conclusions:

15. Surrey and Hampshire County Councils will remain lead partners for the PAMS framework contract.
16. PAMS will evolve and adapt in line with business need. The maintenance and future development of the system will be carried out as business as usual activity in the Property Performance Team.
17. East Sussex and Surrey County Council staff will work together to align the systems and associated processes at each authority to support Orbis Property Services.

Financial and value for money implications

18. There are no direct financial implications of this report.

Equalities and Diversity Implications

19. There are no direct equality implications.

Risk Management Implications

20. Risks relating to PAMS are managed in the same way as other risks in Property Services on a centrally managed risk register.

Report contact: [Nigel Jones – Performance Manager]

Contact details: [020 8541 9920]

Sources/background papers:



Audit & Governance Committee
5 December 2016

**Babcock 4S Limited – Annual Report and Financial
Statements for the Year Ended 31 March 2016**

Purpose of the report:

The Annual Report and Financial Statements of Babcock 4S for the year ended 31 March 2016 are formally presented to the Audit & Governance Committee.

Recommendations:

It is recommended that:

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

Background:

1. Audit & Governance Committee has annually reviewed the Annual Report and financial statements of Babcock 4S since 2012. The documents were this year circulated privately to the committee on 12 October 2016 and are attached as Annex 1 to this report.
2. The Chairman (Stuart Selleck), Vice-Chairman (Denis Fuller), Saj Hussain and Tim Hall, of the committee met with representatives of Babcock 4S at their Head Office on 19 October 2016. The Chairman of Education and Skills Board (Mark Brett-Warburton) and Angela Guest (Regulatory Committee Manager) were also in attendance from Surrey County Council. The following attended from Babcock 4S:

- JJ Bowley, Director, Education Services
- Michelle de Beer, Head of Finance
- Murray Scott, Corporate Services Director

Summary of discussion:

3. The discussion of the meeting on 19 October 2016 is summarised below:
- Members expressed a concern regarding a 20% fall in revenue and 30% fall in profit compared to last year. Assurances were given last year that plans were in place in order to improve the situation. The Director for Education explained that there had been many changes over the last year both politically and in the role of school improvement. A Government report was expected at the end of 2016 led by Alan Wood. In general there was a reduction in local authority commitment to school improvement.
 - Babcock 4S contract was dependent on core funding from local authorities and there had been a £2.2 million reduction in funding from SCC in FY16 which had meant that Babcock 4S had to adapt to the reduced core funding. They had reorganised to respond to changing scope and to remain efficient and effective. It was reported that broader learning services were more sustained and school improvement services had been impacted the most. The trend was towards schools being more self-sufficient and less reliant on local authorities. Academies would potentially not survive alone and may need to look at forming multi academy trusts to provide all support services. It was explained that competitors had been reduced at local authority level but increased at school level as they became more self-sufficient. Individual schools were tending to go with a wide range of different suppliers. There was also increased competition from multi academy trusts.
 - In response to a query about whether Babcock 4S should focus on non-Local Authority income because of ongoing austerity, Babcock officers stressed the company's expertise in school support services.
 - The Education Services Director explained that the nature of work being requested was changing, with more emphasis on the services that might previously have been provided by the Local Authority.
 - The Education Services Director discussed how Babcock 4S was engaging with its competition in the area of school support services.
 - In response to a query regarding change of strategy, marketing and engagement the Director of Education Services reported that a survey was in progress, they had a partnership board on which head teachers sat, networked at schools forums and had an advisory board. Babcock 4S also had a contract with regional school commissioners to provide advice and guidance.

- g) Their 'better Governor' product had seen a large number of registrations and was a way to engage with school governors. It was reported that Babcock's governor support team were of a high calibre and had been chosen to develop governor training nationally.
- h) Private discussions were had around Babcock 4s work in future sustainability regarding the services it provides and the potential risks in the future.
- i) The Head of Finance reported that any changes for the pension fund would be known by the end of November 2016. She would check what method of valuation was being used. The Chairman informed Babcock 4s that SCC had recently agreed to change to CPL valuation methodology.
- j) The Director of Education described the good working relationships that Babcock 4S had with SCC, governors and multi academy trusts. They are constantly reviewing the company to remain flexible for the future.

Conclusions:

4. The Annual Report and Financial Statements of Babcock 4S have been discussed in detail with representatives from Babcock. The original documents and notes of the meeting between members of Audit & Governance Committee and representatives of Babcock 4S are presented here for the information of the committee and for transparency.
5. The following actions were agreed (with subsequent responses from Babcock 4S):
- Babcock officers to report back on the valuation methodology used for the Pension Fund.
 - The Director of Education to email a copy of the school governors sales pack to the Committee Manager.

Financial and value for money implications

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

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

Review the Annual Report and financial statements of Babcock 4S for the year ended 31 March 2017 when timely.

Report contact: Angela Guest, Regulatory Committee Manager

Contact details: 020 8541 9075
angela.guest@surreycc.gov.uk

Sources/background papers:

- None

Babcock 4S Limited
Annual report
For the year ended 31 March 2016
Company registration number:
04889149

Babcock 4S Limited

8

Directors and advisors

Current directors

D Olney
R Taylor
JW Russell

Company secretary

M Liang

Registered office

33 Wigmore Street
London
W1U 1QX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Oceana House
39-49 Commercial Road
Southampton
SO15 1GA

Strategic report for the year ended 31 March 2016

The directors present their Strategic report on the Company for the year ended 31 March 2016.

Principal activities

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

Review of the business

The company has produced the following financial statements under FRS101. All prior year balances previously reported under the previous version of UK GAAP have been restated under FRS101. The impact of this change in GAAP is explained more fully in note 23.

	2016	2015
	£000	£000
Revenue	18,087	22,111
Profit for the financial year	927	1,461

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

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

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

The company adopted FRS101 in the year. Full details and the impact on the financial statements are outlined in note 23.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks and uncertainties. These are managed through the operational review process supplemented at Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee.

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

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 64 to 74 of the annual report of Babcock International Group PLC, which does not form part of this report.

Strategic report for the year ended 31 March 2016 (continued)

Future developments

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities. The main "SDA" and "SLA" contracts the company holds with the main customer, Surrey County Council, are due for renewal in 2019 and so discussions are commencing to commence negotiation over the revised contract. There are a number of uncertainties relating to the renewal including the political environment and direction.

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

Key performance indicators

The Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Support Services, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 28 to 35 and 46 to 49 of the annual report of Babcock International Group PLC, which does not form part of this report.

On behalf of the board



D Olney

Director

27 September 2016

Directors' report for the year ended 31 March 2016

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2016.

Dividends

There were no dividends paid during the current year and the directors do not recommend a final dividend. (2015: interim dividend paid of £1,578,000).

Future developments

Information on the future developments of the Company can be found in the Strategic report.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments. The department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

Price risk

The Company is exposed to price risk as a result of its operations. This risk is mitigated by specific functions which assess pricing in respect of both selling and procurement activities. The Company has no exposure to equity securities price risks as it holds no listed equity investments.

Credit risk

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

Liquidity risk

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

Interest rate cash flow risk

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

Directors' report for the year ended 31 March 2016 (continued)

Directors

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

KJ Garvey	(resigned 24 August 2016)
D Olney	
KR Thomas	(resigned 2 November 2015)
SE Kemp	(resigned 30 September 2015)
GD Leeming	(resigned 1 July 2016)
R Taylor	(appointed 1 July 2016)
JW Russell	(appointed 1 December 2015)

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

Safety policy

The Company recognises the promotion of health and safety at work as an important objective. It is Company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the Company.

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate.

The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Directors' report for the year ended 31 March 2016 *(continued)*

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of the disclosure exemptions, if any, of FRS 101 used in the preparation of these financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Qualifying third party indemnity provisions

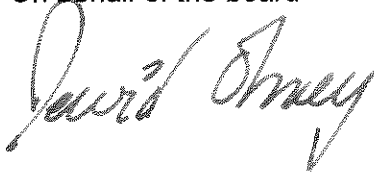
Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

Directors' report for the year ended 31 March 2016 *(continued)*

Disclosure of information to auditors

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

On behalf of the board



D Olney

Director

27 September 2016

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

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report (the "Annual Report") comprise:

- the Balance sheet as at 31 March 2016
- the Income statement and the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework" and applicable law (United Kingdom Generally Accepted Accounting Practice)

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect

Independent auditors' report to the members of Babcock 4S Limited (*continued*)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities on page 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

Independent auditors' report to the members of Babcock 4S Limited *(continued)*

Responsibilities for the financial statements and the audit *(continued)*

What an audit of financial statements involves *(continued)*

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



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

27 September 2016

Income statement*for the year ended 31 March 2016*

	Note	2016 £000	2015 £000
Revenue	4	18,087	22,111
Cost of sales		<u>(13,885)</u>	<u>(16,897)</u>
Gross profit		4,202	5,214
Administration expenses		<u>(2,929)</u>	<u>(3,477)</u>
Operating profit	5	1,273	1,737
Finance income	6	68	80
Finance expense	6	<u>(130)</u>	-
Profit on ordinary activities before income tax		1,211	1,817
Income tax expense	9	<u>(284)</u>	<u>(356)</u>
Profit for the year		927	1,461

All of the above results derive from continuing operations.

Statement of comprehensive Income*for the year ended 31 March 2016*

	Note	2016 £000	2015 £000
Profit for the year		927	1,461
Other comprehensive income: <i>Items that will not be subsequently reclassified to income statement:</i>			
Actuarial losses on pension scheme	21	(1,509)	(5,266)
Tax on net defined benefit obligation	9	206	1,061
Other comprehensive income		<u>(1,303)</u>	<u>(4,205)</u>
Total comprehensive expense for the year		<u>(376)</u>	<u>(2,744)</u>

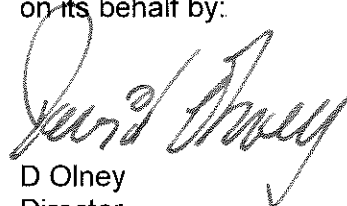
Balance sheet

as at 31 March 2016

	Note	2016 £000	2015 £000
Non-current assets			
Intangible assets	10	68	-
		<u>68</u>	<u>-</u>
Current assets			
Inventories	12	9	42
Trade and other receivables	13	2,608	2,978
Cash and cash equivalents		11,824	11,887
		<u>14,441</u>	<u>14,907</u>
Trade and other payables – amounts falling due within one year	14	(7,623)	(8,066)
Net current assets		<u>6,818</u>	<u>6,841</u>
Total assets less current liabilities		<u>6,886</u>	<u>6,841</u>
Provision for liabilities	15	(1,321)	(1,599)
Post employment benefits	21	(4,813)	(4,114)
Net assets		<u>752</u>	<u>1,128</u>
Equity			
Called up share capital		1	1
Share premium		1,999	1,999
Retained earnings		(1,248)	(872)
Total shareholders' funds		<u>752</u>	<u>1,128</u>

The notes on pages 14 to 37 are an integral part of these financial statements.

The financial statements on pages 11 to 37 were approved by the board of directors and signed on its behalf by:



D Olney
Director

27 September 2016

Statement of changes in equity
for the year ended 31 March 2016

	Note	Called-up share capital £000	Share premium £000	Retained earnings £000	Total £000
Balance at 1 April 2014		1	1,999	3,450	5,450
Profit for the year		-	-	1,461	1,461
Other comprehensive expense		-	-	(4,205)	(4,205)
Dividends paid	18	-	-	(1,578)	(1,578)
Balance at 31 March 2015		1	1,999	(872)	1,128
Profit for the year		-	-	927	927
Other comprehensive expense		-	-	(1,303)	(1,303)
Balance at 31 March 2016		1	1,999	(1,248)	752

Notes to the financial statements**1. General information**

Babcock 4S Limited is a private company limited by shares which is incorporated and domiciled in the UK. The address of the registered office is 33 Wigmore Street, London W1U 1QX.

2. Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has adopted FRS 101 for the first time in these financial statements. Details of the transition to FRS 101 are disclosed in note 23.

Basis of preparation

The financial statements have been prepared in accordance with Companies Act 2006 and Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company has early adopted the following amendments to FRS 101 (effective for periods beginning on or after 1 January 2016) in these financial statements:

- Presentation of IAS format financial statements
- Exemption from the presentation of a third party balance sheet (being the opening balance sheet for the Company at the date of application of FRS 101, meaning in this instance 1 April 2014)

These financial statements are prepared on a going concern basis, under the historical cost convention in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company is subsidiary of Babcock Education Holdings Limited and of its ultimate parent, Babcock International Group PLC.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- b) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
 - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
 - paragraph 73(e) of IAS 16 Property, plant and equipment; and
 - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

Basis of preparation (continued)

- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- f) IAS 7, 'Statement of cash flows'
 - Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors
- g) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- h) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Revenue

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

Rendering of services

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

Long term contracts

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

Sale of goods

Revenue from goods is recognised when the item is delivered to the customer and the risk and reward has transferred.

Notes to the financial statements (continued)**2. Summary of significant accounting policies (continued)****Intangible assets***Computer software*

Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of between three and five years.

Acquired Intangibles

Acquired Intangible assets were recognised on previous acquisitions and have been fully amortised in prior periods.

Other Intangibles

Other intangible assets were recognised on previous licence costs and have been fully amortised in prior periods.

Tangible Fixed Assets

Tangible Fixed Assets are shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of the asset over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Leasehold property	Lease term
Computer Equipment	6.6% to 33.3%
Office Equipment	6.6% to 33.3%

Tangible Fixed Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Inventories

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods, cost comprises direct material costs.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

Notes to the financial statements (continued)**2. Summary of significant accounting policies (continued)****Financial assets (continued)**

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow Group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Notes to the financial statements (continued)**2. Summary of significant accounting policies (continued)****Offsetting**

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, less any bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Taxation**(a) Current income tax**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Pensions costs and other post retirement benefits

The company operates a contributory defined benefit pension scheme and the company is a participating employer. The scheme assets are held separately from those of the company in an independently administered fund. The fund is valued every three years by a professionally qualified independent actuary. The rates of contribution payable are determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates.

Pensions and other post-retirement benefits are accounted for in accordance with IAS19 'Employee Benefits'. The amounts charged to operating profit are the current costs, gains and losses on settlements and curtailments and any increase in the present value of liabilities. They are included as part of staff costs. Past service costs are recognised immediately in the statement of comprehensive income if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected

Notes to the financial statements (continued)**2. Summary of significant accounting policies (continued)****Pensions costs and other post retirement benefits (continued)**

return on assets are shown as a net amount within net interest payable. Actuarial gains and losses are recognised immediately in the statement of changes in equity.

The scheme is funded, with assets held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at market value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each reporting date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

Provisions for liabilities

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

3. Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 21 for the disclosures of the defined benefit pension scheme.

Notes to the financial statements (continued)**Contract Provisions**

The Company has an obligation to pay certain costs should the main customer contract not be renewed in 2019. This has been calculated based upon assumptions including staff attrition and prevailing wage rates. There are a number of uncertainties which mean the actual required payments may result in a difference to the calculated provision. See note 15 for the disclosures of the provision.

Dilapidation Provisions

Dilapidation provisions comprise provisions on leasehold properties and are made when the liability can be reasonably estimated. See note 15 for the disclosures of the provision.

4. Revenue

Revenue is wholly attributable to the principal activities of the Company and arises solely from the sale of services in the United Kingdom.

5. Operating profit

Operating profit is stated after charging:

	2016	2015
	£000	£000
Amortisation of intangible asses	11	-
Impairment of trade receivables	32	7
Restructuring	90	-
Impairment of inventory	33	-
Operating lease charges	633	778
Inventory charged to cost of sales	33	10
Audit fees payable to the Company's auditor	24	44

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. The group accounts are required to comply with the statutory disclosure requirements.

Notes to the financial statements (continued)

6. Finance income and expense

	2016 £000	2015 £000
Finance income:		
Bank interest	68	45
Net interest cost on defined benefit pension liability (note 21)	-	35
	<u>68</u>	<u>80</u>
Finance expenses:		
Net interest cost on defined benefit pension liability (note 21)	<u>(130)</u>	-
	<u>(130)</u>	-

7. Staff costs

The average monthly number of employees (including directors) employed by the Company during the year was as follows:

	2016 Number	2015 Number
By activity:		
Operations	165	178
Management and administration	32	35
	<u>197</u>	<u>213</u>

Their aggregate remuneration comprised:

	2016 £000	2015 £000
Wages and salaries	7,868	8,595
Social security costs	767	868
Other pension costs (note 21)	986	1,006
	<u>9,621</u>	<u>10,469</u>

Included in other pension costs are £650,000 (2015: £648,000) in respect of the LGPS scheme, £61,000 (2015: £67,000) in respect of the Teacher's pension scheme and £217,000 (2015: £267,000) in respect of the defined contribution scheme.

The employment costs above include those of employees providing management services to other group companies. These are recharged to those business entities.

Notes to the financial statements (continued)

8. Directors' remuneration

No directors received remuneration from the company in the current year (2015: Nil).

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

9. Income tax expense on ordinary activities

Tax expense included in income statement

	2016 £000	2015 £000
Current tax:		
UK Corporation tax on profits for the year	39	229
Current tax charge for the year	39	229
Deferred tax:		
Origination and reversal of timing differences	202	153
Adjustment in respect of prior years	18	(26)
Impact of change in UK tax rate	25	-
Total deferred tax charge (note 16)	245	127
Tax on profit on ordinary activities	284	356

Tax expense included in other comprehensive income

Current tax	-	-
Deferred tax:		
- Origination and reversal of temporary differences	302	1,106
- Impact of change in tax rates	(96)	(45)
Tax expense / (income) included in other comprehensive income	206	1,061

No tax expense or income is included in equity.

Tax expense for the year is lower (2015: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2016 of 20% (2015: 21%). The differences are explained below:

Notes to the financial statements (continued)

9. Income tax expense on ordinary activities (continued)

	2016 £000	2015 £000
Profit on ordinary activities before taxation	1,211	1,817
Profit on ordinary activities multiplied by standard UK corporation tax rate of 20% (2015: 21%)	242	381
Effects of:		
(income)/ expenses not deductible for tax purposes	(1)	1
Adjustments in respect of deferred taxation for prior years	18	(26)
Impact of change in UK tax rate	25	-
Total tax charge for the year	284	356

In the 2015 Budget, it was announced that the UK corporation tax will reduce from 20% to 19% from April 2017. It was further announced in the 2016 Budget that it will be further reduced to 18% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 18% as this is the tax rate expected to apply on reversal. A further reduction to the rate of corporation tax was announced after the year end and as it was not substantially enacted at the balance sheet date has not been used to measure deferred tax assets and liabilities within these accounts.

10. Intangible assets

	Other Intangibles £000	Software £000	Acquired Intangibles £000	Total £000
Cost				
At 1 April 2015	298	-	700	998
Additions	-	79	-	79
At 31 March 2016	298	79	700	1,077
Accumulated amortisation and impairment				
At 1 April 2015	298	-	700	998
Amortisation	-	11	-	11
At 31 March 2016	298	11	700	1,009
Net book value				
At 31 March 2016	-	68	-	68
At 31 March 2015	-	-	-	-

Notes to the financial statements (continued)

10. Intangible assets (continued)

Additions include the development of software for a new website providing up to date information on legislation to school governors.

Intangible assets amortisation is recorded in administrative expenses in the income statement.

11. Tangible fixed assets

	Leasehold property	Computer equipment	Office equipment	Total £000
Cost				
At 1 April 2015 and 31 March 2016	866	1,168	526	2,560
Accumulated depreciation				
At 1 April 2015 and 31 March 2016	866	1,168	526	2,560
Net book value				
At 31 March 2016	-	-	-	-
At 31 March 2015	-	-	-	-

12. Inventories

	2016 £000	2015 £000
Finished goods and goods for resale	9	42
	9	42

Notes to the financial statements (continued)

13. Trade and other receivables

	2016 £000	2015 £000
Amounts falling due within one year:		
Trade receivables	540	474
Amounts owed by related parties	263	-
Amounts owed by group undertakings	213	107
Amounts owed by joint venture undertakings	-	866
Deferred tax asset (note 16)	1,086	1,125
Other receivables	107	24
Prepayments and accrued income	399	382
	<u>2,608</u>	<u>2,978</u>

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

All financial assets of the Company are carried at amortised cost.

Trade receivables are stated after provisions for impairment of £32,000 (2015: £7,000).

14. Trade and other payables

	2016 £000	2015 £000
Amounts falling due within one year:		
Trade creditors	716	298
Amounts owed to parent and group undertakings	598	706
Amounts owed to other related parties	1,403	1,403
Taxation and social security	733	674
UK corporation tax payable	1,768	1,728
Other payables	175	192
Accruals and deferred income	2,230	3,065
	<u>7,623</u>	<u>8,066</u>

Amounts owed to parent and group undertakings are unsecured, interest free, and repayable on demand. All financial liabilities of the Company are carried at amortised cost.

Notes to the financial statements (continued)

15. Provisions for liabilities

	Contract Provisions £000	Other provisions £000	Total £000
At 1 April 2015	1,263	336	1,599
Released to the income statement	(166)	(6)	(172)
Utilised in the year	(90)	(16)	(106)
At 31 March 2016	1,007	314	1,321

Contract provisions

Contract provisions relate to committed costs should the contract not be renewed in 2019. These are based on the assessment of future costs and are assessed with reference to past experience. Contract provisions have not been discounted. These provisions are expected to be fully utilised during the year ended 31st March 2019. During the year, £90,000 was used in relation to a single smaller contract.

Other provisions

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

16. Deferred taxation

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

	Accelerated capital allowances	Relating to the pension deficit	Other short term timing differences	Total
Deferred tax assets				
At 1 April 2014	46	(86)	231	191
- Charged / (credited) to the income statement	(7)	(152)	33	(127)
- Charged / (credited) directly to other comprehensive income	-	1,061	-	1,061
At 31 March 2015	39	822	264	1,125
- Charged / (credited) to the income statement	(10)	(162)	(73)	(245)
- Charged / (credited) to other comprehensive income	-	206	-	206
At 31 March 2016	29	866	191	1,086

Notes to the financial statements (continued)

17. Share capital

	2016 £000	2015 £000
Allotted and fully paid		
801 (2015:801) "A" ordinary shares of £1 each	1	1
199 (2015:199) "B" ordinary shares of £1 each	-	-
	1	1

Shares classified as equity

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

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

18. Dividends

There were no dividends paid in 2016 (2015: £1,578,000).

19. Guarantees and financial commitments

a) Contingent liabilities

At the year end date the company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2015: £nil) provided to certain group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2015: £15.0 million). No securities have been provided by the company in relation to these contingent liabilities. There is no current expectation that these contingent liabilities will crystallize.

b) Operating lease commitments

At 31 March 2016, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2016 Land and buildings £000	2016 Other £000	2015 Land and buildings £000	2015 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	567	47	567	77
- between two and five years	1,229	283	1,702	297
	1,796	330	2,269	374

The entity leases one office under a non-cancellable operating lease agreement. The entity also lease various motor vehicles under non-cancellable operating lease agreements.

Notes to the financial statements (continued)

20. Related party disclosures

During the year the company entered into transactions with related parties. These consisted of subsidiaries of Babcock International Group PLC and also with Surrey County Council. All transactions were on an arm's length basis.

Transactions entered into and trading balances outstanding at 31 March 2016 are as follows:

	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Related party				
Babcock Education & Skills (Ovd) Limited				(10)
Babcock Corporate Services Limited		31		(6)
Babcock International Group PLC		126		(60)
Babcock Learning & Development partnership LLP	394	89	8	
Babcock Skills Development & Training Limited	4			
Babcock Land Limited	9			
Babcock Education & Skills Limited		90		
Babcock Civil Infrastructure Limited	317	2	45	
Skills 2 Learn Limited	3	8		
Surrey County Council	11,875	410	263	(1,403)
Babcock Aerospace Limited	1			
Babcock Support Services Limited		6		(5)
Babcock Critical Services Limited	3		4	
Babcock Communications Limited	121			
VT Flagship Limited				
Babcock Training Limited	439	144	130	
VT (UK) Limited		3		(3)
Babcock Education Holdings Limited	95			(514)
Cavendish Nuclear		28		
Babcock Communications			8	
Babcock Pension Trust			18	

Notes to the financial statements (continued)

20. Related party disclosures (continued)

Transactions entered into and trading balances outstanding at 31 March 2015 are as follows:

Related party	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Babcock Education & Skills (training) Limited	834	51	55	
Babcock Corporate Services Limited		141		(15)
Babcock International Group PLC	1	138		(95)
Babcock Learning & Development partnership LLP	378	15	33	
Babcock Skills Development & Training Limited	5		2	
Babcock Land Limited	15		5	
Babcock Education & Skills Limited	51	16		(65)
Babcock Civil Infrastructure Limited	55		4	
Skills 2 Learn Limited				(8)
Babcock Defence Infrastructure Limited				(2)
Babcock Aerospace Limited			1	
Babcock Support Services Limited	115			
Babcock Critical Services Limited	3		3	
Babcock Communications Limited	3		4	
VT Flagship Limited	3			
Babcock Training Limited	136	184		(48)
VT (UK) Limited		30		(7)
Babcock Education Holdings Limited				(466)
Surrey County Council	13,877	313	866	(1,403)
Babcock Careers Guidance Limited (8			

All dealings with related parties noted above arise in the normal course of business and are subject to normal terms and conditions.

Notes to the financial statements (continued)**21. Pension commitments**

The company accounts for post-employment costs in accordance with IAS 19 and participates in a number of pension schemes as follows:

Multi-employer schemesTeachers' Pension Scheme

The company participates in Teachers Pension Scheme "TPS" which is a national teachers' pension scheme providing benefits based on final pensionable pay. The company's only obligation is to pay the contributions as they fall due and if the company ceases to employ members of the scheme, it will have no obligation to pay any further contributions to cover any shortfall against the cost of the benefits earned by its own employees in previous years. Therefore the scheme is accounted for as a defined contribution scheme for the purpose of IAS 19.

The latest actuarial valuation of the TPS was as at 31 March 2012 and identified that the scheme had a shortfall of £15 billion. The employer contribution rate was reassessed and it was recommended that the rate of contribution was increased from 14.1% to 16.4%.

The total cost of pension contributions for employees of the company during the year was £64,000 (2015: £67,000) and there was a creditor of £9,000 (2015: £9,000) in the balance sheet. The company expects to pay contributions of a similar level in the next financial year.

Defined contribution schemesBabcock Defined Contribution scheme (formerly Shipbuilding Industries Pension Scheme)

The Company participates in a defined benefit contribution scheme. Obligations for contributions to the defined benefit pension plan are recognised as an expense in the income statement. The pension cost charge for the year includes contributions made by the company to that fund amounting to £217,000 (2015: £267,000) and there was a creditor of £nil (2015: £nil) in the balance sheet.

Group wide pension schemes

The company, as at 1 April 2008, became a member of two pension schemes providing benefits based on final pensionable pay. These schemes were subsequently merged into the main Babcock International Group Defined Benefit Scheme. The latest full actuarial valuation for the BIG scheme was carried out as at 1 April 2013 by a qualified independent actuary. This valuation showed a funding shortfall of £125million relative to technical provisions and £733million relative to solvency liabilities. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company. The pension charge for the year was Nil (2015: £19,000) and there was a creditor of Nil (2015: Nil) in the balance sheet.

Notes to the financial statements (continued)**21. Pension commitments (continued)****Defined Benefit Schemes**Local Government Pension Scheme – Surrey Pension Fund

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

The last formal valuation which is publically available was carried out at 31 March 2013 and was updated for accounting purposes to 2016 by a qualified independent actuary, using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The market value of the entire LGPS scheme’s assets (not just the Surrey Pension Fund section) was £3.20 billion and the actuarial value of those assets represented 72% of the liability for benefits after allowing for expected future increases in earnings.

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

The risks of the scheme are as follows:

(a) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. The first stage of this process was completed in 2014 with the sale of a number of equity holdings and purchase of a mixture of government and corporate bonds. The government bonds represent investments in UK government securities only. The corporate bonds are securities with an emphasis on the UK.

(b) Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans’ bond holdings.

(c) Life expectancy

The majority of the plan’s obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan’s liabilities.

(d) Inflation risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan’s assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Notes to the financial statements (continued)**21. Pension commitments (continued)**

For the LGPS, the IAS 19 valuation has been updated at 31 March 2016 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 1 April 2013. The major assumptions used for the IAS 19 valuation were:

Major assumptions	31 March 2016 %	31 March 2015 %
Rate of increase in salaries	2.40	2.20
Rate of increase in pension payment	2.23	2.06
Discount rate	3.70	3.60
Inflation	2.10	1.90

The mortality assumptions used were set based upon actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at 65:

	31 March 2016 Years	31 March 2015 Years
Life expectancy from age 65 (male age 65)	22.7	22.5
Life expectancy from age 65 (male age 45)	25.0	24.5

Notes to the financial statements (continued)

21. Pension commitments (continued)

The changes to the Company balance sheet at March 2016 and the changes to the Company income statement for the year to March 2017, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2016 £000	Income statement projection 2017 £000
Initial assumptions	44,488	869
Discount rate assumptions increased by 0.5%	40,405	659
Discount rate assumptions decreased by 0.5%	48,572	1,038
Inflation rate assumptions increased by 0.5%	47,841	1,037
Inflation rate assumptions decreased by 0.5%	41,257	707
Total life expectancy increased by half a year	45,041	897
Total life expectancy decreased by half a year	43,936	841
Salary increase assumptions increased by 0.5%	45,383	926
Salary increase assumptions decreased by 0.5%	43,603	813

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

Notes to the financial statements (continued)

21. Pension commitments (continued)

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2016 were:

Analysis of assets and expected returns per annum:	31 March 2016 £'000	31 March 2015 £'000
Equities	29,329	29,891
Property	2,660	2,334
Bonds	6,360	6,367
Cash and other	1,518	615
Total assets	39,867	39,207
Present market value of liabilities - funded	(44,488)	(43,172)
Present market value of liabilities unfunded	(192)	(149)
Gross Pension liability	(4,813)	(4,114)

Investments have been valued for this purpose at fair value at the balance sheet date. Equity investments and bonds are valued at bid price.

Actual return on assets	2016 £000	2015 £000
Expected return on pension scheme assets	1,340	1,601
Actuarial (loss) / gain on assets	(1,599)	1,585
	(259)	3,186

Analysis of amount charged to the income statement	2016 £000	2015 £000
Current service cost	705	653
Total included within operating profit	705	653
Net interest cost	(130)	35
Total charged to the income statement	575	618

Notes to the financial statements (continued)

21. Pension commitments (continued)

Analysis of amount included in statement of comprehensive income	2016 £000	2015 £000
Actuarial gain / (loss) recognised on liabilities	133	(6,838)
Actuarial gain / (loss) recognised on assets	(1,599)	1,585
Actuarial (loss) recognised on unfunded arrangements	(43)	(13)
	<u>(1,509)</u>	<u>(5,266)</u>

Reconciliation of present value of scheme liabilities	31 March 2016 £000	31 March 2015 £000
At 1 April	43,172	34,760
Current service cost	705	653
Interest cost	1,470	1,566
Employee contributions	223	223
Benefits paid	(949)	(868)
Actuarial loss / (gain)	(133)	6,838
At 31 March	<u>44,488</u>	<u>43,172</u>

Reconciliation of present value of scheme assets	31 March 2016 £000	31 March 2015 £000
At 1 April	39,207	35,327
Expected return on scheme assets	1,340	1,601
Actuarial gain / (loss)	(1,599)	1,585
Benefits paid	(949)	(868)
Contributions paid by employer	1,645	1,339
Employee contributions	223	223
At 31 March	<u>39,867</u>	<u>39,207</u>

Notes to the financial statements (continued)

22. Ultimate parent undertaking

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

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

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

23. Transition to FRS 101

This is the first year that the Company has presented its results under FRS 101. The last financial statements were prepared under the previous version of UK GAAP and were for the year ended 31 March 2015. The date of transition to FRS 101 was 1 April 2014. Set out below are the changes in accounting policies which reconcile profit and other comprehensive income for the financial year ended 31 March 2015 between UK GAAP as previously reported and FRS 101. There was no impact upon the total equity as at 1 April 2014 and 31 March 2015 and therefore no reconciliation has been provided.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1, 'First time adoption of International Financial Reporting Standards'.

Profit for the financial year ended 31 March 2015		2015
		£000
UK GAAP - Profit as previously reported		2,310
Defined benefit pension scheme interest	A	<u>(1,131)</u>
Total adjustment to profit before tax for the financial year		(1,131)
Deferred tax impact of adjustments:		
- Defined benefit pension scheme interest		<u>282</u>
Total adjustment to tax expense		282
Total adjustment to profit for the financial year		849
Profit under FRS 101		<u>1,461</u>

Notes to the financial statements (continued)

23. Transition to FRS 101 (continued)

Other comprehensive income		2015
		£000
UK GAAP – As previously reported		5,054
Defined benefit pension scheme	A	(1,131)
Deferred tax impact of adjustments		
- Defined benefit pension scheme		282
Other comprehensive income under FRS 101		4,205

A *Defined Benefit Pension schemes*

The Company is a member of a group defined benefit pension plan, LGPS, that shares risks between entities under common control. Under FRS17, the expected return on assets assumption was set on the basis of returns in the market and for the purposes of the 31 March 2015 financial statements, an assumption of 8.4% was adopted. Under IAS19 as adopted on transition to FRS 101, the assumption is capped at the discount rate and accordingly the expected return on assets was re-measured at 3.7%. The impact on the result for 2015 is an increase in the interest cost of £1,131,000 and a reduction in the deferred tax charge of £282,000. As an actuarial assumption, this also reduces the other comprehensive income by equal and opposite amounts. There is no impact upon the reserves or equity at 1 April 2014.

B *Other considerations arising on transition to FRS 101*

The company had no (2015: 2) contributing members to a group wide pension scheme, Babcock Pension Scheme which has historically been accounted for as defined contribution scheme. On adoption of FRS 101, the group have performed an allocation exercise to split this defined benefit scheme amongst subsidiary undertakings. On the basis that there are no active members at 31 March 2016, no share has been accounted for in these financial statements. Although a small share was attributable to the company in the comparative period, it has not been adjusted on the grounds of materiality.



Audit & Governance Committee
5 December 2016

Grant Thornton: Audit & Governance Committee Update

Purpose of the report:

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

Recommendations:

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

Committee Update:

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

Conclusions:

Financial and value for money implications

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

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

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

Report contact: Nikki O'Connor, Finance Manager (Assets & Accounting)

Contact Details: Nicola.oconnor@surreycc.gov.uk 020 8541 9263

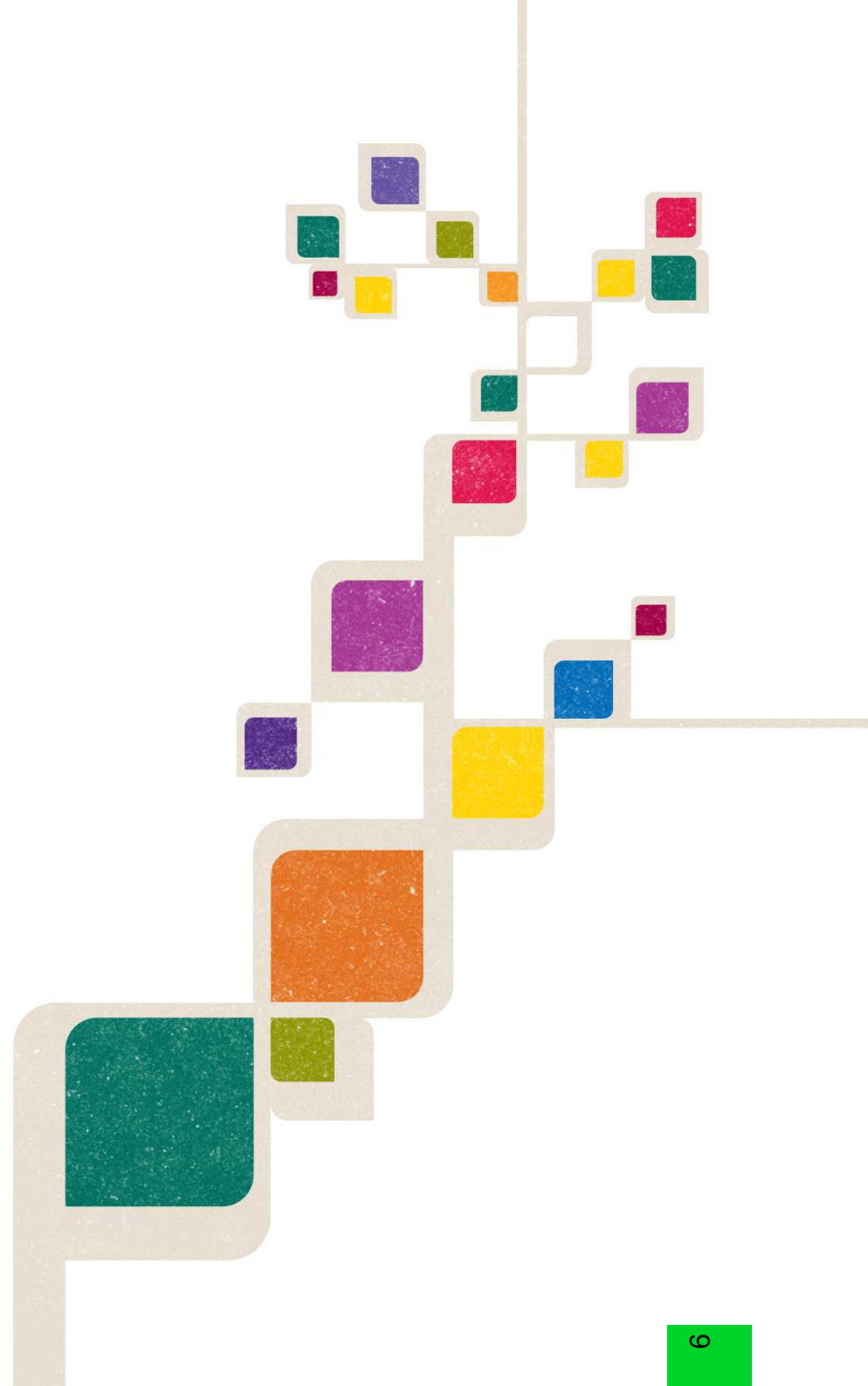
Audit and Governance Committee
Surrey County Council
Progress Report and Update
Year ended 31 March 2017

December 2016

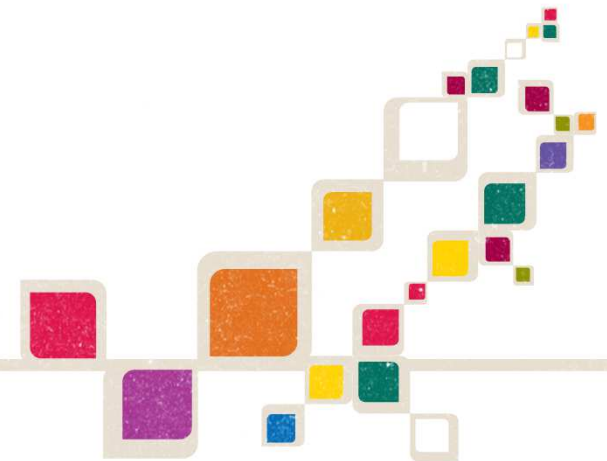
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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



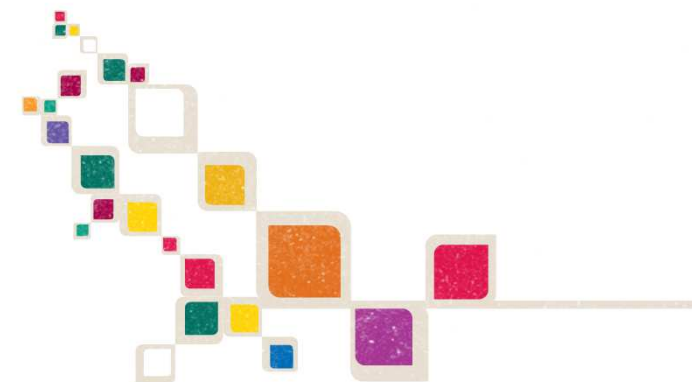
Introduction

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

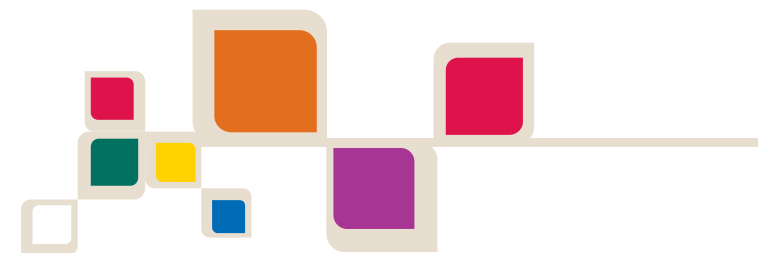
Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Advancing closure: the benefits to local authorities (July 2016) www.grantthornton.co.uk/insights/advancing-closure-the-benefits-to-local-authorities/
- Building a successful joint venture company (April 2016) www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/
- Innovation in public financial management (December 2015); www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015) www.grantthornton.co.uk/en/insights/making-devolution-work/

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

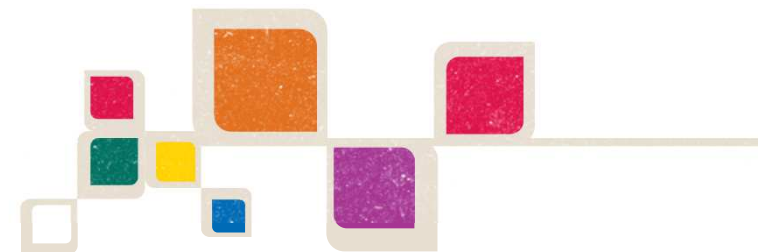


Progress at November 2016



2015/16 work			
	Planned Date	Complete?	Comments
<p>Annual Audit Letter We are required to issue the Annual Audit Letter by the 30 November</p>	30/11/2016	Yes	The Letter summarises the key findings arising from the work that we have carried out at the Council for the year ended 31 March 2016. This was presented to the 26 September 2016 Audit and Governance Committee.
<p>Grant Claims Audit We are required to certify your Teachers Pension Claims by 30 November. We are not auditing any other grant claims.</p>	30/11/2016	In progress	At the time of writing, our work is substantially complete. We plan to certify the claim following the conclusion of our procedures by 30 November 2016.
2016/17 work			
	Planned Date	Complete?	Comments
<p>Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>		Yes	This has been issued
<p>Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.</p>	February 2017	Not yet due	We will discuss a draft Audit Plan with the Council and present it to the Audit and Governance Committee. The Plan is based on our regular liaison meetings with the finance team and our findings from the initial planning and risk assessment audit visit.
<p>Interim accounts audit Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	December 2016 February 2017	Not yet due	We have planned regular audit visits throughout the financial year to ensure that we carry out as much early testing as possible before the accounts audit visit in June 2017. We are carrying out early testing of Highways Network Assets. Please see further information on page 8.

Progress at November 2016



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2016/17 work	Planned Date	Complete?	Comments
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	June-July 2017	Not yet due	The Council's ambitious early closedown timetable will be delivered again in 2016/17
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	March–July 2017	Not yet due	<p>We will set out the results of our risk assessment and the proposed focus of our work in the Audit Plan.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.</p> <p>We will include our conclusion as part of our report on your financial statements.</p>

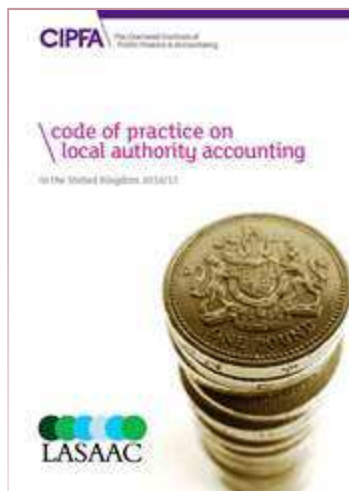
Technical Matters



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

This is the seventh edition of the Code to be prepared under International Financial Reporting Standards (IFRS), which have been adopted as the basis for public sector accounting in the UK. The 2016/17 Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2016.

Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).



The Code includes changes resulting from the 'Telling the Story' review on improving the presentation of local authority financial statements. These include new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis.

Amendments arising from the narrow scope amendments to International Financial Reporting Standards including changes from the following amended standards:

IAS 1 Presentation of Financial Statements under the International Accounting Standards Board Disclosure Initiative

IAS 24 Related Party Disclosures in relation to key management personnel as a result of the Annual Improvements to IFRSs 2010 – 2012

IFRS 11 Joint Arrangements Accounting for Acquisitions of interest in Joint Operations

IFRS 8 Operating Segments as a result of the Annual Improvements to IFRSs 2010 – 2012.

An update to the Statements Reporting Reviews of Internal Controls Section of the Code for the changes to the Delivering Good Governance in Local Government: Framework (2016) published by CIPFA and SOLACE.

Highways network asset accounting deferred

One of the main changes in the CIPFA Code of Practice on Local Authority Accounting for 2016/17 was the new requirement for authorities to measure Highways Network Assets (HNA) at Depreciated Replacement Cost as opposed to Historical Cost with authorities also being expected to adhere to the recently issued Highways Network Code from CIPFA. This change in is expected to result in a vast increase in the Council's asset valuation on its Balance sheet.

Furthermore, the new accounting requirements for HNA will impact on a number of other areas in the financial statements, including the creation of a new asset and revaluation reserve and the inclusion of a number of new disclosures as required by the HNA Code.

In preparation for this the Council was selected to be part of a pilot audit because of the good level of preparedness it had shown to date in implementing its project plan for HNA accounting. The purpose of the pilot audit was to perform an early review in order to determine the completeness and accuracy of HNA data held by the Council – a key requirement of the CIPFA Code, to understand the processes and controls the Council has in place to produce a reasonable estimate of HNA balances within the 2016/17 financial statements and to identify areas for the Council's attention ahead of the financial statements preparation.

The pilot began in October 2016 with the help of Finance and members of the Highways Information team based in Guildford.

Through our pilot work we were able to confirm that the Council were up-to-date in terms of its implementation of its HNA accounting project plan and had a number of sound processes in place as it moved towards obtaining a complete listing of its HNA inventory data.

On 14 November CIPFA/LASAAC announced a deferral of the move to measuring the Highways Network Asset at depreciated replacement cost in local authority financial statements for 2016/17. This is due to delays in obtaining updated central rates for gross replacement cost ('GRC') valuations.

CIPFA/LASAAC will issue an Update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom to confirm this decision once it has completed the full due process. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18 and will consider whether central GRC rates and the central assurance processes will be delivered in a timely manner to allow successful implementation. It expects that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

Whilst formal implementation has been delayed, authorities will still need to ensure that physical inventory and condition data is as complete and accurate as possible for the expected implementation in 2017/18 in advance of the expected opening balance date of 1 April 2017.

Sector issues and developments



National Audit Office:

Below is a selection of reports issued during 2016 which may be of interest to Audit and Governance Committee members. Please see the website for all reports issued by the NAO.



Local welfare provision

Overall spending on discretionary local welfare support by central and local government has reduced since April 2013. The consequences of this gap in provision are not understood.

Published:
12 Jan 2016

Sector(s): [Community and society](#), [Local services](#)

Performance Improvement area(s): [Financial and service sustainability](#), [Local service delivery](#)

<https://www.nao.org.uk/report/local-welfare-provision/>



English devolution deals

Devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended

Published:
20 Apr 2016

Sector(s): [Central Finance and Treasury](#), [Community and society](#)

Performance Improvement area(s): [Economic growth](#), [Local service delivery](#)

<https://www.nao.org.uk/report/english-devolution-deals/>



Financial sustainability of local authorities: capital expenditure and resourcing

Local authorities have kept up levels of capital spending but face pressure to meet debt costs and maintain investment in existing assets.

Published:
15 Jun 2016

Sector(s): [Community and society](#), [Local services](#)

Performance Improvement area(s): [Financial and service sustainability](#), [Local service delivery](#)

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

National Audit Office reports (continued)



Overview: Local government

This Overview looks at the local government landscape during the last financial year and summarises both matters of likely interest to Parliament as well as our work with local authorities. The NAO prepares statutory guidance on how local auditors should meet their responsibilities.

Sector(s): [Local services](#)

Performance Improvement area(s): [Departmental Overviews](#), [Local service delivery](#)

Published:

9 Nov 2016

<https://www.nao.org.uk/report/overview-local-government/>



The Troubled Families programme: update

This report is a factual update to support the Committee of Public Accounts' evidence session on the government's Troubled Families programme on 19 October 2016. It is based primarily on published sources, information supplied by the Department for Communities and Local Government and previous reports published by the National Audit Office.

Sector(s): [Community and society](#), [Local services](#)

Published:

18 Oct 2016

<https://www.nao.org.uk/report/the-troubled-families-programme-update/>

Grant Thornton



Integrated Reporting

Looking beyond the report

The move away from reporting based on historic financial information is beginning to gain momentum and Integrated Reporting is now mandatory in some countries.

In the UK, CIPFA proposed in their consultation document that the narrative report from 2017/18 reflects elements of the International Integrated Reporting Council's framework whilst the Treasury is encouraging public sector organisations to adopt Integrated Reporting.

Integrated reporting: Looking beyond the report was produced by our global Integrated Reporting team, based in the UK, New Zealand and South Africa, to help organisations obtain the benefits of Integrated Reporting.

The International Integrated Reporting Council (IIRC) describes Integrated Reporting as "*enhancing the way organisations think, plan and report the story of their business.*"

At Grant Thornton, we fully agree with this and, in our view, the key word is 'enhancing' because a lot of the elements to support effective Integrated Reporting are likely to be in place already.

But anyone focussing purely on the production of the report itself will not reap the full benefits that effective Integrated Reporting can offer.

Instead, think of Integrated Reporting as demonstrating "integrated thinking" across your entire organisation, with the actual report being an essential element of it.

Our methodology is based on six modules which are designed to be independent of each other.

1. **Secure support** – effective Integrated Reporting needs leadership from the top.
2. **Identify stakeholders** – who are they and how can you engage with them?
3. **Identify the capitals for your organisation** – what resources do you use to create value?
4. **What do you have – and what do you need?** – do you have the data you need and is it accurate?
5. **Set limits and create boundaries** – make sure your report is focussed.
6. **Review and improve** – Integrated Reporting is a continuous learning process.

Our approach to Integrated Reporting is deliberately simple; experience has shown us that this works best. Things are often only complicated because people made them that way.

Our experienced, independent teams can help you keep focused throughout the entire Integrated Reporting process and can support you, no matter what stage you are at. Please speak to your Engagement Lead if you would like to discuss this further.

Grant Thornton publications

Challenge question:

- Have you thought about how the principles of Integrated Reporting can help your organisation become more focussed?

 Grant Thornton
An outlet for growth

Integrated reporting
Looking beyond the report
November 2016



Integrated Thinking and Reporting

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders*.

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

CIPFA Publications

Challenge question:

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?



Brexit

Planning can help organisations reduce the impact of Brexit

Several months have passed since the referendum to leave the European Union (EU), during which there has been a flurry of political activity, including the party conference season.

After many years of relative stability, organisations will need to prepare themselves for a period of uncertainty and volatility and will need to keep their risk registers under constant review. The outcome of the US Presidential election in November 2016 has added to this uncertainty.

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

Existing EU legislation will remain in force

We expect that the Government will introduce a “Repeal Act” (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

Grant Thornton update

Challenge questions:

- Have you assessed the potential impact of Brexit on your organisation?
- Does your risk register include Brexit and is this regularly updated and reported?

Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

Potential existing examples for the UK's future relationship, such as the 'Norwegian' or 'Swiss' models, seem out of the question. The UK wants a 'bespoke deal'.

Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

Brexit

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

After a relatively stable summer, we expect there will be increased volatility as uncertainty grows approaching the formal negotiation period.

Planning can help organisations reduce the impact of Brexit

The chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

Staffing – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

Financial viability – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

Market volatility – for example pension fund and charitable funds investments and future treasury management considerations.

International collaboration – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

Grant Thornton update

Challenge questions:

- Have you assessed the potential impact of Brexit on your organisation?
- Does your risk register include Brexit and is this regularly updated and reported?

For regular updates on Brexit, please see our website:

<http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate/>



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Audit & Governance Committee
5 December 2016

2015/16 Audit Findings Report for S. E. Business Services Ltd & Halsey Garton Ltd

Purpose of the report:

This report provides the Audit & Governance Committee with the outcome and findings of the external audit of the 2015/16 financial statements of S. E. Business Services Ltd and Halsey Garton Ltd.

Recommendations:

That the Committee consider the contents of the 2015/16 Audit Findings Report for S. E. Business Services Ltd & Halsey Garton Ltd.

Introduction:

1. The Council has 3 wholly owned Local Authority Trading Companies:
 - S E Business Services Ltd
 - Surrey Choices Ltd
 - Halsey Garton Ltd
2. This report provides the outcome and findings of the external audit of the 2015/16 financial statements of both S. E. Business Services Ltd and Halsey Garton Ltd. The findings from the audit of the Surrey Choices Ltd financial statements are due to be considered by this Committee in February 2017.

Audit Findings:

3. The Directors of the companies approved the 2015/16 financial statements as presenting a true and fair view of the company's financial position as at the 31 March 2016 and its profit for the year then ended.

- 10
4. The two attached Audit Findings Reports summarise the findings of the 2015/16 audit. The reports set out a summary of the work carried out during the audit of the financial statements and the conclusions reached.
 5. At the beginning of the audit an Audit Plan was shared with the company directors, which identified areas of significant risk and other risks of material misstatement. The Audit Findings Report summarises the work completed in relation to these areas.
 6. An unmodified opinion on the financial statements is due to be issued in relation to both companies and the audited financial statements and directors report will be submitted to Companies House ahead of the 31st December deadline.

Conclusions:

7. The Audit Findings Report is now presented to this Committee for information.

Financial and value for money implications

8. There are no direct 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.

Report contact: Nikki O'Connor, Finance Manager (Assets & Accounting)

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The Audit Findings for S. E. Business Services Ltd

Year ended 31 March 2016

8 September 2016

Page 103

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8 September 2016

Dear Sirs

Page 10

Audit Findings for S. E. Business Services Ltd for the year ended 31 March 2016

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK and Ireland) 260. Its contents have been discussed with Management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours faithfully

Richard Hagley

Chartered Accountants

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Status of the audit and audit opinion

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

Our anticipated audit report opinion will be unmodified

Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Changes to Audit Plan

- We have not had to alter or change our Audit Plan as previously communicated to you in May 2016.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>We have undertaken the following:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies for compliance with applicable standards Review of the recognition of revenues from the significant contracts 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following:</p> <ul style="list-style-type: none"> Testing of journal entries Review of accounting estimates, judgements and decisions made by management review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls.</p>
3	<p>FRS 102 compliance</p> <p>For periods commencing on or after 1 January 2015, new accounting standards come into effect for entities previously reporting under UK GAAP.</p> <p>Management are required to assess the impact of the changes under FRS 102, to select appropriate accounting policies and make required adjustments in the preparation of the financial statements.</p>	<p>We have undertaken the following:</p> <ul style="list-style-type: none"> A review of management's impact assessment to ensure all changes have been identified and that management have selected appropriate accounting policies. A review of the financial statements to ensure these changes have been correctly accounted for in accordance with those policies. A review of the presentation and disclosures in the financial statements to ensure compliance with the new standards. 	<p>There were some minor updates agreed to the initial draft of the accounts we received, however these impacted on the notes only.</p> <p>No other issues noted with respect to application of the new FRS 102 framework.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Changes to Audit Plan

- We have not had to alter or change our Audit Plan as previously communicated to you in May 2016.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1	Revenues Contract accounting is not consistent with terms.	We have undertaken the following: <ul style="list-style-type: none"> Walkthrough of arrangements for accounting for contract arrangements Agreement of significant income to contracts Review of significant contract arrangements to ensure they are accounted for correctly at year end Review and testing of other income where significant to ensure in line with terms 	Our audit work has not identified any issues in respect of the consistency of revenue treatment from the terms of contracts.
2	Operating expenses Expenditure and the corresponding creditors are understated or not recorded in correct period.	We have undertaken the following: <ul style="list-style-type: none"> Walkthrough of the operating expenses system Sample testing of in-year expenditure Completeness testing of expenditure and payables 	Our audit work has not identified any issues in respect of the treatment of operating expenditure and creditors. Through our review of transactions it was identified that the group tax relief had been recorded in the incorrect period. Note that the treatment of this in the draft accounts was pending confirmation from HMRC and the adjustment made reflects the outcome of this rather than being an error in the accounts.
3	Employee remuneration Employee remuneration and benefit obligations and expenses are understated.	We have undertaken the following: <ul style="list-style-type: none"> Walkthrough of payroll arrangements Review of work performed over the payroll by the Surrey County Council audit team Tested the payroll records for completeness Tested payroll transactions to supporting records Reviewed the reconciliation of payroll records to general ledger 	Our audit work has not identified any issues in respect of the completeness of employee remuneration expenditure and obligations.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

We determined overall materiality based on revenue. We have considered whether this level remained appropriate during the course of the audit and no items were raised which required us to adjust our levels of risk.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	As all transactions made by the entity affect the balance, it is therefore considered to be material by nature.	This will be set at an amount determined as trivial for overall audit materiality purposes.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1k

Other communication requirements

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> The Board considers the risk of fraud. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which are required to be disclosed but which have not been.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> The principal laws and regulations with which the entity complies include the Companies Act 2006, various tax legislations and FRS 102. We are not aware of any significant incidences of non-compliance.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Board of directors. We are expecting to receive the signed version of this after the September Board meeting.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to counterparties for bank balances. This permission was granted and the requests were sent. Positive confirmations were received for all balances
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. There were some minor disclosure updates suggested with regards to: <ul style="list-style-type: none"> The treatment of the group tax relief in the tax notes and the Statement of Changes in Equity New disclosures required under FRS 102 <p>Adjustments have been agreed with management and the accounts have been updated accordingly.</p>

Other matters discussed with management

	Matter	Commentary
1.	Group tax relief	<p>The following matters in respect of group tax relief were discussed with management:</p> <ul style="list-style-type: none">• S.E. Business Services Ltd obtained advice and applied for group tax relief for the 2014/15 financial year and will be looking to do the same for the 2015/16 financial year. HMRC have accepted the returns provided to them by the company, however, there is a period of 4 years from the date of the end of the period in which HMRC is able to challenge the treatment applied. Management discussed the use of a non-distributable reserve for the period in which the tax treatment is open to challenge. We are satisfied with the adoption of this approach. We discussed the impact on disclosures for FRS 102 and management have updated the accounts accordingly. <p>Our work has not identified any further significant issues in relation to application of the group tax relief.</p>

Adjustments and disclosure changes

The table below provides details of changes identified during the audit which have been made in the final set of financial statements. We are required to report all non-trivial adjustments to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management. There were no unadjusted misstatements identified.

	Adjustment type	Value £'000	Account balance(s)	Impact on the financial statements
1(a)	Numerical adjustment to financial statements	55	Debtors Tax	Our review of the transactions considered the group tax relief relating to the tax return submitted in January 2016, which should have been recorded as a debtor within the 2015/16 financial statements. Note that the treatment of the group tax relief in the draft accounts was pending confirmation from HMRC and the adjustment made reflects the outcome of this rather than being an error in the accounts.
1(b)	Disclosure	146	Non-distributable reserve	Review of the treatment of the group tax relief and the subsequent non-distributable reserve within the statement of changes in equity and the tax reconciliation note identified a change to be made in the revised draft of the financial statements. Note that this treatment in the draft accounts was pending confirmation from HMRC and the adjustment made reflects the outcome of this rather than being an error in the accounts.

Non-audit fees and independence

	Fees	Threat (Yes / No)	Safeguard
Audit	16,500*	No	
Non-audit services			
- Tax compliance services	1,425	Yes	A separate team undertakes the preparation of the tax submission

- The above non-audit services are consistent with the company's policy on the allotment of non-audit work to your auditor

*includes one-off FRS 102 compliance review fee of £1,500 as per Audit Plan

Independence and ethics:

- Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:
 - We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements
 - We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards

Communication of audit matters with those charged with governance

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

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

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

Distribution of this Audit Findings report

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

Respective responsibilities

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

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



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The Audit Findings for Halsey Garton Property Limited and its subsidiaries

Year ended 31 March 2016

September 2016

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September 2016

Dear Sirs

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Audit Findings for Halsey Garton Property Limited and its subsidiaries for the year ended 31 March 2016

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK and Ireland) 260. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours faithfully

Richard Hagley, Engagement lead

Chartered Accountants
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Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.



(Green)

- Review of signed management letter of representation
- Confirmation with management of no subsequent events, up to the date of signing our opinion

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Status

- (Red) Likely to result in material adjustment or significant change to disclosures within the financial statements
- (Amber) Potential to result in material adjustment or significant change to disclosures within the financial statements
- (Green) Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our anticipated audit report opinion will be unmodified

Overview of audit findings

Account	Material misstatement risk?	Description of risk	Changes to Audit Plan?	Sufficiency of controls?	Significant audit findings?
Trade debtors	Remote	-	No	●	None
Cash	Remote	-	No	●	None
Trade creditors	Reasonably Possible	Creditors understated or not recorded in correct period	No	●	None
Borrowings	Remote	-	No	●	None
Equity	-	-	-	●	-
Reserves	Remote	Activity not valid	No	●	None

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

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Changes to Audit Plan

- We have not had to alter or change our Audit Plan as previously communicated to you in July 2016.

Controls

- (Red) Significant deficiency
- (Amber) Deficiency
- (Green) No findings
- (Grey) Controls not evaluated under Audit Plan

Significant findings

	Risks identified in our Audit Plan	Commentary	Communicated in Audit Plan?
1.	<p>Improper revenue recognition</p> <ul style="list-style-type: none"> Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue 	<p>Procedures performed:</p> <ul style="list-style-type: none"> review and testing of revenue recognition policies performance of 100% testing on revenue streams review of unusual significant transactions <p>Our testing has not identified any issues in relation to the risk for us to communicate to you.</p>	Yes
2.	<p>Management override of controls</p> <ul style="list-style-type: none"> Under ISA (UK and Ireland) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities 	<p>Procedures performed:</p> <ul style="list-style-type: none"> review of accounting estimates, judgements and decisions made by management testing of all manual accounting entries review of unusual significant transactions <p>Our testing has not identified any issues in relation to the risk for us to communicate to you.</p>	Yes
3	<p>Implementation of new FRS 102 accounting framework</p> <ul style="list-style-type: none"> For periods commencing on or after 1 January 2015, new accounting standards come into effect for entities previously reporting under UK GAAP. Management are required to assess the impact of the changes under FRS 102, to select appropriate accounting policies and make required adjustments in the preparation of the financial statements. 	<p>Procedures performed:</p> <ul style="list-style-type: none"> through discussion with management, ensure that all relevant changes have been identified and that appropriate accounting policies have been selected review of the financial statements to ensure that all changes have been incorporated correctly in accordance with these policies review of the presentation and disclosure in the financial statements to ensure compliance with the new standards <p>Our testing has not identified any issues in relation to the risk for us to communicate to you.</p>	Yes

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Other communication requirements

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the company and have not been made aware of any such issues. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance.
4.	Written representations	<ul style="list-style-type: none"> Representations will be requested from management in respect of the deferred tax asset arising from the loss on property revaluation that is included in the financial statements.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation request to the company's bank and financial institutions with whom the investment subsidiary company has a short-term deposit. This permission was granted and the requests were sent. A positive confirmation was subsequently received in both cases.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.

Misstatements and disclosures

There are no unadjusted or adjusted misstatements to the financial statements that we are required to communicate to you.

Management have agreed to update the post balance sheet events note in the financial statements of each of the group, parent company and subsidiary undertaking to reflect:

- property purchases completed since the balance sheet date; and
- the impact of the Brexit vote

Non-audit fees and independence

	Fees (£)	Threat Y/N	Safeguard
Audit	9,000	N	
Tax compliance services (corporation tax return – iXBRL tagging)	1,100*	Y	Separate engagement team
Total fees			

*To be confirmed

- The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

Independence and ethics:

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

Communication of audit matters with those charged with governance

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

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

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

Distribution of this Audit Findings report

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

Respective responsibilities

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

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



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AUDIT & GOVERNANCE COMMITTEE

5 December 2016

TREASURY MANAGEMENT HALF YEAR REPORT 2016/17

SUMMARY AND PURPOSE:

This report summarises the council's treasury management activity during the first half of 2016/17, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covers the council's Prudential and Performance Indicators for the first half of 2016/17, in accordance with the requirements of the CIPFA Prudential Code.

RECOMMENDATIONS:

It is recommended that the Committee note the content of the Treasury Management Half Year Report for 2016/17.

BACKGROUND:

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

TREASURY MANAGEMENT HALF YEAR REPORT 2016/17:

Key Prudential Indicators and Compliance Issues

2. Under CIPFA's Prudential Code, the council is required to report on its outturn Prudential Indicators after the year end. Annex 1 Table 11 provides a schedule of all of the council's mandatory Prudential Indicators relating to treasury management. Key indicators that provide either an overview or a limit on treasury activity are summarised in the following paragraphs.
3. The Capital Financing Requirement (CFR) shows the council's underlying need to borrow for capital purposes. To ensure that, over the medium term, borrowing net of investments will only be for a capital purpose, net borrowing should not, except in the

short-term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. The council has complied with this requirement as shown in Table 1:

Table 1: Borrowing Position against CFR

	£m
Total Borrowing at 30 September 2016	397
Investments at 30 September 2016	45
Net borrowing position at 30 September 2016	352
CFR 2016/17	916
CFR 2017/18	950

4. The Authorised Limit is the council's "affordable borrowing limit" required by section 3(1) of the Local Government Act 2003. This represents the limit beyond which borrowing/external debt is prohibited. The limit reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. Table 2 demonstrates that during 2016/17, the council has maintained gross borrowing within its Authorised Limit.
5. The Operational Boundary is the level of borrowing that the council could reach during the year, depending on various uncertain events. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an indicator to ensure that the council's Authorised Limit is not breached.

Table 2: Borrowing Against Authorised Limit & Operational Boundary

	£m
Authorised Limit	928
Operational Boundary	677
Highest gross borrowing position during 2016/17	484

6. Capital financing costs (the MRP and interest payments on borrowing) incurred by the council during 2016/17 are detailed as follows:

Table 3: Capital Financing Costs 2016/17

Description	Original Estimate £000	Year End Projection £000
Minimum Revenue Provision (MRP)	26,479	26,479
Interest on long-term borrowing	21,311	20,142
Net Interest on short-term cashflow	(495)	(495)
Total	47,295	46,126

7. Interest on long-term borrowing and net interest received are projected to conform closely to the original estimate.

Treasury Management Activity during 2016/17

8. The treasury position at 30 September 2016 compared with the end of the last financial year is shown in Table 4. The council's credit rating criteria effective at 30 September 2016 are shown at Annex 2 Table 12.

Table 4: Investment and Borrowing Position 2016/17

	31 March 2016		30 September 2016	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Rate Debt*	397	4.12%	397	4.12%
Total Debt	397	4.12%	397	4.12%
Fixed Interest Investments	68	0.54%	45	0.45%
Total Investments	68	0.54%	45	0.45%
NET BORROWING	329		352	

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

9. On 12 July 2016, as a result of changes in the economic environment, specifically the combination of increased counterparty risk (less security arising from new bail in regulations) and a longer than predicted lower interest rate environment, a revised treasury management strategy was approved by full council. This resulted in consideration of a more focused strategy of internal borrowing over the short term, combining a move away from long term borrowing towards short term borrowing to maintain cash balances above zero.
10. As a result, the treasury management gross borrowing position has stayed constant during 2016/17. Subsequent financial and geopolitical concerns (including the pending UK exit from the EU) led to a sharp dip in gilts yields and therefore the cost of long term debt, and has thus exemplified the revised strategy.
11. The average interest rate on debt has held constant at 4.12%.

Borrowing Position

12. The weighted average interest rate on PWLB debt is shown in Table 5.

Table 5: Interest on PWLB Debt

Financial Year	% Interest on Debt
2010/11	4.20
2011/12	4.20
2012/13	4.20
2013/14	4.42
2014/15	4.66
2015/16	4.12
2016/17*	4.12

* half year to 30 September 2016

12. All of the council's current long-term borrowing has been taken from the Public Works Loan Board (PWLB), whose purpose is to provide loans to local authorities in order to finance capital spend, apart from a £10m market loan (originally with LOBO status) taken from Barclays. A summary showing the movement of long-term borrowing during 2015/16 and 2016/17 is as follows:

Table 6: Long-Term Borrowing Position

Long-term Borrowing	1 April 2015 to 31 March 2016 £000	1 April 2016 to 30 September 2017 £000
Total debt outstanding at 1 April	397,247	397,247
Loans raised	0	0
Loans repaid	0	0
Total debt at period end	397,247	397,247

13. The council is able to undertake temporary borrowing for cash flow purposes. The council also manages cash on behalf of the Office of the Police and Crime Commissioner for Surrey, which is classified as temporary borrowing. The balances outstanding at 30 September 2016 are detailed in Table 7.

Table 7: Temporary Borrowing Position

Temporary Borrowing at 30 September 2016	£000
Short-term borrowing for cash flow purposes	-
Office of the Police and Crime Commissioner for Surrey	37,929
Total Temporary Borrowing	37,929

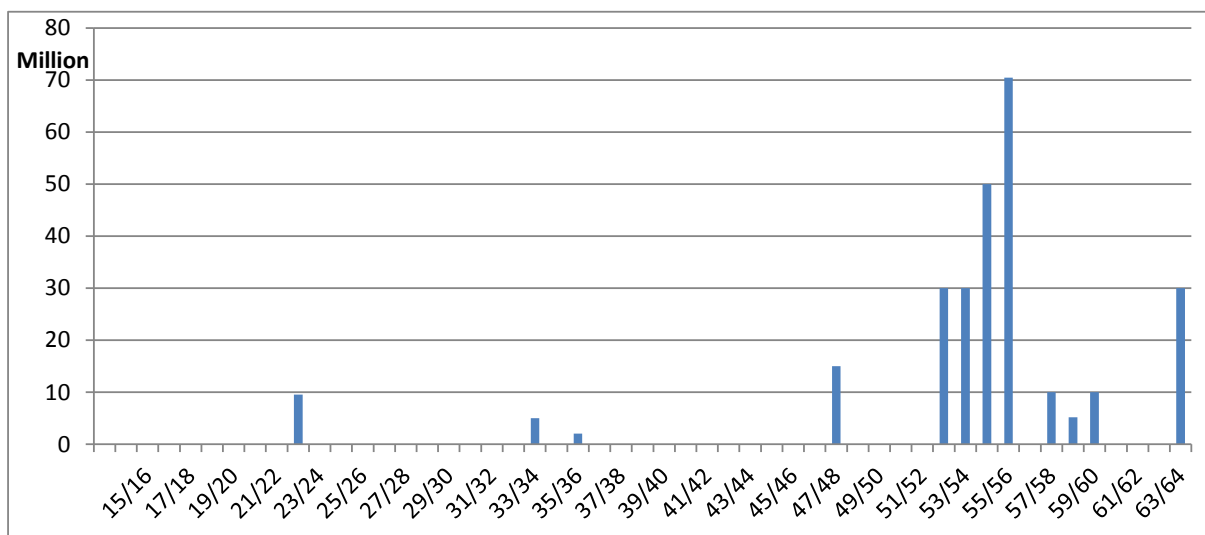
14. The council has limited its exposure to large fixed rate loans maturing in any one year by setting gross limits for its maturity structure of borrowing in accordance with the Prudential Code.

Table 8: Debt Maturity Profile as at 30 September 2016

Maturity Profile	Upper Limit	Lower Limit	Actual
Under 12 months*	50%	0%	8.72%
1 year and within 2 years	50%	0%	0.00%
2 years and within 5 years	50%	0%	0.00%
5 years and within 10 years	75%	0%	2.20%
10 years and above	100%	25%	89.08%

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

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



Investment Position

16. Average investment returns from 2005/2006 onwards are shown in Table 9.

Table 9: Return on Investments

Financial Year	% Return on Investments
2005/2006	4.75
2006/2007	4.90
2007/2008	5.78
2008/2009	4.38
2009/2010	1.01
2010/2011	0.75
2011/2012	0.70
2012/2013	0.55
2013/2014	0.41
2014/2015	0.43
2015/2016*	0.54
2016/2017	0.45

* half year to 30 September 2016

17. Accommodative monetary policy combined the pending UK exit from the European Union have resulted in sustained low short term deposit rates. On 4 August 2016, the Bank of England cut UK interest rates from 0.50% to 0.25%, a record low and the first cut since 5 March 2009. The Bank of England also signalled that rates could go lower if the economy worsens.

18. All cash held by the council is aggregated for the purpose of treasury management and daily surpluses are invested temporarily until required to meet daily outgoings. Such monies include funds held on behalf of schools and the Office of the Police and Crime

Commissioner for Surrey. Pension Fund balances are held in a separate bank account.

19. In 2016/17, the council applied the average return of its whole investment portfolio to all of the funds that were held on behalf of the Office of the Police and Crime Commissioner for Surrey (as per the current service level agreement).
20. Money brokers are used to facilitate investment dealing and loans are only made to institutions that meet the council's approved counterparty criteria. In addition to dealing through brokers, short-term investments are also made by dealing direct with some approved institutions, including banks, building societies and money market funds.
21. Due to frequent action on the part of credit ratings agencies, the council's credit rating criteria, investment limits and resultant counterparty list have been under continual scrutiny. The counterparty criteria set out for the period 1 April 2016 to 31 March 2017 were affirmed at the County Council meeting of 11 February 2016. The credit rating criteria and investment limits effective at 30 September 2016 are shown in Annex 2.
22. In the first half of 2016/17, the council maintained an investment portfolio with a daily average balance of £90m (£171m in 2015/16) and received an average return of 0.45%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.28% for the period. The council therefore outperformed its benchmark by 0.17%.

Member and Officer Training

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

Treasury Management Advisors

24. The Council uses Arlingclose as its treasury management advisor, change from Capital since 1 April 2016. The company provides a range of services including:
 - technical support on treasury matters, capital finance issues and reports;
 - economic and interest rate analysis;
 - debt services, which includes advice on the timing of borrowing;
 - debt rescheduling advice surrounding the existing portfolio;
 - generic investment advice on interest rates, timing, and investment instruments;
 - credit ratings/market information service comprising the three credit rating agencies.

Risk

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

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

Yield: The Council currently reports the overall return in interest against the 7-Day LIBID rate. The overall return in the first six months of 2016/17 on deposits was 0.45%, compared with the benchmark of 0.28%, a margin of 0.17%.

Table 10: Benchmarking Deposits against Default Rates at 30 September 2016

Deposits with banks and financial institutions	Amount	Historical experience of default	Estimated exposure to default
	£000	%	£000
	(a)	(b)	(a x b)
AAA rated counterparties	44,550	0.00%	-
AA rated counterparties	-	0.02%	-
A rated counterparties	-	0.09%	-
Other counterparties*	-	-	-
Total	44,550	-	-

Regulatory Framework, Risk and Performance

27. The council's treasury management activities are regulated by statute. The DCLG has also issued investment guidance to regulate the Council's investment activities.
- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Act permits the Secretary of State to set limits either on the council or nationally on all local authorities, restricting the amount of borrowing which may be undertaken
 - Statutory Instrument (SI) 3146 2003, as amended, specifies the controls and powers within the Act. The SI requires the council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The SI also requires the council to operate the overall treasury

function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under section 238(2) Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices.
28. The council has complied with all of the above relevant statutory and regulatory requirements, which require the council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management ensures that capital expenditure is prudent, affordable and sustainable, and treasury practices demonstrate a low risk approach.
29. The council is aware of the risks of passive management of the treasury portfolio and, with the support of the council's advisors, has proactively managed the debt and investments over the year so far. The council has utilised historically low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio, as it consists of predominantly fixed long-term loans, with the capacity for repayment of any shorter dated debt. Shorter term interest rates and likely future movements in these rates predominantly determine the council's investment return. These returns can be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

Risk Register

30. A risk register for the Treasury Management operation is shown in Annex 3.
31. The Committee is invited to comment on the register and propose amendments as appropriate.

IMPLICATIONS:

- A) Financial
There are no direct financial implications.
- B) Equalities
There are no direct equality implications.
- C) Risk management and value for money
See paragraphs 28 to 34.

WHAT HAPPENS NEXT:

- i. The Pension Fund & Treasury Team will monitor the UK and overseas banking sector and will continue to update this Committee as appropriate.
- ii. In line with the requirements of CIPFA's Code of Practice for Treasury Management a full-year report for 2016/17 at the meeting in June 2017.
- iii. The Pension Fund & Treasury Team will prepare the annual Treasury Management

Strategy, which will be presented as part of the MTFP presented to Council in February 2017.

REPORT AUTHOR:

Phil Triggs, Strategic Finance Finance (Pension Fund & Treasury)
Emma Webster, Senior Finance Officer

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Sources/background papers:

Capital Budget and Treasury Management Strategy 2013/14
Prudential Indicators and Treasury Management Strategy 2012/13 to 2013/14
CIPFA Code of Practice for Treasury Management in the Public Services (Revised)
CIPFA Treasury Management Benchmarking Club Report 2013/14

Table 11: Summary of Prudential Indicators for 2016/17

Prudential Indicator	Position as at 30 September 2016 £000	Limit 2016/17 £000
Maximum net borrowing incurred against the Capital Financing Requirement (CFR)	351,953	916,400
Maximum gross borrowing incurred against the Authorised Limit	483,857	928,100
Maximum gross borrowing incurred against the Operational Boundary	483,857	676,900
<i>Maturity structure of fixed rate borrowing (maximum position during the year)</i>		
Under 12 months	8.72%	0% - 50%
12 months to 2 years	0%	0% - 50%
2 years to 5 years	0%	0% - 50%
5 years to 10 years	2.20%	0% - 75%
10 years and above	89.08 %	25% - 100%
Maximum principal funds invested for more than 365 days	0%	35% of value of investments held

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

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

Table 12: Effective counterparty limits

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

Bank/Building Society Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Bank/Building Society Secured (Covered Bonds): These investments are secured on the bank's assets, which limit the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. The combined secured and unsecured investments in any one bank will not exceed £20m. A minimum rating of AAA (or equivalent) from two of the three rating agencies.

Corporates: Corporate bonds issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. A minimum rating of A- (or equivalent) from two of the three rating agencies.

Government: Loans, bonds and bills issued or guaranteed by UK government, local authorities and supranational banks. These investments are not subject to bail-in, and there is a minimal risk of insolvency.

Money Market Funds: An open ended fund that invests in short term debt securities, offers same-day liquidity and very low volatility. The use of Money Market Funds is restricted to funds with three AAA ratings (from two of the three rating agencies) up to a maximum of £175m (with a maximum of £25m per Money Market Fund).

Enhanced Cash/Bond Funds: Criteria for suitable funds is a fund credit quality (FCQ) rating of AAA and a fund volatility rating (FVR) of S1 (or equivalent) from one of the three main rating agencies (Fitch, Moody's or Standard & Poor's).

Pooled Property Funds: Shares in diversified property investment vehicles. Property funds offer enhanced returns over the longer term, but are more volatile in the short term. The funds have no defined maturity date, but are available for withdrawal after a notice period.

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Risk Group	Risk Ref.	Risk Description	Impact			Likelihood	Total risk score	Mitigation actions
			Financial	Reputation	Total			
Financial	1	Interest Rate Risk (Borrowing) The risk that fluctuations in the levels of interest rates, official and market, create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	4	1	5	3	15	As part of the Treasury Management Strategy, the TM function will continually monitor interest rates available to ensure any borrowing is prudent, and at an affordable level.
Operational	2	Financial failure of SCC's main bankers The collapse of the council's main bankers, leading to a total shutdown of services.	4	4	8	1	8	Banks operating within the UK regulatory framework are subject to bail-in regulations. In the event that HSBC is deemed by the regulator to be in financial difficulty, they can act to pre-empt possible financial collapse by bailing in certain investors or lenders to boost capital and allow operations to continue. The suitability of the council's banker (HSBC) in terms of its security and stability is assessed on a regular basis.
Financial	3	Credit and counterparty risk The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or revenue resources.	3	4	7	1	7	As part of the Treasury Management Strategy, counterparty criteria has been set at a level to allow only the most financially secure banks and other counterparties within the lending list. Such lists are regularly monitored against updates and advice provided by our Treasury consultant.
Operational	4	Fraud, Error and Corruption This is defined as the risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends.	3	4	7	1	7	Ongoing internal audit advice will ensure that the Council identifies the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Advice is also supplied with regard to the use of internal controls and compliance testing as to their effectiveness. Managers will maintain a constant watch over the suitability of its systems and procedures.
Financial	5	Interest Rate Risk (Investments) The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	2	1	3	2	6	As part of the Treasury Strategy, all investments will be kept with counterparties with a high rating, on a short term basis of one year or less, minimising any interest rate risks.
Operational	6	Liquidity Risk The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.	1	2	3	2	6	The current Treasury Management Strategy, in recognition of the risks inherent in holding unnecessary cash balances and the cost of carry on longer term borrowing, removed the requirement for a minimum cash balance and minimum deposit balance. The current strategy utilises internal and short term borrowing to meet liquidity requirements. As such significant emphasis has been placed upon the accuracy and scrutiny of cash flow forecasting to allow for effective planning for short term cash and borrowing needs. In the event of unforeseen cash requirements, short term borrowing is widely available from other local authorities and money markets at low rates of interest.
Financial	7	Too Conservative Strategy The overall treasury management strategy is judged as too prudent and unnecessarily stringent, resulting in investment returns being lower than might have been with a more risky, but ultimately safe, approach.	3	2	5	1	5	Treasury strategies, outturn reports and monitoring reports and scrutinised on a regular basis by the Audit and Governance Committee with recommendations and opinions minuted and actioned.
Operational	8	Legal and Regulatory Risk Defined as the risk that the organisation itself, or a third party with which it is dealing, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.	1	4	5	1	5	The Treasury Management function will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements, by receiving relevant updates from CIPFA and from the treasury advisors.
Operational	9	Unauthorised access to offices leads to theft of intellectual property and confidential information	1	4	5	1	5	Ensure all sensitive data is locked away. Challenge any unknown visitors. Use of secure passwords to protect against unauthorised access.
Operational	10	HSBC System Failure The partial or complete failure of HSBC's banking and security system disallowing access, usage of online payment and bank account information or that unauthorised access to accounts is not prevented due to coordinated cyber attack.	2	3	5	1	5	In the event of an online systems failure officers are able to request information or payments to be made through the Council's relationship manager and HSBC corporate team. HSBC as one of the worlds largest banks has dedicated significant resources to a cyber security system to combat this threat.
Financial	11	Market Risk The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.	1	1	2	2	4	The Treasury Management Strategy prevents exposure to instruments which can be subject to significant adverse market fluctuations in the capital sum invested.
Financial	12	Refinancing Risk The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.	2	2	4	1	4	As part of the Treasury Management Strategy, restrictions have been set on the proportion of borrowing that is due for refinancing in the short term..
Operational	13	Exchange Rate Risk Exchange rate risk is defined as the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	1	1	2	1	2	As part of the Treasury Management Strategy, all treasury activity is restricted to banks with offices in the UK, and in Sterling amounts only.

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AUDIT & GOVERNANCE COMMITTEE
5 December 2016

Internal Audit Half Yearly Report 2016/17

SUMMARY AND PURPOSE:

This interim report summarises the work of Internal Audit during the first six months of 2016/17. The purpose of this report is to enable the Committee to consider the activities of Internal Audit during the six month period to 30 September 2016 and determine whether there are any matters that they wish to draw to the attention of the Cabinet and/or the County Council. A list of all Internal Audit reports issued in the period April – September 2016 is attached at Annex A for information.

The Chief Internal Auditor reports key findings and recommendations arising from audits undertaken as part of regular reporting to this Committee on completed audits. As such this report focuses on activity undertaken rather than detailing audit findings previously identified. However in response to member interest in management action taken to implement Internal Audit recommendations this report also provides, at Annex B, an update on progress made to date for those audit reports issued since January 2016. In addition, at Annex C is an update on earlier audit reports where management action plan progress for High Priority audit recommendations had not previously been rated as “Green”.

RECOMMENDATIONS:

The Committee is recommended to:

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

BACKGROUND:

1. The Accounts and Audit Regulations require every local authority to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. Within Surrey County Council the Internal Audit function, which sits within the Strategy and Performance Service, carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.
2. The terms of reference of the Audit and Governance Committee include the requirement to consider the reports of the internal and external auditor, consider the effectiveness of the internal audit function, and make recommendations to the County Council or Cabinet, as appropriate, on any matters that it feels should be drawn to their attention.

PERFORMANCE SUMMARY:

3. The audit plan for 2016/17 was approved by this Committee on 11 April 2016. The table below shows actual performance against the original plan for the first half year.

Audit Area	Plan Days (whole year)	Actual Days (half year)	% Actual to planned
Corporate Governance Arrangements	75	24	32%
Key Financial Systems	175	19	11%
Grants	54	14	26%
Contract reviews	135	45	33%
Service reviews (systems and projects)	845	421	50%
Follow-up Audits	45	7	16%
Client Support/ Service Liaison/Innovation Support	178	121	68%
Irregularity and Special Investigations including Fraud Prevention	340	127	37%
Internal Audit Management, Corporate Support and Organisational Learning	270	127	47%
Total days	2117	904	43%
Figures as shown in 2015/16 half year report (for comparison)	2069	959	46%

4. The above table shows that 904 days were spent delivering the audit plan in the first half of the year, this represents 43% of the total number of days planned for the year.
5. The following table shows progress as at 30 September against the annual audit plan with 2015/16 and 2014/15 half year comparative figures also shown:

	2016/17		2015/16		2014/15	
	No	%	No	%	No	%
Audits in planning stage:	32	30	35	30	36	37
Audits in progress	35	33	37	31	20	20
Audits completed	39	37	46	39	42	43

6. The Internal Audit team has had a productive first six months with some 39 audits, projects or investigations completed since April, including 24 final audit reports issued (as detailed at Annex A), 3 grant certificates produced, 1 special ad hoc review, and 11 investigations closed.
7. The following table shows the spread of audit opinions for the 24 reports issued in the period with comparative information for 2015/16 full year:

Audit Opinion	2016/17 (half year)		2015/16 (full year)	
	No of Audit Reports	%	No of Audit Reports	%
Effective	6	25	17	30
Some Improvement Needed	12	50	25	43
Significant Improvement Needed	2	8	11	19
Unsatisfactory	1	4	2	3
n/a	3	13	3	5
Total	24	100	58	100

Customer Satisfaction Survey (CSQ)

8. The Internal Audit team is continually aiming to improve the service it provides and as such, on completion of each review the auditee is asked to complete a Customer Satisfaction Survey (CSQ) to provide feedback on a number of aspects of the audit – from planning through to reporting. The CSQ also asks for an overall rating on the added value of the audit on a scale of 1 to 4, where 1 is **not very** useful and 4 is **very** useful.
9. The following table shows the breakdown of CSQ scores received during the six month period to September 2016:

CSQ Overall Rating	No of CSQs	%
4 – very useful	1	17
3	5	83
2	-	-
1 – not very useful	-	-
Total	6	100

MANAGEMENT ACTION PLAN PROGRESS

10. A summary of progress made on implementing audit recommendations for all audits completed in the period January – June 2016 is attached at Annex B.

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

AUDIT ACTIVITY – 2016/17 ANNUAL PLAN

Corporate Governance Arrangements

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

Key Financial Systems

14. Key Financial Systems audit reports issued in 2016/17 and presented to this Committee include:
 - Procure to Pay (Accounts Payable); Capital Monitoring; Revenue Budget Control; and, Payroll.

Grants

15. 3 grant audits were completed in the period, as follows:
 - Superfast Broadband (BDUK)
 - Troubled Families (‘Payment by Results 2’)
 - Bus Subsidy

Contract Reviews

16. Contract review audit reports issued in 2016/17 and presented to this Committee include:
 - Contract Monitoring – Children’s Schools and Families
17. The following contract audits were in progress at the 30 September:
 - Highways Contract (gullies/drainage)

Service Reviews

18. Service review audit reports issued in 2016/17 to date include:
 - Adult Social Care and Public Health: Direct Payments; HIV Service; Carers; and, 0-5 Health Visitors.
 - Business Services: Suspensions and HR Case Management; Property Local Authority Trading Company; Off Contract Agency Spend; PAMS Income Module; and, Compliance with Procurement Standing Orders.
 - Children Schools and Families (CSF): Data Management in CSF; Surrey Youth Centres; and, School Improvement Strategy.
 - Environment and Infrastructure: Community Infrastructure Levy.

Follow-up Audits

19. The following follow-up audit reports were issued in the period:

- Surrey Arts
- Adult Social Care IT Solution
- Surrey Choices

Client Support and Service Liaison

20. Each member of the team is responsible for a number of service areas and liaising with those services on a regular basis throughout the year. These meetings allow the auditor to become more familiar with the requirements of each service and to develop a more positive working relationship in which the services may themselves approach Internal Audit for independent support and advice.

21. Some examples of client support provided during the first six months of the year have included:

- advice on user acceptance testing of replacement BACS software
- work with the concessionary travel team on how to identify potentially fraudulent applications
- advice to the Insurance Team on a potentially fraudulent claim
- advice to schools on cyber crime including phishing, scams and unsolicited goods, unwanted entries in 'registers' and like products, and hacking attempts on a WorldPay account
- advice to Babcock 4S in respect of questions about the use of eBay and purchasing from an online discount retailer
- advice to Property Services on disposal of surplus assets (specialist beds from care homes that are closing)
- assisting with financial scrutiny and due diligence of applications for the Leader's Community Improvement Fund
- supporting the Community Partnerships team by checking a sample of Community Improvement Fund grant recipients for evidence of use

Irregularity and Special investigations

22. A separate report will be presented to this Committee providing a full explanation of time spent on irregularity investigations in the six months to 30 September 2016.

23. Special investigations usually take place as a result of concerns being raised directly with Internal Audit by members or officers.

Corporate Support and Internal Management

24. During the six month period to 30 September 2016 Internal Audit has participated in a number of activities which are categorised for planning purposes as corporate support and internal management. This activity has included:

- member support including attendance at meetings of this Committee and various Scrutiny Boards and sub-groups
- attendance at various Leadership meetings including regular participation in the Statutory Responsibilities Network and Extended Leadership Team

- attendance at meetings of the Governance Panel; Strategic Risk Forum; Investment Panel; and, Information Risk Governance Board
 - attendance at Information Access Officers' meetings and dealing with Freedom of Information requests on behalf of the wider Strategy and Performance Service
25. Internal Audit has also been actively involved in the development of Orbis, the business services partnership across East Sussex County Council, Brighton and Hove City Council and Surrey County Council.
26. An Orbis Internal Audit workstream has been established and achievements in the six months to 30 September 2016 include:
- agreed a team name – orbisIA
 - agreed a vision for orbisIA to be: *A leading public sector provider of high quality audit and counter fraud services*
 - agreed orbisIA 2016/17 priorities and objectives
 - held two all staff workshops

TRAINING AND DEVELOPMENT:

27. The Public Sector Internal Audit Standards place a personal responsibility on each Internal Auditor to undertake a programme of continuing professional development. In practice training/development plans are discussed on an on-going basis as part of 1-2-1s with management and will be formally discussed/reviewed as part of mid year and year end appraisals.
28. Development/training may take many forms. Examples undertaken in the period include:
- Attendance at events organised by:
 - The London Audit Group
 - Counties Chief Auditors Network
 - Home Counties Chief Internal Auditors Network (HCCIAG)
 - CIPFA and the Institute of Internal Auditors
29. Professional examination successes included:
- A Lead Auditor attaining CMIIA accreditation (Chartered Internal Auditor through the Institute of Internal Auditors).
 - Senior Auditor success in an number of ACCA professional examinations
 - Senior Auditor success in a IIA Certified Internal Auditor examination

CONCLUSION:

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

IMPLICATIONS:

31. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the

audit work referred to in this report, would be progressed through the agreed audit reporting policy.

32. Terms of Reference for all audit reviews include the requirement to specifically consider value for money; risk management; and, equalities and diversity.

WHAT HAPPENS NEXT:

33. A report will be presented on completed audits at future meetings of this Committee and the Chief Internal Auditor's Annual Report for 2016/17 will be presented to this Committee at the meeting planned for June 2017.

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Sources/background papers: 2016/17 Internal Audit plan

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ANNEX A



2016/17

	Month Final Report issued	Audit	No of High Priority Recs	Audit Opinion
1	Apr-16	Capital Expenditure Monitoring	0	Effective
2	Apr-16	Procure to Pay (Accounts Payable)	0	Some Improvement Needed
3	Apr-16	Suspensions and HR Case Management	1	Some Improvement Needed
4	Apr-16	Off Contract Agency Spend	0	n/a
5	Apr-16	HIV Service	1	Some Improvement Needed
6	Apr-16	Direct Payments	0	Some Improvement Needed
7	Apr-16	Property Local Authority Trading Company	0	Effective
8	May-16	Revenue Budgetary Control	0	Effective
9	May-16	Data Management in CSF	0	Some Improvement Needed
10	May-16	Surrey Arts Follow-up	0	Effective
11	May-16	Payroll	0	Some Improvement Needed
12	Jun-16	School Improvement Strategy	0	Effective
13	Jun-16	Contract Monitoring - CSF	2	Some Improvement Needed
14	Jun-16	Risk Management	0	Some Improvement Needed
15	Jun-16	Adult Social Care IT Solution Follow-up Audit	1	Significant Improvement Needed
16	Jun-16	0-5 Health Visitors	0	Effective
17	Jul-16	PAMS Income Module	2	n/a
18	Jul-16	Surrey Youth Centres	13	Unsatisfactory
19	Aug-16	Gifts & Hospitality	3	Significant Improvement Needed
20	Sep-16	Carbon Reduction Commitment (CRC) and Green House Gas (GHG) Emission Schemes.	0	Some Improvement Needed
21	Sep-16	Community Infrastructure Levy	0	n/a
22	Sep-16	Compliance with PSOs	0	Some Improvement Needed
23	Sep-16	Surrey Choices Follow-up	0	Some Improvement Needed
24	Sep-16	Carers	0	Some Improvement Needed

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Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Administration of LAC Finances Follow up Audit (Jan-16)	Some Improvement Needed	<p>LCS should be routinely updated with account reference numbers or where not available notes should be made of steps taken to obtain the account information on LCS. (H)</p> <p>The service should produce guidance on the Finance Teams' responsibilities for recording and updating LCS with savings account information. (M)</p>	<p>LCS has been updated with account references and this is maintained on an ongoing basis.</p> <p>A workflow process diagram is in development to provide clear guidance on responsibilities. Staff guidance on savings accounts is in place but is being reviewed to provide greater clarity following feedback from staff.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p>

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Schools Compliance Audit - Schools Fraud Checklist 2015/16 (Jan-16)	<p>Significant Improvement Needed - for the procurement system observed in schools;</p> <p>Some Improvement Needed - for other audited areas as detailed in the Audit Report.</p>	<p>Where the audit of an individual school has led to specific findings or recommendations, these have been communicated to the individual school.</p> <p>There were no service level audit recommendations.</p>		

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Members' Allocations (Jan-16)	Some Improvement Needed	<p>Ensure that all guidance and procedure documents are reviewed periodically, and produce one single document as appropriate guidance for all Local Support Assistants (LSA) to use. (M)</p> <p>Quotations, estimates and a quantification of the direct benefits to the community should be requested at the time of application (M)</p> <p>Reference to a deadline for the applicant to submit to the council their evidence of how their allocation was spent must be included within the application form and the funding agreement. (M)</p> <p>There should also be increased emphasis on the LSAs to ensure that this evidence is both received and reviewed within a 12 month limit of initial funding. (M)</p>	<p>Financial Framework currently being reviewed with members which is the Constitutional reference for Members Allocations. However at LSA meeting in April 2016, a single easy reference document for each LSA was agreed and saved on the I Drive for all to use.</p> <p>Further to the above work, in practice LSAs are scrutinising finances more closely</p> <p>Email sent to applicant after form is submitted now highlights the need for this evidence so that applicants are aware of this up front (as well as being in the T&Cs they sign up to when submitting the form), and wording in the approval email to applicants now says that evidence must be submitted - not just should be submitted.</p> <p>All LSAs have had a renewed emphasis on evidence collection since the audit, with a higher percentage of evidence collected. All LSAs are aware that projects should be completed within the 12 months with evidence collected. There will be a focus on evidence and the audit requirements during the county councillor inductions following the elections in 2017.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>

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Public Health (PH) Contracts (Feb-16)	Some Improvement Needed	<p>Ensure transparency over the authorisation and record keeping of all payments (especially for quality measure and incentive payments which are outside the core contract). (M)</p> <p>Implement KPIs with measurable targets for the First Community Health Care contract. (M)</p> <p>Review carer and client feedback (M)</p> <p>Ensure all contracts are current with updated contract variations are in place as appropriate. (M)</p> <p>Ensure all identified risks are assessed and mitigating action and risk ownership is recorded on the risk register. (M)</p>	<p>PH Contract with original incentivised payment has now had this element removed as part of the savings programme. However with the Surrey & Borders Partnership contract from which the original concern was raised it has been agreed that the finance element of the quarterly contract review process will act as a formal sign off for the appropriate quarters invoice. This has also been discussed as part of the Substance Misuse Team as an action for all contract management within the team will continue to be flagged on future agendas for review. Other incentivised payments are discussed and agreed through contract meetings.</p> <p>KPIs are in place.</p> <p>Standing item on agenda.</p> <p>Spreadsheet populated and regularly updated by business and contracts support team. Discussed as standard item on each contracts meeting</p> <p>Any key risks are now recorded on the contract summary sheet for discussion and potential inclusion into the service risk register.</p>	<p></p> <p></p> <p></p> <p></p> <p></p>

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Public Health Contracts cont'd (Feb-16)	Some Improvement Needed	<p>Ensure all contracts irrespective of their value are routinely uploaded to CMS. (M)</p> <p>Assign responsibility for maintaining and updating the contract register to a specific officer/team to ensure consistency. (M)</p> <p>Ensure the contract register is regularly updated and includes key KPIs. (M)</p> <p>Consider recording the top 2/3 contract specific risks on the contract register. (M)</p>	<p>All contract and contract monitoring documentation now uploaded onto CMS as standard by business and contracts support team.</p> <p>Reviewed at each contracts meeting every 6-8 weeks.</p> <p>Reviewed at each contracts meeting every 6-8 weeks.</p> <p>Any key risks are now recorded on the contract summary sheet for discussion and potential inclusion into the service risk register. Commentary present for all red or amber.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>

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Families, Friends and Communities (FFC) (Feb-16)	Some Improvement Needed	<p>Ensure all information on the Surrey Information Point is kept current and links tested to ensure they work. (M)</p> <p>SCC should ensure that all savings targets including those for FFC are realistic. (H)</p> <p>The budgets for Adult Social Care should be revised to reflect additional pressures and realistic savings. (H)</p>	<p>This has been achieved by:</p> <ul style="list-style-type: none"> Fixing the broken links identified by the auditor and all subsequent broken links identified in a fortnightly QA report Ensuring the Digital Information Officer maintains and develops SIP; and looking at a business case for more resource to support the wider links with e-brokerage Having 532 providers registered on SIP of which 132 have been registered as a result of proactive engagement. <p>The service have addressed this recommendation by:</p> <ul style="list-style-type: none"> ASC leadership, together with Finance Manager for ASC, continuing to raise the challenges with the Chief Executive and Director of Finance ASC leadership reviewing progress each month against FFC activity and efficiency savings targets for the locality, transitions and mental health teams <p>This has been achieved through:</p> <ul style="list-style-type: none"> ASC leadership continuing discussions with the Chief Executive and Director of Finance in the context of on-going financial pressures across the Council 	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>

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Treasury Management (TM) (Feb-16)	Effective	<p>An office manual, incorporating the existing treasury management practices, should be produced. (L)</p> <p>A formal procedure for investigating reasons for cash flow forecasting variances should be prepared and incorporated into the office manual. (L)</p> <p>TM staff should continue to periodically review details of deposits recorded on SAP. (L)</p> <p>The contract for the provision of external advisory services should be signed as soon as possible. (L)</p> <p>Paperwork should be held more securely and locked away overnight in the lockable cupboard. (L)</p>	<p>Office manual set up in advance of deadline, development and improvement of the manual is ongoing.</p> <p>Formalised process for investigating/reporting variances set up in cash flow spreadsheet with guidance included in office manual.</p> <p>TM balances reconciled on monthly basis with the transactions matched/cleared on SAP regularly.</p> <p>Final contracts signed by both parties.</p> <p>Current TM files are placed in lockable cupboard with historical files in locked finance basement room.</p>	
IT Incident Response (Feb-16)	Some Improvement Needed	<p>Formal testing of the IMT Business Continuity Plan should be carried out within the next financial year. (M)</p> <p>This will ensure that the IMT team can respond to a major incident and that immediate support is available for all critical infrastructure environments, and all priority support applications.</p>	<p>The process for executing the backup and restore of systems has been updated and new arrangements defined. A total of 8 DR Recovery exercises were completed in 2016, with both the replication of servers tested using the Zerto application tool and physical recovery of data using the TSM backup application and Tape media. All tests were completed successfully.</p>	





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Better Care Fund - S75 Agreements (Feb-16)	Some Improvement Needed	SCC should take all reasonable steps to ensure that the S75 agreements are signed promptly for 2016/17. (M)	Management have taken practical steps in response to the audit findings though inevitable legal negotiation and discussion have continued to delay signing of all s75 agreements.	
Accounts Receivable (Feb-16)	Effective	<p>The name of the officer who instructs the administrative officer to raise a request should be entered on the Fins11 form or template, to ensure customer queries are dealt with quickly and efficiently. (L)</p> <p>Requests for services from utility companies and other customers who are late payers, should only be considered when confirmed through a purchase order. (M)</p>	<p>The Fins11 form remains unchanged, Order to Cash Team will work with IMT to amend template.</p> <p>This process has been introduced but has not been universally applied. The income team is actively working with the banking team to ensure purchase orders support invoices raised.</p> <p>The above issues will be followed up as part of the Order to Cash audit review which is currently underway.</p>	 
Pension Fund Investments (Feb-16)	Effective	There were no recommendations arising.		





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Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Transport for Education (Mar-16)	Significant Improvement Needed – for arrangements within S&L team	<p>The SEND strategy, policies and procedures should be finalised and agreed by SCC's senior management and Members. (H)</p> <p>Up to date SEND information should be published on the S::net and SCC's external website. (H)</p> <p>Senior management in S&L should consider securing additional resources at least on a temporary basis to review case files and update EMS first with correct eligibility codes and the upload it on MTC. (H)</p> <p>SEND work should be progressed and reported to Members in accordance with the time-table set for legal compliance. (M)</p>	<p>SEND transport policies went out to consultation and through the Education and Skills Board before being agreed by Cabinet in June 2016.</p> <p>Policies are available on SCC's website with a local offer on a portal.</p> <p>A parent guide is also being developed on co production with parents.</p> <p>Leigh Middleton, Senior Commissioning Manager for Prevention and Commissioning has been appointed to a secondment from September 2016 to manage SEN Transport Commissioning</p> <p>SEND transport policies went out to consultation and through the Education and Skills Board before being agreed by Cabinet in June 2016.</p>	<p></p> <p></p> <p></p> <p></p>

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Transport for Education cont'd (Mar-16)	Some Improvement Needed – for MTC implementation by TCC	<p>The SLA should be updated to reflect the changes and maintained. (M)</p> <p>Plans to make all payments via MTC should be finalised and implemented. (M)</p> <p>Action plans to be regularly reviewed to ensure implementing and ongoing monitoring of agreed actions. (M)</p>	<p>The SLA has been updated by Environment and Infrastructure staff in consultation with colleagues from Children Schools & Families Directorate. The updated document has been signed by both directors and will be reviewed on an annual basis in future.</p> <p>Taxis and minibuses are paid via MTC with the exception of coach payments and parental mileage. The coach operators are now paid via MTC but parental mileage claims were on hold pending approval of the revised SEND travel assistance policies. A new travel allowance system has since been approved and payments are made via MTC.</p> <p>The implementation of interface between SAP and MTC was not considered a priority by the SAP Team in IMT. However, at present, there is a project in place to look at implementing this interface.</p> <p>The transport project group will pick up monitoring of actions through the project plan and this will be governed by the directorate commissioning group</p>	<p></p> <p></p> <p></p> <p></p>

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Children's Improvement Plan (Mar-16)	n/a – position statement	There were no recommendations arising.		





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<p>Foster Care Service Arrangements (Mar-16)</p> <p>[note - a follow up audit is due to commence in Nov 2016. The RAG assessment is made on responses received from the service]</p>	<p>Unsatisfactory</p>	<p>Compile a local Fostering Risk Register that identifies relevant issues affecting the service. (H)</p> <p>Foster care staff and foster carers to be provided with training on where to access relevant information. (H)</p> <p>All training courses attended by foster carers should be recorded and monitored by the Training and Development Team. (H)</p> <p>A log of completed training and other exercises should be recorded and maintained in LCS. The service should have a clear policy in place to ensure that all foster carers are meeting the minimum training requirements as required by the National Minimum Standards. (H)</p>	<p>Risk register completed and in place</p> <p>All general Foster Carers have been sent details re: Family and Friends Carers included by email, where known by post. Fostering Service updated at Team Meetings.</p> <p>Training framework revised Training framework on Yammer. Training framework sent to Clare Donohue (CF to update as part of an on going process). HR Training Delivery and the Fostering Service have reviewed all routine courses organised by the service.</p> <p>In future all planned events will be registered as events on SAP with delegate attendance registered post event. Note: There may be some training courses attended by foster carers that are not organised by HR Training Delivery and or the Fostering Service. In such circumstances, these records will be held on LCS and registered on the foster carer's annual review documentation.</p>	<p></p> <p></p> <p></p> <p></p>





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Foster Care Service Arrangements cont'd (Mar-16)	Unsatisfactory	<p>Courses on 'health and hygiene' and 'positive care and control of children, including training in 'de-escalating problems and disputes' should be included on the Training and Development Framework to ensure compliance with the National Minimum Standards. (H)</p> <p>DBS records should be managed centrally using LCS, with the service ensuring that all DBC checks have been completed for foster carers and members of the fostering household aged 16+. (H)</p> <p>Supervision visits, annual reviews and unannounced visits should be managed centrally to ensure that they are completed in a timely manner in accordance with statutory regulations. (H)</p> <p>The Finance Team to ensure that all expenses are authorised. (H)</p>	<p>L&D and Fostering Service reps sit on 'Three approaches' working group. Methodologies and policy under review and will be integrated into courses aims and commissioning of future training.</p> <p>Policy has been revised and handbook updated. Spreadsheet is up-to-date and monitored regularly. Notes are kept clearly on spreadsheet to advise if household members have left. DBS Checks can be kept on LCS, including for household members.</p> <p>Alert system not operational yet, so parallel systems of LCS and spreadsheets will be kept until this is fully functional.</p> <p>Expenses are clearly signed off and are loaded on to LCS when completed.</p>	<p></p> <p></p> <p></p> <p></p>

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Foster Care Service Arrangements cont'd (Mar-16)	Unsatisfactory	<p>Controls should be reviewed on SRM and software that is fit for purpose should be implemented to manage foster carers' expense claims. (H)</p> <p>Mileage claims should be paid to foster carers at the correct rate of 45 pence (H)</p> <p>Strengthen controls around payments to foster carers ensuring appropriate authorisation. (H)</p> <p>Payments outside of the normal payments system should be discouraged and where necessary must be independently reviewed and authorised. (H)</p>	<p>As yet not in place electronically. To be implemented as part of next phase for ContrOCC</p> <p>All expense claim forms are closely scrutinised to ensure new forms and correct.</p> <p>Exercise was completed on all expense claim forms to identify the 5p discrepancy shortfall & approval sought then paid to foster carers.</p> <p>All expense claim forms are closely scrutinised to ensure new forms and correct mileage are paid.</p> <p>Team Managers are approving exceptional payments to correct up to amount of £5K. Service Manager approves beyond this.</p>	   

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CRSA – Governance Policies (Mar-16)	Effective	<p>Results of the survey to be shared with the Information Governance Risk Board to ensure that steps to promote the IT Security Policy are identified and implemented. (M)</p> <p>The fraud awareness eLearning should be effectively promoted to all new starters including a refresh for existing staff. (M)</p>	<p>Results presented to IGRB and actions agreed to escalate awareness of the updated IT Security Policy.</p> <p>Publicity campaign planned for January to coincide with launch of new fraud e-learning package.</p>	 
Organisational Ethics (Mar-16)	Effective	<p>Consider the CSPL guidance document and the specific examples of good practice related to ethical procurement and supplier practice, with a view to ensuring the council is explicit about its ethical commitments around procurement and delivery of public services through third parties. (M)</p> <p>Consider including a statement of ethical behaviour within the Code of Conduct in order to explicitly clarify the council's expectations for its employees. (L)</p>	<p>There has been no progress to date in addressing this recommendation.</p> <p>Section 3 of the Code (Personal Conduct) has been amended to include the statement: "The Council expects all employees to behave ethically promote and maintain high standards of personal conduct to sustain the good reputation of the Council and its services".</p>	 

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Locally Managed School Capital Projects (Mar-16)	Significant Improvement Needed	No service level recommendations arising - where the audit of an individual school has led to specific findings or recommendations, these have been communicated to the individual school.	Ongoing progress against recommendations will be picked up as part of future school reviews and are to be locally managed through schools as part of the 'audit' section of SFVS returns.	
Public Health Payments to GPs and Pharmacies (Mar-16)	Significant Improvement Needed	The service should consider either hard coding GPs service offer onto the claim form or they should conduct checks to ensure that the council is only paying for services agreed in their respective PHAs. (H)	Automated process developed within spreadsheet and used for Stop smoking Q4 claims and wider claims Q1 to identify to provider upon entry if they are not signed up to service they are claiming for. This warning message will also be checked upon first receipt and actioned if necessary before processing.	
		Cells in the payment file should be locked to ensure the file cannot be inadvertently amended (H)	Information is accessed via the excel macro now. This creates a copy of the data that can be viewed meaning original data is not directly accessed / amendable by PH.	
		Develop comprehensive operating procedures which include the checks performed to verify the quality and accuracy of the activity data and thresholds for raising queries. (M)	A Public Health Agreements (PHA) operating procedure document has been produced for reference and regular review. This is being used with Business support staff to help them familiarise themselves with the process	

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Public Health Payments to GPs and Pharmacies cont'd (Mar-16)	Significant Improvement Needed	<p>Put in place signed and dated PHAs for all GPs and pharmacies that provide a public health service. Where one does not exist payments should be stopped until a signed agreement is returned. (H)</p> <p>Maintain reconciliation records for discrepancies they have investigated and resolved. (H)</p> <p>Analyse data trends and correlations to inform the verification of payment claims. (M)</p>	<p>Signed signatory sheets together with correspondence that updates the services signed up to for GPs is now held on a shared drive by practice for easy reference. Sign up is handled by Pharmoutcomes for pharmacy</p> <p>Initial payment log spreadsheet has been adapted to include notes information on any and all claim amendments / discrepancies. These are channelled through business support for appropriate recording.</p> <p>Highlighted and discussed at June Public Health Agreement meeting with commissioning leads. To be included in an operating procedures document.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>

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Capital Expenditure Monitoring (Apr-16)	Effective	<p>SCC should develop arrangements to enable the capital programme to more effectively bring forward schemes that could start in place of other schemes which are delayed. (L)</p> <p>Consideration should be given to the specification stage of capital schemes to ensure that all relevant aspects are included. In particular, all significant works should be specified including fire prevention within the initial tender documentation. (M)</p>	<p>Finance will continue to have discussions with management teams to ascertain whether there are capital schemes capable of being brought forward without compromising value for money considerations.</p> <p>Property will continue to ensure that all appropriate building considerations are included in business cases as part of tendering documentation.</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p>

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Procure to Pay (Accounts Payable) (Apr-16)	Some Improvement Needed	<p>The Data Management Team within the Finance and Procurement Group to document the procedures undertaken by their staff so that effective and consistent working practices continue regardless of staff turnover. (L)</p> <p>Implement the upgraded version of the FISCAL software and use it to its full potential to detect duplicate payments and vendors. (M)</p> <p>Staff in Procurement, Shared Services and Finance should continue to work closely to clearly document the assumptions and monitor the costs to ensure that the 'Invest to Save' money used for the e-invoicing system implementation, is returned, and savings - including contributions from East Sussex County Council - are tracked and reported to senior management and Members if required. (M)</p>	<p>Data Management Team has been moved to the Data Operations Team since the audit. Process mapping which is embedded in the team objectives will produce procedure notes by 31 March 2017.</p> <p>Fiscal software has been upgraded to version 7 in May 2016 and is being utilised to detect duplicate payments and vendors.</p> <p>A weekly report is circulated to the board members, showing performance against the business case targets. A contract review meeting chaired by Keith Coleman as the contract owner took place on 27 October and progress on performance and return on investment were discussed. Actions on next steps are being taken forward. It is an ongoing area of work at present.</p>	<p style="text-align: center;">  </p>

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Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Suspensions and HR Case Management (Apr-16)	Some Improvement Needed	<p>HR Management should continue to expedite provision of the specified system reports as these are integral to the effective management, supervision and control of team casework performance. (H)</p> <p>Enhance the Case Management System (CMS) user manual to include expected standards and conventions which should be specified so that staff are fully aware of their responsibilities with regard to CMS data input and monitoring. (M)</p> <p>Remind staff to check that data recorded on CMS is complete and accurate. HR advisors should be required to perform a weekly review of CMS cases to ensure that data is up-to-date, complete and accurate. Specification of such checks should be included in the user manual. (M)</p> <p>HR management should refer details of all suspected financial irregularities to the Chief Internal Auditor. (M)</p>	<p>Greg Nicol, Head of HR Advisory is currently reviewing these as part of the wider Orbis procedures and to align them to include East Sussex County Council staff. Work is expected to be completed by March 2017.</p> <p>User Manual has been updated in July 2016</p> <p>HR staff have been reminded to check the accuracy of CMS data prior to monthly team meetings and cases are reviewed and discussed at these meetings and the weekly and fortnightly team huddles.</p> <p>This has been implemented.</p>	<p> A</p> <p> G</p> <p> G</p> <p> G</p>

Management Action Plan (January - June 2016) – Progress update

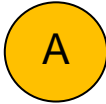

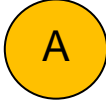

Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Off Contract Agency Spend (Apr-16)	n/a – position statement	There were no recommendations arising.	A full audit review of the Adecco contract is currently underway and will include the Off Contract Agency Spend among other aspects of the contract.	

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







Management Action Plan (January - June 2016) – Progress update

Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
HIV Service (Apr-16)	Some Improvement Needed	<p>The Public Health Service should work with Procurement and Commissioning to agree a forward plan to maintain the HIV Service. (H)</p> <p>Ensure that quarterly contract monitoring reports provide information on outcomes and surveys in compliance with the contract terms. (M)</p> <p>The officer responsible for monitoring the contract should ensure that the contract provider submits an annual report in accordance with the contract terms. (M)</p> <p>Responsibility for contract management and carrying out of inspection visits at contractor sites should be assigned to existing officers thus ensuring the service provider meets the contract terms and service specification. (M)</p>	<p>Public Health continues to work with procurement on plans for 2017/18. It was hoped that this work would align with the council's advocacy services re-tender. Public Health are working to identify potential gaps in service provision post March 2017 and how to ameliorate these.</p> <p>The provider of the contract and sub-contracts continue to provide quarterly monitoring information as per the contract and revised service specification</p> <p>The specification for this service has been re-written to take into consideration the 25% reduction in funding from Q2 of 2016/17. The contract provider will submit an annual report for 2016/17 that consolidates the quarterly monitoring information.</p> <p>The contract officer from Public Health has visited and inspected all three sites and is satisfied that the providers meet the contract terms and revised specification.</p>	   

Management Action Plan (January - June 2016) – Progress update


Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Direct Payments (DP) (Apr-16)	Some Improvement Needed	<p>Support plans should provide unambiguous detail of what the DP should be used for. (M)</p> <p>The service must investigate all 19 cases where the Auditor has queried appropriateness of spend. (M)</p> <p>Where receipts for cash are not included with reconciliations, individuals should be reminded of the requirement to do so. (M)</p> <p>Where close family members are carers, they should be supported to ensure they have proper respite breaks. (M)</p> <p>During the upcoming DP Guidance awareness training, officers should be reminded of the requirement to contact Internal Audit regarding suspected financial irregularities. (M)</p>	<p>Best practice guidance in place and communicated to staff; new social care system, LAS, template ensures more robust recording.</p> <p>All cases investigated and re-assessments carried out where appropriate.</p> <p>Embedded as part of financial monitoring process.</p> <p>Supported by best practice guidance above.</p> <p>Awareness training was provided to all Locality, Transitions and Mental Health Teams in May and June 2016, which included highlighting the need to contact Internal Audit regarding suspected financial irregularities. This is also included in the DP guidance and in the DP guidance film, both available for staff on the S:net.</p>	    
Property Local Authority Trading Company (LATC) (Apr-16)	Effective	There were no recommendations arising.		

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Management Action Plan (January - June 2016) – Progress update

Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Revenue Budgetary Control (May-16)	Effective	There were no high or medium priority recommendations arising.		





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 (2) Recommendation priority may be High (H), Medium (M) or Low (L)
 (3) Red/Amber/Green (RAG) status is a high level assessment of progress

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Children’s Data Management (May-16)	Some Improvement Needed	<p>A breach template should be raised for all reported breaches. (M)</p> <p>Names of responsible managers should be recorded for easy reference purposes. (M)</p> <p>Proof of remedial action taken should be evidenced. Where this is not possible, spot-checks to ensure that remedial action has been carried out should be performed by the CSF IG team. (M)</p> <p>The IG Manager should aim to identify the CSF staff population and which locations or organisational units pose the greatest risk to data governance (M)</p> <p>A policy to determine the categories of staff that should be expected to attend IG-related classroom training should be prepared and agreed by the Head of Performance and Support. (M)</p> <p>Comprehensive training records should be maintained with details of staff that have completed e-learning and classroom training. (M)</p>	<p>Complete. A breach template is raised for all reported breaches and stored in the CSF breach folder</p> <p>Complete. Managers details are being recorded where breaches have been reported.</p> <p>Complete. Emails evidencing actions are retained where appropriate. Spot checks will be applied where relevant</p> <p>Underway. Mandatory classroom training is underway. Teams that breach are instructed to book further training as a priority.</p> <p>Underway. IG classroom training is being delivered to all staff regardless of category or level of risk.</p> <p>Underway. All training records are available via SAP. The IG manager periodically requests this data and undertakes analysis of who has or has not attended.</p>	<p>G</p> <p>G</p> <p>G</p> <p>G</p> <p>G</p> <p>G</p>



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Management Action Plan (January - June 2016) – Progress update

Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Surrey Arts Follow-up (May-16)	Effective	There were no recommendations arising		
Payroll (May-16)	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>	<p>Payroll reviewed the practicality of printing a leaver form and determined it would not be a good use of resource for the additional control it would provide.</p> <p>Progress against the reporting of overpayments is ongoing and will be followed up through the current year audit.</p> <p>Progress against the reporting of advances is ongoing and will be followed up through the current year audit.</p> <p>Pay related suspense and control accounts are being reviewed as part of multi-disciplinary team approach to resolving historic material errors. A target date for completion of April 2017 has been set and balances on these codes will be reviewed in the current year audit</p>	  






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Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
School Improvement Strategy (SIS) (Jun-16)	Effective	In order to ensure that schools categorised as Focussed Support Schools improve within the required 2 year period, the date of their categorisation should be included in the school spreadsheet. This will assist performance monitoring. (M)	B4S have been asked to add this detail to their spreadsheet for current schools on FSS. However, SCC is unlikely to be commissioning this task beyond summer 2017 because the Local Authority is unlikely to receive any more Education Support Grant for School Improvement. The LA are currently developing a new pattern of school to school support that may not involve B4S maintaining a spreadsheet of school performance beyond summer 2017. This is not yet to be fully decided.	
Contract Monitoring – Children’s School and Families (Jun-16)	Some Improvement Needed	<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>	<p>Contract and financial monitoring processes in CSF are being strengthened through:</p> <ol style="list-style-type: none"> 1. Integration of commissioning functions across CSF to form single Commissioning & Prevention Service, led by Garath Symonds, Assistant Director for Commissioning & Prevention 2. Development of single register of external spend across CSF on contracts, grants and other payments (circa £194 million). 3. Rigorous approach to forward planning of commissioning and procurement with Services, Procurement and Finance 4. Strengthening of contract management arrangements, working with Services, Procurement and Finance. 5. Focus on SEND commissions to improve outcomes and value for money through Strategic Relationships Management. 	

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Management Action Plan (January - June 2016) – Progress update


Annex B

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Risk Management (Jun-16)	Some Improvement Needed	There were no high or medium priority recommendations arising.		
Adult Social Care IT Solution Follow-up (Jun-16)	Significant Improvement Needed	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)	Project plan refreshed.	
		The service should devise, document and implement a strategy to increase the number of providers registered on the e-market place module. (M)	The addition of providers has to be aligned to the roll-out plan. At this stage of the roll-out, all Strategic Providers and AQP's of Home Based Care are on the system in the 'live' areas. An additional 42 Learning Disability Providers will be added to the 'live' system by mid December.	
		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)	Risk register updated.	
0-5 Health Visitors (Jun-16)	Effective	There were no recommendations arising from this review.		

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



Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Operation Horizon (May-14)	Some Improvement Needed	A process should be put in place for monthly payment of discounts due with the outstanding balance recovered from Kier MG immediately. (H)	<p>As the Audit report picked up at the time, the agreement of tonnages, and the subsequent discounts, was a fairly lengthy process. The outstanding balance for 2014/15 was paid to SCC, and values for 2015/16 have now been agreed. A payment of £1m has been transferred to SCC for 2015/16 with the final outstanding payment of £500k awaiting agreement of one remaining final account that is currently in dispute - this should be resolved by end of November 2016.</p> <p>Management now have a process whereby they check the discount value bi annually, which provides more time for Kier to submit the final accounts for verification. Management may move this back to a quarterly process as the programme next year is significantly less than in previous years, so officers want the full discount value agreed and transferred to SCC at the end of the 6 month programme of works.</p>	

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

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Property Asset Management System (PAMS) (Nov-14)	Some Improvement Needed	The process for filing paid invoices should be resolved using the payment report from IMT. (H)	The IMT solution for filing invoices was not satisfactory and Procure to Pay Team introduced e-invoicing in April 2016 for all invoices with a purchase order placed via the Supplier Relationship Management (SRM) in SAP. Most PAMS invoices have a purchase order in SRM and hence will follow the e-invoice route. This is also expected to reduce the number of paper invoices kept in offices. As an interim measure, the Project Support Team in Property Services has an alternate process in place. They will locate the required invoice in PAMS and SAP officers external to the service (e.g. auditor) can see and verify the existence of invoices.	
Telecare (May 2015)	Some Improvement Needed	Consider the feasibility of incorporating metrics within the SLA that support qualitative outcomes assessments. In particular the auditor would suggest considering the number and type of sensor activations that resulted in a provider action and the outcome thereof. (H)	Telecare has been brought into a wider, national project, Technology Enabled Care Services (TECS), which will involve partnership working with Clinical Commissioning Groups. New ways of working and delivering TECS should be agreed by April 2017.	

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

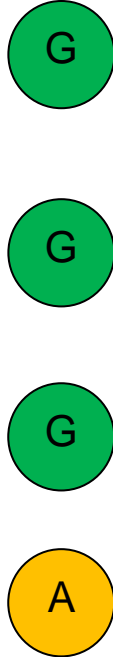
Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Children’s Safeguarding Quality Assurance (QA) Process (Jun 2015)	Significant Improvement Needed	All QA reports and related improvement plans should be presented to the Leadership Team to ensure managers take effective action; and, a summary should be provided to the Social Care Services Board. (H)	<p>Quality and performance is reported through senior management teams and includes learning from audits, observations of practice as well as feedback from service users. Quality and progress against practice improvement are regular items at the monthly Improvement Board meeting, where they receive member, officer and partner scrutiny. The quality of practice and the new QA framework will be discussed at the December Social Care Services Board, with the interim AD for Children's and the Head of Quality and Experience attending.</p> <p>The new QA framework will include the requirement for at least an annual update to the Social Care Services Board on the quality of practice and additionally the AD for Children's Services reports on key performance to the Performance and Finance Sub-group of the Social Care Services Board, which takes place bi-monthly - before each Board meeting.</p>	

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

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Trust Funds Follow-up (August 2015)	Significant Improvement Needed	<p>The Surrey Educational Trust (SET) should register as a charity in accordance with the Charity Commission regulations. It should prepare accounts that meet the requirements of the SORP, and arrange for its accounts to be subject to an independent audit examination. (H)</p> <p>Ensure the Henry Blanchett Bequest fund meets the requirements of the Charity Commission, establish a board and plan for its use. (H)</p> <p>Seek guidance from the Charity Commission on how to apply the Yarrow Lecture Fund balances of £121,526 at March 2015. (H)</p> <p>Increase the levels of knowledge and understanding of managing charities of officers within legal, finance and services. (H)</p>	<p>As a result of a request by the Council Overview Board, a Task & Finish Group was set up to review the council's arrangements in relation to trust funds. On 21 June Cabinet approved their recommendation to transfer the majority of trusts where the council is the sole trustee to the Community Foundation for Surrey. This is progressing well and will transfer 32 trusts. The arrangements for the remaining 12 trusts are being reviewed on an individual basis in consultation with other trustees. This should ensure all remaining trusts are more effectively managed.</p>	

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

Annex C

Audit (report date)	Audit opinion (1)	Recommendations for improvement (priority) (2)	Management action to date	Audit assessment (RAG) (3)
Information Governance (September 2015)	Some Improvement Needed	Action is required to give IG teams much clearer visibility about which staff (and agency staff) have or have not completed compulsory e-learning and classroom training. The potential for recording IG training data in SAP should be explored with HR and IMT. (H)	E-learning data is available on request from the Learning Development Team however it is not the practice for the IG team to obtain this data to determine which staff have or have not completed training. No monitoring takes place. Classroom training is now underway for ASC and CSF (since July 2016) with Corporate training having started in September 2016. Again no overview from IG team.	
Nursery Education (October 2015)	Significant Improvement Needed	The service should develop an effective rolling programme of audit visits to ensure compliance with funding requirements (H)	A group of senior service managers have been identified as appropriate to carry out audit inspections across the sector. Initial meetings have been held with them and they have agreed to slot some time in their diaries to undertake the audits (1 or 2 a month as a first approach) A set of guidance and procedural notes has been developed, including risk assessment A list of settings for the first audits has been drawn up some visits to settings, made by the Free Early Education team, have taken place but these have been around targeted support/review requirements, rather than specifically for audit purposes although our practice is to gather information during all visits	

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AUDIT & GOVERNANCE COMMITTEE
5 December 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 September 2016 - as attached at Annex A.

Although it is not the Committee's policy to review all Internal Audit reports in detail during the meeting, full copies of the reports summarised have been provided to Members of the Committee and are available through the Members' on-line library.

RECOMMENDATIONS:

The Committee is asked to consider whether there are any audit reports or management action plans that it would like to review further and whether there are any matters they wish to refer to the relevant Scrutiny Board.

BACKGROUND:

- 1 At the conclusion of each audit review a report is issued to the responsible manager who is asked to complete an action plan responding to the recommendations.
- 2 The return of a management action plan (MAP), which in the auditor's opinion adequately addresses the report findings and recommendations, signals the end of the audit process. Any follow up work required forms part of future audit plans at the appropriate time.
- 3 There have been 12 audit reports issued since the last report to this Committee in September 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	Community Infrastructure Levy	n/a	0
2	Compliance with PSOs	Some Improvement Needed	0
3	Surrey Choices Follow-up	Some Improvement Needed	0
4	Carers	Some Improvement Needed	0
5	Community Equipment Service	Some Improvement Needed	2

6	Home Based Care	Significant Improvement Needed	3
7	Civil Parking Enforcement	Significant Improvement Needed	3
8	Managed Print Service	Some Improvement Needed	0
9	BACS Replacement Software	Some Improvement Needed	0
10	AIS Replacement System (LAS & ContrOCC	Effective	0
11	Public Service Transformation	n/a	0
12	General Ledger	Effective	0

- 4 Annex A contains more details of the audits listed above and shows for each the:
- title of the audit
 - background to the review
 - key findings
 - overall audit opinion
 - key recommendations for improvement
- 5 The Committee will be aware that in order to respond to general Member interest in Internal Audit reports it has previously been agreed that a list of completed reports will be circulated to all Members of the County Council on a periodic basis.
- 6 In order to fully discharge its duties in relation to governance the Committee is asked to review the attached list of recently completed Internal Audit reports and determine whether there are any matters that it would like to review further or if it would like to suggest another Scrutiny Board does so.

IMPLICATIONS:

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

WHAT HAPPENS NEXT:

- 9 See Recommendations above.

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

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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)
Community Infrastructure Levy	<p>The Community Infrastructure Levy (CIL) came into force in April 2010 and allows Local Planning Authorities (LPAs) to raise funds for infrastructure through the planning application process.</p>	<p>As at August 2016, CIL had still not been fully implemented across Surrey, with 8 of the 11 LPAs having published charging schedules and 7 having adopted CIL. 3 LPAs do not have a Local Plan agreed or operational, which is considered a prerequisite for the adoption and implementation of CIL. Officers noted that DCLG may consider imposing a Local Plan on LPAs who do not have, or are not close to having, an up to date Local Plan in place by January 2017.</p> <p>Only 1 LPA has generated any CIL monies to date for SCC, and the process for claiming any of this funding for SCC purposes has been hampered by the inherent issues regarding the local decision-making process.</p> <p>Under the previous s106 regime, around £10m p/a was reliably generated for SCC. It was originally thought that CIL had the potential to generate approximately £20m p/a for SCC, but this figure has not been achieved to date.</p>	n/a	<p>This report was issued as a position statement and no audit recommendations were made.</p>

Completed Audit Reports (September – November 2016)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Compliance with Procurement Standing Orders (PSOs)	<p>Changes have been made to the way in which goods and services are procured at Surrey County Council (SCC).</p> <p>This audit focused on purchases made between the value of £15,000 and £99,999. The new procedures require that, where there is no existing contract in place, purchases in this value range must be supported by at least three quotations.</p>	<p>Audit testing showed that requests for quotations (RFQ) managed through the Buying Solutions Team (BST) were better documented and more consistent with agreed standards than those managed by the service area themselves.</p> <p>Audit testing found SAP could not always be used to validate the existence of a live contract. The Contracts Management System and Database (Intend) showed “awaiting contract”, “contract not signed” and other similar comments against a number of suppliers for whom purchase orders (PO) had been raised.</p> <p>38 out of 203 POs had been released subject to contract waivers being approved by the Procurement Category Specialists. The relatively high incidence of waivers in relation to RFQs raises the issue of whether there should be more evidence of a proactive market search prior to the authorisation of a waiver.</p>	Some Improvement Needed	<p>Approval for Service users to obtain their own quotes should only be approved after review by the BST. (M)</p> <p>Ensure that contracts are signed promptly and details of all outstanding contracts forwarded to the BST so that details can be added to InTend and SAP. In future, contract details should be passed to the BST as a matter of priority. (M)</p> <p>Consider reviewing the purchasing process to allow the BST more opportunity to attempt an RFQ exercise before a waiver is raised. Waivers should only be raised after the BST have confirmed that a market search has been attempted. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Surrey Choices (follow-up review) 2016/17	Following a review in 2015/16 of the delivery of services by Surrey Choices against its contract, this audit considered the progress made against the recommendations agreed in August 2015.	<p>There is clear evidence of progress being made against the recommendations and, while some require improvement or are not fully implemented, management are aware and addressing this.</p> <p>An upgraded performance monitoring dashboard is expected towards the end of October 2016.</p> <p>There have been significant improvements in financial monitoring and work is ongoing to incorporate this into the dashboard.</p> <p>Under utilisation of short break respite care has been addressed and a contract variation allows ongoing review of the continued commissioning of this service.</p>	Some Improvement Needed	No recommendations made.

Completed Audit Reports (September – November 2016)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Carers	<p>Both the Care Act and Children and Families Act 2014 have set out significant improvements for assessing and supporting carers of all ages.</p> <p>Responsibilities for identifying and supporting young carers are placed on the local authority as a whole. The Children and Families Act 2014 introduces new rights for young carers to ensure young carers and their families are identified and their needs for support are assessed.</p>	<p>Overall, carer arrangements in SCC are aligned to the national trends. The Auditor is satisfied with the recognition of national trends in SCC carer policies and integrated vision with other partners.</p> <p>Key points noted:</p> <ul style="list-style-type: none"> • ASC are encouraged to develop an action plan including steps, stages and a circulation list for implementing future announced changes in the carer area. • An area of improvement is to identify proper mechanisms to reach out to hard to reach carers including those from minority ethnic communities and traveller groups. • Direct schools representatives are not invited to young carer strategic meetings between SCC and other partners. Head teachers that represent clusters or confederations of schools should be identified and encouraged to attend young carers meetings for direct involvement and sharing good practice. • The Auditor is not confident that the data gathered from different partners for reporting the number of carers identified or receiving support is provided in a consistent manner. 	Some Improvement Needed	<p>The new carer strategy and principles should be made easily accessible to those in the front line to raise the awareness of carer needs and be able to take informed decisions. (M)</p> <p>Considering that data about carer numbers in Surrey is provided by a range of partners (CCGs, Boroughs, Action for Carers) ASC should initiate an integrated approach and a common framework for reporting the number of carers identified in Surrey. This will improve the quality of data and will provide a better comparison between years for different stakeholders. (M)</p> <p>ASC should recognise within its strategies the increasing demand for carer services on the waiting lists provided by Crossroad Care for home based breaks service. Eligibility criteria should be reviewed, based on data analysis of the impact on carers and person in care, with a view to prioritising access for those with greater need. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Community Equipment	<p>Surrey County Council (SCC) and Surrey Clinical Commissioning Groups (SCCG) jointly fund the Community Equipment Service (CES).</p> <p>The main objective of the CES is to enable people with disabilities and health problems to return to, or remain in, their own homes through the provision of items of community equipment.</p> <p>The service is supplied by Millbrook Healthcare; a private company.</p>	<p>All CCGs have agreed that SCC shall act as the Lead Commissioner for Community Equipment. To formalise this arrangement, CES drafted a partnership agreement in compliance with Section 75 of the NHS Act 2006. The draft agreement was forwarded to the corresponding CCGs but at the time of audit, no signed agreement has been received, despite regular reminders from the CES.</p> <p>There is a lack of consistent policy regarding CES funding for care service users resident in nursing homes. CES has recognised that it needs to have a strategy that enables it to advise, signpost and encourage people to go to trusted sources of supply, and where they will get professional advice and the right product at a reasonable price.</p> <p>There is no CES risk register setting out the strategic risks and challenges the service is facing.</p>	Some Improvement Needed	<p>CES should develop an action plan making the signing of the agreement with CCGs a priority and providing deadlines for the NHS partners to respond. (H)</p> <p>Develop a focused strategy for CES to include core strategic aims, to ensure a holistic approach and improve overall performance. (M)</p> <p>Include in the CES strategy provision to ensure consistency over the provision of equipment to residents in nursing homes. (M)</p> <p>CES should implement a risk register where service challenges and strategic risks should be included with appropriate measures in place for mitigation. (H)</p>

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Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Home Based Care (HBC)	<p>SCC has a statutory obligation for provision of HBC support. The service is delivered through external Home Based Care providers to enable individuals to continue to live independently in their own homes. In 2015/16 the council spent approximately £42m on home based care services and has budgeted approximately £47m for 2016/17.</p>	<p>The council is more than half way through the HBC contract; contracts are scheduled to end in 2017. At this stage of the contract term the service has not sought confirmation that Strategic Providers have complied with their contractual obligation to implement Electronic Call Monitoring (ECM) systems.</p> <p>The QA team updated the council's 'Guidance on Short Welfare and Safety Visits Call Guidelines' The service was unable to provide evidence to show that the updated guidance has been circulated.</p> <p>A contract monitoring framework is in place. In April 2016 the number of mandated Key Performance Indicators (KPI) were revised down to facilitate the reporting requirements. However, a review of the monthly performance returns indicates return rates by providers of only 6%; 2% and 24% in May; June and July 2016 respectively. The return rates are markedly low.</p>	<p>Significant Improvement Needed</p>	<p>Responsibility for verifying provider compliance with contract obligations should be reviewed and assigned to the appropriate team or officers. (M)</p> <p>The service should prioritise visits, as a minimum, to all SP to confirm the existence and effectiveness of their ECM systems and maintain a local record of the findings. (H)</p> <p>The service should update and re-circulate the reporting of missed calls guidance to providers and ensure adherence to procedures. (H)</p> <p>Clarification should be sought from providers on the non-submission of KPI data. Contractual obligations should be reviewed and either implemented or removed (specifically the penalties for the non- submission of KPI data). (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Home Based Care (cont'd)		<p>The service does not have a robust process to monitor the effectiveness of care visits conducted by any qualified providers (AQPs), who are by number the largest provider type that services are procured from.</p> <p>The contract makes provision for financial penalties to be applied for the non- submission of payment related key performance indicators. There is no evidence to indicate the service has invoked any penalties, which represents a not insignificant loss of income. Calculations, based on a minimum deduction of 2%, suggest that in 2015/16 the council has forfeited income of approximately £445,000 by not invoking the contractual penalties.</p> <p>The service conducts annual client satisfaction surveys. A comparison of 2 years survey results on the area of the timeliness of care suggests that approximately one third of the responding cohort are of the opinion that their care workers are not visiting at the agreed times nor are they staying for the total duration of the scheduled visit time.</p>	Significant Improvement Needed	<p>The service should ensure the Strategic Partnerships have implemented an effective Electronic Call Monitoring system and that AQPS are effectively recording performance data. (M)</p> <p>The service should circulate the 'Guidance on Short Welfare and Safety Visits' to all care practitioners drawing attention to the limitations around 15 minute visits and ensuring sufficient monitoring is done for the council to know what is happening on the ground. (H)</p> <p>Implements and administer a robust monitoring and performance reporting process. (M)</p> <p>The service should take steps to check that individuals in receipt of a care service are receiving their care in a timely manner and for the duration commissioned. Survey results should be further disseminated to identify provider trends for the timeliness of care visits received. (M)</p>

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Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Civil Parking Enforcement 2016/17	<p>The County Council delegates responsibility for the management of its statutory on-street parking function to the district and borough councils via Agency Agreements.</p> <p>Where a surplus is generated, Agency Agreements determine that this is shared between SCC, the district / borough and the relevant Local Committee. Where a deficit is recorded, the district / borough bear the financial risk.</p> <p>The audit was carried out following concerns about the accuracy of financial returns from some district / borough councils.</p>	<p>The audit identified a number of weaknesses in present SCC procedures, with some significant concerns in relation to financial returns submitted by Reigate & Banstead Borough Council (RBBC).</p> <p>In particular:</p> <p>The requirement that all boroughs / districts have their annual returns subject to audit verification prior to submission to SCC has not been enforced or met for the life of the present Agency Agreements (2013-date)</p> <p>Audit testing identified that some financial information submitted by RBBC (who also administer on-street parking for Tandridge district) was inaccurate. There was no evidence to support any of the indirect costs submitted for the Tandridge return for 2015/16. The Local Committee had been supplied with inaccurate information which may have impaired the scrutiny and decision making process.</p> <p>An inconsistent methodology for apportioning costs between on-street (SCC) and off-street (district / borough) parking was noted for all areas reviewed, with little evidence that SCC officers were monitoring this appropriately.</p> <p>A number of other areas of non-compliance with the Agency Agreements were noted (in relation to information required to be submitted, reporting of income written off, timeliness of the transfer of funds and KPIs).</p>	Significant Improvement Needed	<p>Management should ensure that audit certification of annual financial returns is undertaken by boroughs and districts prior to submission to the County Council. (H)</p> <p>Management should review all accounts submitted by RBBC (in respect of both RBBC and TDC) under the present Agency Agreement to gain assurance that they have been fairly and accurately stated. Management should consider whether the results of this audit necessitate an urgent review of the parking enforcement activities carried out by RBBC. (H)</p> <p>Management should consider, as part of the review of Agency Agreements, stipulating that fixed cost apportionment is accurate and based on actual figures wherever possible. (H)</p> <p>Management should review the terms of the Agency Agreements and perform an exercise to ensure that all boroughs / districts are fully compliant. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Managed Print Service	<p>In March 2013, Cabinet approved the adoption of a modern Managed Print Service (MPS) to replace an estimated 1,800 ageing printers and photocopiers, reduce costs, rationalise the number of devices and improve the work environment. Cabinet also approved the award of a five year MPS contract to Xerox UK Ltd.</p>	<p>In accordance with the terms of the original contract, Xerox invoked a review of volumes and a change to unit charges. SCC negotiated revised rates and an extension of the contract to 31 January 2021. The contract change request is due to signed imminently but it is not clear from which date the revised schedule of rates will become effective.</p> <p>There have been some issues with breakdowns particularly at Quadrant Court where usage is relatively high.</p> <p>There is currently no means of checking the usage details submitted on Xerox invoices for payment. Non-provision of details about individual Multi Functional Device (MFD) usage and breakdown also hinders analysis of MFD reliability and utilisation.</p> <p>“Service level credits” are not being posted to the relevant cost report. No credit notes appear on the Xerox Vendor Account settlement report. It was therefore concluded that credit notes had not been received or processed</p>	Some Improvement Needed	<p>The effective dates of the revised Xerox pricing schedule should be clarified and communicated to the Finance Control Manager and the Workplace Delivery Manager. (M)</p> <p>Remind users of the need to report Multi Functional Device (MFD) faults to the Help Desk at the earliest opportunity to ensure that faults can be attended to promptly. (M)</p> <p>Xerox should be asked to make details of individual MFD breakdown history available to enable SCC to identify MFDs which are problematic or which may need to be replaced. (M)</p> <p>Xerox should be asked to make available utilisation data for each MFD to enable more detailed checking of invoiced sums and spot-check of readings should such action be considered necessary. (M)</p> <p>Investigation as to why credit notes for service credits have not been processed should be carried out. (M)</p>

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Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Review of Implementing BACS Software Replacement 2016/17	<p>The Bankers Automated Clearing Service (BACS) owned by major banks and building societies in the United Kingdom (UK) is one of the world's largest automated clearing houses. As a result of the internet community adopting new and improved certification protocols and BACS withdrawing support for older connection protocols from 13 June 2016, SCC's BACS Bureau needed to either upgrade or replace the existing system for compliance. The audit reviewed this project.</p>	<p>The existing BACS provider for SCC, Bottomline was not intending to upgrade the software but instead, offered new software at a significantly higher cost. This prompted the council to look to the open market for a suitable alternative.</p> <p>There are only 18 BACS accredited providers in the UK and all organisations using BACS were competing for their services to meet the 13 June 2016 deadline. The business case for a Hosted Bureau was approved by the Project Board.</p> <p>The costs involved did not require a full tendering exercise and due to tight timescales, phased implementation was approved by the Project Board. The Project Team worked effectively by obtaining a contract waiver from Legal Services to share sensitive information with prospective suppliers prior to a contract being in place.</p> <p>APT Ltd was awarded a 3 year contract with effect from 6 May 2016 and the replacement software was implemented in early June 2016 as part of Phase 1.</p> <p>SCC is due for a BACS inspection on 9 December 2016 prior to which Phase 2 is due to be completed. The completion date for Phase 3 is expected to be 31 March 2017. Due to resource constraints, some improvements proposed in the original business case have been removed.</p>	Some Improvement Needed	<p>The Project Team should follow up all outstanding risks and any emerging risks during Phases 2 and 3 and completed. (M)</p> <p>The improvements to manual processes using automation outlined in the original business case with timescales should be progressed to implementation without being lost. (M)</p> <p>The resources should be prioritised to ensure readiness for the inspection in December 2016 by completing the pre-inspection questionnaire, tidying up the i-connect space by removing the locally archived files and the custom script that converts the social care customer number in SAP to enable direct debits to be collected should be introduced, tested and evidenced. (M)</p> <p>The Phase 3 items should be reviewed after the inspection in December 2016 to decide the options available for scheduling and completing the work by 31 March 2017. (M)</p>

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
<p>AIS Replacement System</p>	<p>In May 2015, Cabinet agreed the replacement of the ASC IT systems. The new case management system is provided by Liquidlogic while the financial modules have been procured from Oxford Computer Consultants (OCC). The project was scheduled to implement phase 1 of the system in Summer 2016.</p>	<p>The Project Board includes both technical and non-technical ASC officers and representation from the IMT, Finance and Procurement Teams. The Project Team is supported by ‘System Champions’ individuals from across ASC and Mental Health. Roles and responsibilities of the board are clearly laid out in the project documentation.</p> <p>Communications from the project team, since go-live, suggest that system access has been granted to some users who have not completed the requisite training.</p> <p>Since migration it has come to light that some case notes did not fully migrate. The data quality manager is scoping out a post live data cleanse plan which is expected to include the assignment of the unallocated cases and the retrieval of the missing case notes. At the time of this report the plan was not available for review.</p>	<p>Effective</p>	<p>The service should ensure, where practicable, that all current officers have successfully completed the requisite training. (M)</p>

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Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Public Service Transformation (PST)	<p>In July 2013, central government selected Surrey as one of the first nine areas to participate in the PST Network. The Transformation Network spreads the innovation and shares the learning from the whole-place Community Budget pilots.</p> <p>The programme consists of five key areas of work:</p> <p>Emergency Services Collaboration</p> <p>Family Support Programme</p> <p>Health and Social Care Integration</p> <p>Transforming Justice</p> <p>Improving Mental Health Crisis Provision</p>	<p>Partnership working was generally considered to be positive and it is apparent that these working relationships have been further developed and strengthened through this transformation programme.</p> <p>Information sharing across partners was highlighted as an area which needs to continue to improve.</p> <p>Programme governance arrangements are generally sound for each of the workstreams and the programme support provided through the Working Together programme office is valued.</p> <p>This does not mean however that projects have necessarily been delivered on time or that envisaged benefits have been realised.</p> <p>While businesses cases for individual workstreams envisage significant savings across the public sector arising from this work, identifying cashable savings is not straightforward. From this perspective, although there is a general belief, amongst those involved, in the value of this work, it is not possible to prove that these initiatives have all provided the best use of public funds.</p> <p>As a consequence the financial sustainability of some of this work cannot be taken for granted</p>	n/a	No high or medium priority recommendations were raised.

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
General Ledger (GL)	<p>The GL is a key financial system which supports internal accounting and the production of the annual financial statements.</p> <p>The GL is subject to an annual audit review by internal audit as part of its overall assessment of the robustness of internal controls.</p>	<p>Tests undertaken on key elements of the system demonstrated good compliance with current procedures.</p> <p>The service is addressing historic balances on key GL Suspense and Control accounts as part of a multidisciplinary team approach.</p>	Effective	<p>Available guidance should be current and previous versions should be removed from the Intranet. A regular review of active GL codes should be undertaken to ensure that codes that are no longer being used are blocked or removed from the list of active codes. (L)</p> <p>The service should ensure that the current work of the multi-disciplinary team to appropriately account for the outstanding balances on various GL codes is completed by April 2017. (L)</p> <p>It is good practice to encourage consistency in inputting journals and ensure that key information is included so that an audit trail can be maintained. (L)</p>

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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
5 December 2016

**Half-year summary of Internal Audit irregularity investigations and counter fraud measures
April – September 2016**

Purpose of the report:

The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations and proactive counter fraud work undertaken by Internal Audit in the first half of this financial year from 1 April to 30 September 2016.

Recommendation

The committee is asked to:

1. Note the contents of this report; and
2. Approve the new Counter Fraud Strategy and Framework, attached at Annex A, and endorse it to council for inclusion in the Constitution.

Introduction

3. The council's Financial Regulations require all officers and members of the council to notify the Chief Internal Auditor of any matter that involves, or is thought to involve, corruption or financial irregularity in the exercise of the functions of the council. Internal Audit will in turn pursue such investigations in line with the current Strategy against Fraud and Corruption.
4. The annual Internal Audit Plan for 2016/17 carries within it a contingency budget for 'Irregularity and Special Investigations' of 340 days. This contingency covers time to investigate 'irregularities' (actual or alleged financial impropriety, corruption, and other similar matters) as well as time for proactive counter fraud work and the National Fraud Initiative (NFI), detailed in the latter part of this report.
5. Special ad hoc reviews not originally included in the agreed annual plan are also charged against this contingency if commissioned in-year by members or senior managers. While often linked to concerns raised by management or members, these reviews may also arise during the course of planned audit work. Examples of such work undertaken in the first half of 2016/17 include assisting Human Resources with an employment tribunal and undertaking additional assurance work in Children, Schools and Families directorate.

6. Audit reports following irregularity investigations typically help to provide independent evidence to support a management case against an employee under formal disciplinary procedures, or help strengthen controls in areas where weaknesses are identified. As formalised in the Reporting and Escalation Policy, agreed by this committee, irregularity audit reports are not subject to the same distribution as general audit reports due to their confidential nature.

Summary of investigations between 1 April and 30 September 2016

Resources

7. During the first half of 2016/17 a total of four officers undertook work on irregularity investigations excluding ad hoc special reviews. The total time spent on investigations was 36 days, which equates to 0.32 of a full time equivalent post.
8. Based solely on the hourly rates of these officers, the total amount spent on the investigation of fraud and irregularity was £6,239 (increasing to £16,710 including average employer pension contributions and recovery of overhead charges).

Number and types of investigations

9. In the first six months of 2016/17 a total of 13 new investigations commenced. In addition, one case carried forward from 2014/15 is ongoing due to court proceedings. For comparison, in the first half of the 2015/16 financial year 16 investigations commenced.
10. The methods by which new cases were brought to the attention of Internal Audit are shown below.
 - 4 were raised by council management;
 - 4 originated as a complaint from a member of the public; and
 - 5 arose due to whistle blowing allegations, 3 of which were through Expolink.
11. Of the 13 investigations carried out, 4 were proven, 7 were not proven, and 2 are ongoing. For those cases 'not proven', this is based on the specific allegations investigated; for example, while it may not be possible to prove 'theft' has occurred, a conclusion of 'poor control' might still be reached.
12. Full details of the categories by which fraud and irregularity investigations are reported are included in the Counter Fraud Strategy and Framework attached at Annex A. All proven fraudulent or irregular behaviour by officers may be considered misconduct; similarly, poor controls increase the likelihood of fraud occurring. The categories, however, reflect alleged specific types of fraud or irregularity.
13. The proportion of all recorded irregularities across the council's directorates is shown in Figure 1 while Figure 2 shows the categories of investigations undertaken. The number of investigations is shown in parentheses.
14. The category and allegations for cases undertaken in the first half of 2016/17 are summarised in Tables 1 to 3, which also outline the outcomes for completed cases. Some cases may involve the allegations or investigation of more than one type of irregularity; the summaries therefore show the primary reason for investigation.

Figure 1. Investigated irregularities by directorate from 1 April to 30 September 2016

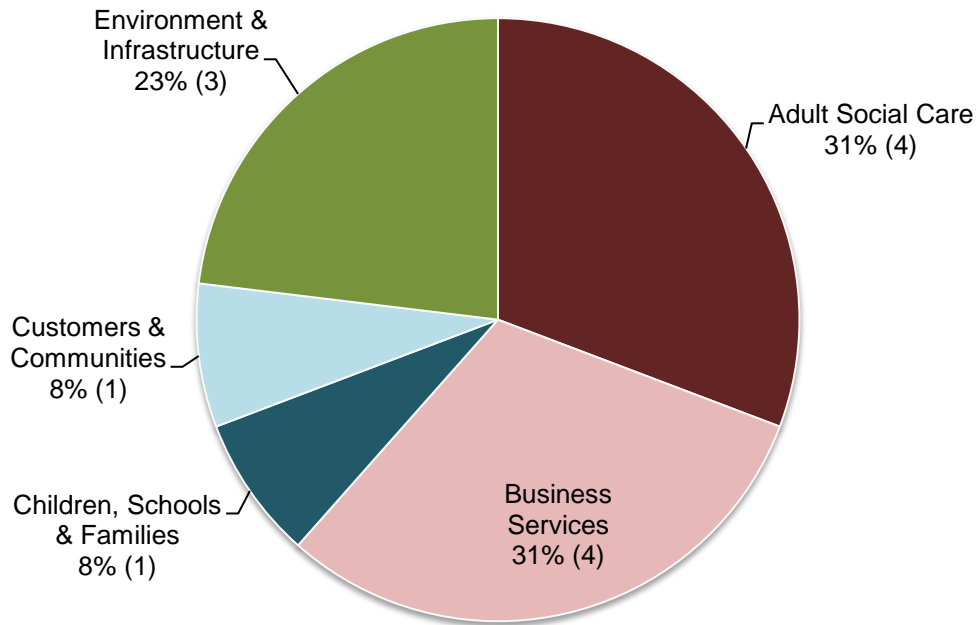


Figure 2. Summary of irregularities by type from 1 April to 30 September 2016

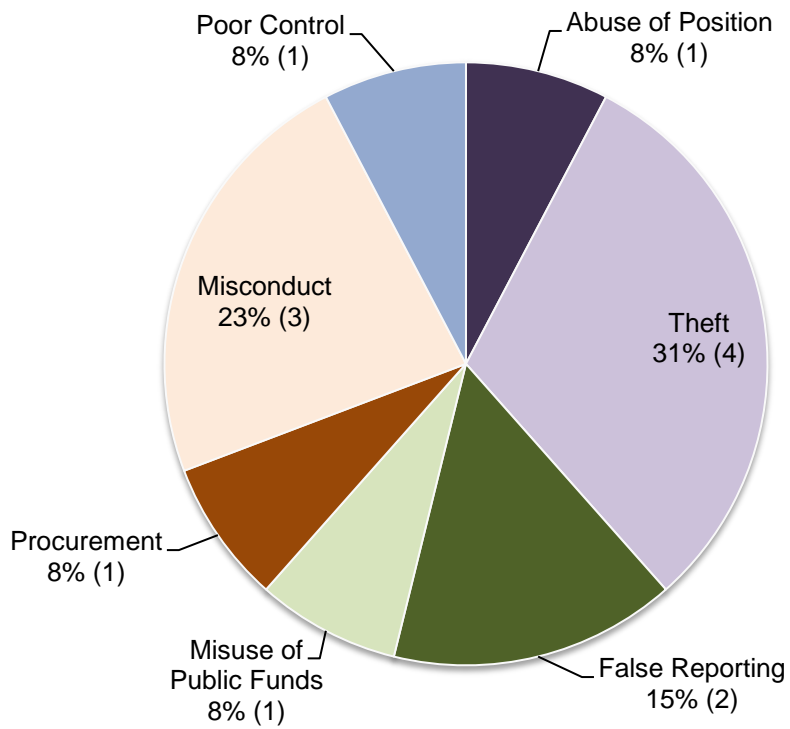


Table 1. Proven: 4 cases

Category	Allegation	Outcome
Abuse of position	Care worker from an external care agency obtained over £40k from a vulnerable adult receiving care commissioned by the council.	Case referred to the police; checks carried out to ensure the care worker did not obtain money from any other individuals under the council's care
Theft	Officer failed to bank £220 raised during a charity event held on council property	Investigation led by the service with advice from Internal Audit; officer dismissed
	Theft of kitchen supplies by two officers in a care home	Police caution given to one officer; both officers no longer employed by the council
	£270 removed from a safe in a fire station	Unable to determine who was responsible; advice given to strengthen controls

Table 2. Not proven: 7 cases

Category	Allegation	Outcome
Theft	Officer responsible for the theft and selling on of council laptops	No evidence found to prove the allegation although several devices remain unaccounted for; advice given to strengthen management controls
False reporting	Nursery proprietor claimed funding for children no longer attending the nursery	Poor record keeping leading to error rather than fraud; advice given to improve controls
Misuse of public funds	Alleged fraud by a contractor in relation to traffic signage	No evidence of fraud; matter passed back to the service for follow-up action
Misconduct	Officer received money from a vulnerable adult	No evidence found to support the allegation
	Officer failed to fulfil contracted working hours	No evidence found to support the allegation
	Intentional mis-measurement of road defects and dishonest behaviour by officers	No evidence found to support the allegations
Poor control	Alleged flawed collective bargaining arrangements in relation to the pay review	No evidence found to support the allegation

Table 3. Ongoing: 2 cases

Category	Allegation
False reporting	Intentional incorrect recording of time by an external domiciliary care agency
Procurement	Concerns about bidding and tendering process for Community Improvement Fund monies

Proactive fraud prevention and awareness work

Counter Fraud Strategy and Framework

15. The new Counter Fraud Strategy and Framework ('the framework'), attached at Annex A, has been developed in accordance with the latest professional guidance and good practice. The framework, which replaces the Strategy against Fraud and Corruption, has been reviewed by key senior managers as well as the Chief Executive and Leader of the Council.
16. The Counter Fraud Strategy aims to embed an anti-fraud culture and sets out the council's commitment to tackling fraud through:
 - Acknowledging and understanding fraud risks;
 - Preventing and detecting more fraud; and
 - Pursuing losses and punishing fraud.
17. The framework includes two new policies intended to clarify the council's stance on bribery and strengthen arrangements for sanctions and redress. The strategy is supported by the following appendices:
 - A. 'Reporting categories' by which fraud and corruption are reported together with relevant legislation and policy;
 - B. 'Anti-bribery policy' outlining measures to combat acts of bribery by or to anyone carrying out council business;
 - C. 'Anti-money laundering policy' setting out the maximum allowable value of cash transactions and the responsibilities of members and officers to report suspicions;
 - D. 'Fraud response plan' providing guidance on reporting concerns and the investigation process including use of surveillance; and
 - E. 'Sanctions policy' outlining options for sanction and redress where fraud or corruption is identified and guidance on determining the appropriate sanction.
18. It is anticipated that the framework will be adopted by other Orbis partners by the end of 2016/17 following amendments to reflect local policies. Further, the framework has been shared with county council members of the South East Counter Fraud Hub to encourage good practice.

Fighting Fraud Plan 2016/17

19. Internal Audit is making good progress against the Fighting Fraud Plan 2016/17 presented to this committee in May 2016, as summarised below.

Review of gifts and hospitality

20. A review of gifts and hospitality arrangements for officers was carried out in line with good practice set out in the 'Fighting Fraud and Corruption Locally' document issued by the department for Communities and Local Government.
21. The audit, reported to this committee in September 2016, identified numerous weaknesses in gifts and hospitality arrangements including:
 - The absence of corporate guidance in key areas such as receiving gifts from potentially vulnerable individuals and the acceptance of alcohol, luxury items and cash, all of which have been accepted by officers;

- A lack of formal procedures for the validation or verification of disclosures made;
- Weak procedures relating to paper declarations for staff with no computer access, resulting in gifts of concerning value and nature going unnoticed; and
- Non-compliance with the Gifts and Hospitality Policy with regards to making the register available on the council website and reporting disclosures to an appropriate council committee.

22. Management actions to resolve these issues have been agreed with the service and a progress update will be reported to this committee in May 2017.

School admissions data

23. The use of false information on school applications is a highly publicised, national fraud risk. In 2015 Surrey County Council received approximately 27,000 school applications for entry into a primary, junior or secondary school in September 2016.
24. An address verification exercise was conducted on the junior school application data for Elmbridge, which comprised almost 1,500 records that were checked using online tracing software and tools.
25. The results highlighted 24 records that warranted further investigation. Two address records were flagged as 'gone away', although enquiries indicated tenuous links to the addresses. For the remaining 22 flagged records, the link between the applicant and the address was historic and inactive.
26. The results have been passed to the Admissions and Transport Team for further investigation. In addition, a full exercise of all school applications data is being considered for the September 2017 intake.

Schools payroll data

27. The Schools Compliance audit undertaken as part of the 2015/16 Annual Audit Plan identified a few payroll discrepancies that resulted in payments being made to staff in error. Following on from this, a desk based analysis of school payroll data was carried out to identify potentially fraudulent or erroneous payments.
28. While the analysis has not revealed any fraudulent payments being made to staff, it has highlighted the following areas of concern:
- Nine payments classed as 'honoraria' made to teachers despite this type of payment being restricted to non-teaching staff;
 - Monthly payments for 'Private Medical Insurance' made to several Headteachers that, following the end of this provision in 2013, appear to have become part of the Headteachers' standard salary; and
 - Weaknesses in the controls around overtime payments, which had a total value of approximately £456,690 for permanent and term time staff in 2015/16.
29. These issues are being investigated by the council's Payroll Team and adjustments will be made where necessary. This work will also inform a future targeted review of overtime later in 2016/17.

Overseas pensioner verification

30. A verification exercise of people who live overseas and receive pension payments from Surrey County Council is currently underway. Pensioners living abroad are considered to pose a higher risk to public funds as the council may not be informed of the death of a

pensioner overseas and they are not identified by data matching with UK deceased person records. This exercise aims to ensure that money is being paid to the intended person and also to prevent loss to the pension fund caused by payments being made to deceased pensioners.

31. Letters have been sent to all pensioners living abroad and, to date, responses have been received from over 60% of the 455 pensioners contacted, with no issues identified. Follow up enquiries will be made in all cases where no response is received. A full update will be reported to this committee in May 2017.

National Fraud Initiative

32. Data for the 2016 National Fraud Initiative exercise has now been submitted. This consisted of almost a million records across nine data sets including payroll, pensions, creditors, social care direct payments, Blue Badges and concessionary travel passes.
33. This data will be compared with data from 1,300 public and private sector organisations to help prevent and detect fraud. Results from the data matching exercise are expected to be available from the Cabinet Office from the end of January 2017.

Partnership working

34. The Surrey Counter Fraud Partnership continues to deliver significant savings across the county with all 11 boroughs and districts now represented in the partnership as well as Surrey Police and Trading Standards. This allows greater sharing of joint working and best practice to ensure that all councils in Surrey take a robust approach to protecting their services from loss through fraud and error.
35. Since January 2015 the partnership has delivered £5.4million in fraud and error savings including:
- The recovery of 57 properties allowing reallocation to families in genuine need;
 - The prevention of 49 property allocations and the rejection of 13 homeless applications on the grounds that applicants were not eligible, not in genuine need, or had lied to enhance their application; and
 - The rejection of 31 Right-to-Buy applications on the grounds that applicants were not entitled to the discount or had lied on their application. This also resulted in the tenancy being recovered in a number of cases.
36. The Partnership is now developing a data hub for partners to share intelligence and coordinate data matching. A countywide review of single person discount is planned for March 2017, which is expected to generate significant additional revenue to boroughs, districts and the county council.

Implications

Financial and value for money

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

Equalities

38. There are no known equalities implications in this report. All individuals responsible for managing or receiving public money are dealt with on an equal basis.

Risk management

39. Combating fraud will contribute to improved internal control and value for money.

Next steps

40. Subject to the approval of this committee, the Counter Fraud Strategy and Framework will be submitted for inclusion in the Constitution of the Council.

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

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

Sources: Morgan Kai Insight database, irregularity reports

Counter fraud strategy and framework

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Counter fraud strategy

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Key points

- This strategy and framework set out the council's commitment to preventing, detecting and deterring fraud and corruption.
- The council expects the highest ethical and legal standards from its members, officers, contractors and agents carrying out business on its behalf.
- This framework includes guidance on types of fraud and corruption, how to report concerns and the investigation process.
- All cases of suspected financial irregularity or corruption must be reported to the Chief Internal Auditor.
- A Whistle Blowing Policy is in place to support a safe environment for concerns to be raised.
- Failure to comply with the policies contained within this document will result in sanctions being considered.

Date published: December 2016

Next review date: April 2017



1. Introduction

- 1.1 Surrey County Council is one of the country's largest local authorities, with a gross budget of £1.7billion in 2016/17 and employing over 26,000 people. The public is entitled to expect the council to conduct its business with integrity, honesty and openness and demand the highest standards of ethical conduct from those working for and with it.
- 1.2 The council takes its statutory duty to protect the public funds it administers seriously. It is essential that we protect the public purse and ensure that council funds are used only for their intended purpose: to support and deliver services to our community within Surrey. As such we maintain a zero tolerance approach to fraud and corruption whether it is attempted from outside the council or within.
- 1.3 This strategy forms part of the council's counter fraud framework, a collection of interrelated policies and procedures including the Code of Conduct, Financial Regulations and Whistle Blowing Policy. It also includes policies and procedures that are specifically targeted at countering fraud and corruption. These are attached as the following appendices:
 - A. 'Reporting categories' by which fraud and corruption are reported;
 - B. 'Anti-bribery policy' outlining measures to combat acts of bribery by or to anyone carrying out business for or on behalf of the council;
 - C. 'Anti-money laundering policy' detailing the responsibilities of members and officers, in particular the need to promptly report suspicions;
 - D. 'Fraud response plan' providing guidance on reporting concerns and the investigation process; and
 - E. 'Sanctions policy' explaining how to determine which sanctions are appropriate when fraud or corruption is identified.

2. Aims

- 2.1 This strategy sets out the council's commitment to preventing, detecting and deterring fraud and corruption, taking into consideration the council's three strategic goals that it aims to achieve for all residents:
 - Everyone in Surrey has a great start to life and can live and age well;
 - Surrey's economy remains strong and sustainable; and
 - Residents in Surrey experience public services that are easy to use, responsive and value for money.
- 2.2 This strategy aims to:
 - Embed an anti-fraud culture where people are empowered to challenge dishonest behaviour;
 - Actively prevent, deter and promote detection of fraudulent and corrupt acts;
 - Maintain the council's awareness of emerging fraud risks such as those associated with digital and cyber security;
 - Provide clear guidance on the roles and responsibilities of members and officers; and
 - Identify a clear pathway for investigative and remedial action.

3. Our commitment

At Surrey County Council we recognise that every pound lost to fraud reduces our ability to provide services to our residents who really need them.

While the majority of our staff and the people we deal with each day are honest and law abiding, we acknowledge that this may not always be the case and that fraud can and does regrettably happen.

The Council is committed to a zero tolerance policy in relation to fraud and corruption and we fully endorse the Counter Fraud Strategy and Framework. This has been developed in line with the latest professional good practice guidance and should help to safeguard public funds by minimising the risk of loss as a result of fraud. Everyone at Surrey County Council has a role to play in this.

David Hodge
Leader of Surrey County Council

David McNulty
Chief Executive Officer

4. Definitions

- 4.1 Fraud can be broadly described as a deliberate act, involving deception or concealment, carried out with the intention of making a gain or causing a loss (or risk of loss) to another. The Fraud Act 2006 includes three main offences:
- ‘False representation’ to a person or device, for example, falsely claiming to hold a qualification to obtain a job or misuse of another person’s debit card;
 - ‘Failing to disclose information’ which you are under a legal duty to disclose, such as not declaring assets as part of a means tested application for services; and
 - ‘Abuse of position’ whereby you act against or fail to safeguard any financial interests you are expected to protect, for example, financial abuse of individuals receiving social care.
- 4.2 For the purpose of this strategy the term ‘fraud and corruption’ includes a range of dishonest acts such as those involving theft, misappropriation, bribery, money laundering, concealment of material facts, false representation and abuse of position.
- 4.3 Definitions relating to bribery and money laundering are detailed in Appendices B and C, respectively. A brief description of the categories by which the council reports fraud and corruption, including examples, is attached at Appendix A.

5. Strategic approach

- 5.1 The council’s approach to fraud and corruption is based on three key strands, as set out in the Local Government Counter Fraud and Corruption Strategy:
- **Acknowledge** and understand fraud risks
 - **Prevent** and detect more fraud
 - **Pursue** losses and be stronger in punishing fraud

Acknowledge

- 5.2 We acknowledge that fraud risks exist both from within and outside the council. These are recorded in a risk register that is updated on a regular basis to reflect both emerging risks and changes to the likelihood and impact of risks in light of any developments. Fraud risks are also considered at the council's Strategic Risk Forum to facilitate coverage of all council services. Internal Audit will work with services and provide advice to mitigate identified fraud risks.
- 5.3 Our response to fraud and corruption is clearly documented in a Fraud Response Plan (Appendix D), which is designed to make available suitable resources and support to tackle fraud and corruption. We will regularly review our approach to tackling fraud, taking into consideration emerging risks, themes and trends both within the council and across wider local government areas.

Prevent

- 5.4 We recognise the importance of a strong anti-fraud culture in preventing fraud and corruption. The council operates according to a set of core values (see Section 6) and also has policies in place intended to prevent dishonest behaviour. These include Codes of Conduct, which place a duty on officers and members to declare any interests that may conflict with the council's business, and a Gifts and Hospitality Policy restricting the acceptance of financial or other rewards.
- 5.5 A key measure in the prevention of fraud and corruption is ensuring appropriate checks are made when new employees are recruited. Hiring managers must comply with the Resourcing Policy and Safer Recruitment Policy when conducting pre-employment checks such as verifying identity, obtaining references, confirming the right to work in the UK and, when necessary, Disclosure and Barring Service checks.
- 5.6 The council acknowledges the changing nature of fraud, in particular the risks emerging as a result of increased online access to and delivery of services. In recognition of the importance of robust cyber security and identity assurance, we take a networked approach involving collaboration both with local authorities and also central government agencies and departments.
- 5.7 We will improve controls and processes by learning from instances of proven fraud and corruption and will also take into account findings from the work of Internal Audit. We are committed to making full use of information and technology to proactively detect fraud, as detailed further in Section 7.

Pursue

- 5.8 We will ensure appropriate remedial action is taken in all cases of proven fraud or corruption, in line with the Sanctions Policy (Appendix E). This may include collaboration with the police, government departments and other local authorities. We will make every effort to recover funds including, where appropriate, making best use of legislation such as the Proceeds of Crime Act 2002.

6. Culture

- 6.1 The council is committed to the highest ethical standards ranging from the expected behaviours set out in the Code of Conduct to the four core values (listen, responsible, trust, respect) that are crucial to delivering the Corporate Strategy.
- 6.2 We believe the 'seven principles of public life' are the foundation of a strong anti-fraud culture and we expect all members, officers and contractors to follow these principles, as well as all legal rules, policies and procedures.

6.3 The seven principles of public life and a brief explanation are listed below.

Principle	You should...
Selflessness	...act solely in terms of the public interest and not for the purpose of gain for yourself, family or friends.
Integrity	...avoid placing yourself under any obligation to people or organisations that might seek to influence you in your work.
Objectivity	...act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
Accountability	...be accountable to the public for your decisions and actions and submit yourself to scrutiny as appropriate.
Openness	...act and take decisions in an open and transparent manner. Information should only be withheld from the public if there are clear and lawful reasons for doing so.
Honesty	...be truthful. This includes declaring any conflicts of interest and taking steps to resolve such conflicts.
Leadership	...actively promote and support these principles by applying them to your own behaviour and challenging poor behaviour.

6.4 In essence, we expect everyone carrying out council business to protect the public interest and also to challenge instances of dishonest behaviour. The promotion of a strong anti-fraud culture is therefore vital, as not only will it deter potential fraudsters but it will also encourage a safe environment in which individuals can raise concerns.

7. Proactive work

- 7.1 The remit of Internal Audit includes the delivery of a risk based proactive counter fraud programme. These activities are detailed in an annual Fighting Fraud Plan, which is presented to Audit and Governance Committee. The plan takes into consideration emerging trends across the public sector, proven cases of fraud or corruption and other specific areas where there is an increased risk of fraud or corruption.
- 7.2 As part of the proactive detection of fraud and corruption, we undertake data analytics both within the council (for example payroll) and between other public sector bodies. In conducting data matching exercises, the council will comply with all relevant legislation such as the Data Protection Act 1998.
- 7.3 We are required to participate in the biennial National Fraud Initiative data matching exercise administered by the Cabinet Office. This exercise, which compares a wide range of data between publicly funded bodies, includes payroll, pensions, creditors, social care payments and concessionary travel.
- 7.4 We are committed to enhancing partnership working and information sharing as a means to reducing fraud and corruption. Where appropriate, information will be shared with anti-fraud networks such as Action Fraud and the National Anti-Fraud Network, as well as Orbis partners, to enable the identification of patterns and sharing of good practice.
- 7.5 As part of the Surrey Counter Fraud Partnership between the council and Surrey's borough and district councils, we will undertake targeted data matching exercises and publicity drives to detect and prevent fraud across the county.

8. Awareness and training

- 8.1 The success of this strategy is partly dependent on the awareness and training of members and officers across the council. In recognition of this, we will:
- Include information on the counter fraud framework in relevant training and e-learning packages;
 - Continue the delivery of presentations raising awareness to individual teams;
 - Include a discussion about fraud risks and training needs as part of Internal Audit's client liaison activities with all services; and
 - Continue to deliver an annual fraud seminar to the Audit and Governance Committee.

9. Reporting

- 9.1 Responsibilities contained within this strategy rest with all officers and members of the council but its delivery will be led by the Internal Audit team. The biannual reports presented to Audit and Governance Committee, summarising investigations and counter fraud work, will include an update on progress against this strategy and the Fighting Fraud Plan.
- 9.2 This strategy will be reviewed on an annual basis.

Reporting categories

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

Anti-bribery policy

Policy statement

Surrey County Council will:

- Not tolerate bribery or corruption in any form or at any level;
- Consider anti-bribery measures as part of its governance process; and
- Commit to policies and procedures to prevent, deter and detect bribery.

1. Introduction

- 1.1 The council expects its business to be conducted with probity, openness and accountability. Key to maintaining the council's high standards is the requirement for members, officers, contractors and agents carrying out business on behalf of the council to behave honestly, lawfully and with integrity.
- 1.2 This policy forms part of the council's counter fraud framework and sets out:
- Definitions and legal background in respect of bribery; and
 - The council's approach to bribery including fulfilling its duties under the Bribery Act 2010 (the Act).

2. Scope of the policy

- 2.1 This policy applies to all areas of council business and therefore all members, officers, contractors and agents carrying out business on behalf of the council. Any act of bribery by a person outside the council will be a matter for the police.
- 2.2 This policy should be read alongside the Gifts and Hospitality Policy. Other relevant policies (such as the Code of Conduct and Procurement Standing Orders) should be referred to where appropriate.
- 2.3 Failure to comply with this policy will result in action being considered under the Sanctions Policy (see Appendix E).

3. Definitions and legal background

- 3.1 Bribery is the act of offering, giving, receiving or seeking an inducement or reward intended to influence the performance of a relevant function or duty to gain a personal, commercial, regulatory or contractual advantage.

Bribery Act 2010

- 3.2 The Act includes four key offences:
- Offering, promising or giving a bribe to reward a person for improperly performing a relevant function (Section 1);
 - Requesting, agreeing to accept or receiving a bribe as a reward for improperly performing a relevant function (Section 2);
 - Bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business (Section 6); and
 - A corporate offence by a 'commercial organisation' of failing to prevent bribery that is intended to obtain or retain business or an advantage in the conduct of business (Section 7).

- 3.3 The Act makes no distinction between a bribe being offered, promised or given directly or through a third party. Further, it makes no difference whether the person requesting, agreeing to accept or receiving the bribe knows or believes that the performance of the function will be improper; or whether this person asks another person to carry out the improper performance of the function on their behalf.
- 3.4 The council accepts that it may be classed as a ‘commercial organisation’ in relation to the corporate offence of failing to prevent bribery. The Act allows for a defence to this corporate offence if an organisation can show that it had in place ‘adequate procedures’ designed to prevent bribery.
- 3.5 Good practice and robust governance arrangements include having adequate procedures in place to prevent bribery and protect the council from reputational and legal damage. Whether an organisation’s procedures are ‘adequate’ will ultimately be a matter for the courts to decide on a case-by-case basis. Adequate procedures need to be applied proportionately, based on the level of risk of bribery in the organisation.

Public Contracts Regulations 2006

- 3.6 The Public Contracts Regulations 2006 place a duty on the council to automatically and perpetually exclude from participation in a procurement procedure any company or director that has been convicted of a corruption offence. The council may disregard this regulation on an exceptional basis, for example due to reasons relating to the public interest such as public health or protection of the environment.

4. The council’s approach to bribery

- 4.1 The council has in place a framework of arrangements intended to manage the risk of bribery and corruption and ensure business is conducted to the highest standards. This policy does not change the requirements of other guidance, which includes:
- Member and Officer Codes of Conduct, which require members and officers to declare any personal or pecuniary interests;
 - Procurement Standing Orders governing the negotiation of contracts; and
 - Gifts and Hospitality Policy, which sets out the restrictions on accepting gifts and hospitality and the need to register approved gifts that are accepted.
- 4.2 In the context of this policy, it is unacceptable for members, officers, contractors and agents carrying out business for or on behalf of the council to:
- Give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given;
 - Give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to ‘facilitate’¹ or expedite a routine procedure;
 - Accept payment from a third party that is known or suspected to be offered with an expectation that it will obtain a business advantage for them;
 - Accept a gift or hospitality from a third party if it is known or suspected that it is offered with an expectation that a business advantage will be provided by the council in return;

¹ Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions, including but not limited to: awarding contracts; making appointments to temporary or permanent positions; and determining eligibility to receive services.

- Retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy; or
- Engage in activity in breach of this policy.

5. Reporting suspected bribery

- 5.1 You should report any suspected acts of bribery. If you have been offered an inducement from another party, you should report this even if you declined.
- 5.2 The council has put in place a safe environment to report suspected cases of fraud and corruption, including bribery. The Fraud Response Plan (see Appendix D) provides full details of who to contact but any individual may contact the council's Internal Audit team directly as below.

Email: internal.audit@surreycc.gov.uk

Telephone: 020 8541 9299

Post: Internal Audit
Surrey County Council
Room 318, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN

Anti-money laundering policy

Policy statement

Surrey County Council will do all it can to:

- Prevent any attempts to use the council and its staff to launder money;
- Identify potential areas where money laundering may occur; and
- Comply with all legal and statutory requirements, especially with regard to the reporting of actual or suspected cases of money laundering.

1. Introduction

- 1.1 The Proceeds of Crime Act 2002, the Money Laundering Regulations 2007 and the Terrorism Act 2000 (and all relevant amending legislation) place obligations on the council, including its members and employees, with respect to suspected money laundering.
- 1.2 While most money laundering activity in the UK occurs outside of the public sector, vigilance by council employees and members can help identify those who are, or may be, perpetrating crimes relating to the financing of terrorism and money laundering.
- 1.3 This policy forms part of the council's counter fraud framework and sets out:
 - Definitions and legal background in respect of money laundering;
 - The council's approach to money laundering including the responsibility of members and officers to report suspicions promptly; and
 - Guidance and procedures for members and officers.

2. Scope of the policy

- 2.1 This policy applies to all members and officers of the council and aims to maintain the high standards of conduct that the public is entitled to expect from the council.
- 2.2 It is vital that all members and officers are aware of their responsibilities and remain vigilant; criminal sanctions may be imposed for breaches of legislation.
- 2.3 Failure to comply with the procedures set out in this policy will result in action being considered under the Sanctions Policy (see Appendix E). This may include disciplinary action in line with the Officer, or Member, Code of Conduct.

3. Definitions and legal background

- 3.1 Money laundering is the process of converting illegally obtained money or assets into 'clean' money or assets with no obvious link to their criminal origin.
- 3.2 There are three primary money laundering offences set out in legislation:
 - Concealing, disguising, converting, transferring, or removing from the UK any criminal property (Section 327 of the Proceeds of Crime Act 2002);
 - Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (Section 328); and
 - Acquiring, using or possessing criminal property (Section 329).

- 3.3 There are also two secondary offences:
- Failure to disclose any of the three primary offences; and
 - Tipping off (the act of informing a person suspected of money laundering in such a way as to prejudice an investigation).
- 3.4 Any member or employee of the council may potentially be implicated in money laundering if they suspect money laundering and either become involved with it in some way and/or do nothing about it. The key requirement is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.

4. The Money Laundering Reporting Officer (MLRO)

- 4.1 The officer nominated to receive disclosures about money laundering activities within the council is the Chief Internal Auditor:

Sue Lewry-Jones
Chief Internal Auditor

Telephone: 020 8541 9190
Email: sue.lewry-jones@surreycc.gov.uk

Surrey County Council
Room 318, County Hall
Penryhn Road
Kingston upon Thames
Surrey, KT1 2DN

- 4.2 In the absence of the MLRO, the Audit Performance Manager is authorised to deputise:

David John
Audit Performance Manager

Telephone: 020 8541 7762
Email: david.john@surreycc.gov.uk

Surrey County Council
Room 318, County Hall
Penryhn Road
Kingston upon Thames
Surrey, KT1 2DN

5. Procedures

Cash

- 5.1 The council will not accept any cash payment in excess of £5,000 irrespective of whether this is through a single payment or series of linked payments. 'Cash' includes notes, coins and travellers cheques in any currency.
- 5.2 This does not necessarily mean that cash transactions below this value are legitimate and legal. Professional scepticism is encouraged at all times and any suspicions must be reported to the MLRO or their deputy.

Responsibilities of members and officers

- 5.3 Any member or officer who suspects money laundering activity must report their suspicion promptly (as soon as practicable) to the MLRO or their deputy if appropriate. If you prefer, you can discuss your suspicions with the MLRO or deputy first.
- 5.4 Your disclosure should be made at the earliest opportunity following the information coming to your attention, not weeks or months later, and should be made to the MLRO or deputy using the form attached at the end of this policy.
- 5.5 You must follow any subsequent directions from the MLRO or deputy. You must not:
- Make any further enquiries into the matter;
 - Take any further steps in any related transaction without authorisation from the MLRO or deputy;

- Disclose or otherwise indicate your suspicions to the person suspected of money laundering; or
- Discuss the matter with others or make a note on file that a report to the MLRO or deputy has been made, as this may alert the suspected perpetrator.

Responsibilities of the MLRO

- 5.6 The MLRO or deputy must promptly evaluate any disclosure to determine whether it should be reported to the National Crime Agency (NCA). Any decision not to submit a report to the NCA must be recorded.
- 5.7 If they so determine, the MLRO or deputy must promptly submit an online Suspicious Activity Report (SAR) to the NCA. Alternatively, a SAR may be manually reported to the NCA. Both online and up to date manual reporting forms are available on the NCA's website.
- 5.8 If a disclosure provides the MLRO or deputy with knowledge or reasonable grounds to suspect that a person is engaged in money laundering, and they do not disclose this to the NCA as soon as practicable, the MLRO or deputy will have committed a criminal offence.

Identification of clients

- 5.9 The **client identification process** must be followed before the council conducts '**relevant business**²' with a client, where the council:
- Forms an ongoing business relationship with a client; or
 - Undertakes a one-off transaction involving payment by or to the client of €15,000 (or the equivalent in Sterling) or more; or
 - Undertakes a series of linked one-off transactions involving payment by or to the client of €15,000 (or the equivalent in Sterling) or more; or
 - Knows or suspects that a one-off transaction, or series of linked transactions, involves money laundering.
- 5.10 This requirement does not apply if the business relationship with the client existed before 1 March 2004.
- 5.11 Where the relevant business is being provided to another public sector body, you must ensure that you receive signed, written instructions on the body's headed paper before any business is undertaken.
- 5.12 Where the relevant business is not with a public sector body, you should seek additional evidence of identity, for example:
- Checking the organisation's website to confirm their business address;
 - Conducting an online search using Companies House; and/or
 - Seeking evidence from the key contact of their personal identity and position within the organisation.

² '**Relevant business**' includes provision 'by way of business' of: financial, investment and accounting services; audit services; legal services; services involving the formation, operation or arrangement of a company or trust; and dealing in goods where a one-off or series of linked cash payments total €15,000 or more.

6. Record keeping

- 6.1 The MLRO will keep a record of all referrals received and any action taken to ensure an audit trail is maintained.
- 6.2 All disclosure reports referred to the MLRO and reports made to the NCA will be retained by the MLRO in a confidential file for a minimum of five years.
- 6.3 Where relevant business is carried out, client identification evidence and details of any relevant transaction(s) for that client must be retained for at least five years.

7. Guidance and training

- 7.1 The council will:
 - Make members and officers aware of the requirements and obligations placed on the council, and on themselves as individuals, by anti-money laundering legislation; and
 - Give targeted training to those considered to be the most likely to encounter money laundering.
- 7.2 Further information can be obtained from the MLRO and the following sources:
 - The National Crime Agency: www.nationalcrimeagency.gov.uk
 - CIPFA: www.cipfa.org/members/members-in-practice/anti-money-laundering
 - Anti-money laundering guidance for the accountancy sector (issued by CCAB): www.icaew.com/en/membership/regulations-standards-and-guidance/practice-management/anti-money-laundering-guidance
 - Anti-money laundering guidance from the Law Society: www.lawsociety.org.uk/support-services/risk-compliance/anti-money-laundering/

[OFFICIAL – SENSITIVE]

Confidential report to the Money Laundering Reporting Officer

To: Money Laundering Reporting Officer

From: _____ [insert your name]

Title/Service: _____ [insert your post title and service]

Telephone: _____

Date of report: _____

Response needed by: _____ [e.g. transaction due date]

Name(s) and address(es) of person(s) involved:

[If a company/public body please include details of nature of business]

Empty box for name and address details.

Nature, value and timing of activity involved:

[Please give full details e.g. what, when, where, how. Continue on a separate sheet if necessary]

Empty box for nature, value and timing details.

	Yes	No	
Has any investigation been undertaken?	<input type="checkbox"/>	<input type="checkbox"/>	If 'yes' please provide details below
Have you discussed your suspicions with anyone else?	<input type="checkbox"/>	<input type="checkbox"/>	

Details of investigation undertaken and/or discussions held:

Empty box for details of investigation and discussions.

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

[OFFICIAL – SENSITIVE]

To be completed by the Money Laundering Reporting Officer

Date report received:

Date acknowledged:

Evaluation	
What action is to be taken?	
Are there reasonable grounds to suspect money laundering activity? If so, please provide details	

Reporting	
If there are reasonable grounds for suspicion, will a report be made to the NCA?	<input type="checkbox"/> Yes <input type="checkbox"/> No
If 'no', reasons for non-disclosure	
If 'yes', date of report to NCA	Online / Manual [delete as appropriate]

Consent	
Is NCA consent required for any ongoing of imminent transactions?	<input type="checkbox"/> Yes <input type="checkbox"/> No
If 'yes', please confirm details	
Date consent received from NCA	
Date consent passed on to officer	

Other relevant information

Signed _____

Date: _____

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

Fraud response plan

1. Introduction

- 1.1 This plan provides guidance on the action to be taken where fraud, theft or corruption against the council is suspected or discovered. It sets out who to report your concerns to, the investigation process and what to expect from Internal Audit.
- 1.2 This document forms part of the council's counter fraud framework and should be read in conjunction with the other documents that make up the Strategy against Fraud and Corruption. You may also wish to refer to the council's Whistle Blowing Policy, Code of Conduct, Disciplinary Policy and Financial Regulations.
- 1.3 The objectives of this plan are to ensure timely and effective action can be taken to:
- Minimise the risk of inappropriate action or disclosure which would compromise an investigation;
 - Ensure there is a clear understanding of who will lead any investigation and keep other individuals informed and involved as appropriate;
 - Prevent further loss of funds or other assets and maximise recovery of losses;
 - Identify the perpetrator and secure sufficient evidence necessary for disciplinary or legal action;
 - Review the reasons for the incident and identify the measures required to prevent a reoccurrence;
 - Reduce the adverse impacts on the business of the council and minimise adverse publicity arising from fraud; and
 - Identify any action needed to strengthen future responses to fraud.

2. Reporting your concerns

- 2.1 You should report your concerns to an appropriate person as soon as possible. All reporting channels shown overleaf are (with the exception of Expolink) available to members, officers, contractors, partners and the public.
- 2.2 Regulation 4.5 of the Financial Regulations requires all cases of suspected corruption or financial irregularity to be reported to the Chief Internal Auditor. The individuals listed overleaf will notify the Chief Internal Auditor of any referrals.
- 2.3 Employees may wish to approach their line manager in the first instance (unless this is not appropriate because, for example, they are implicated) to pass on the information on their behalf. This is acceptable in all cases except suspected money laundering, which must be reported directly to the Money Laundering Reporting Officer or their deputy (see Appendix C).
- 2.4 While you may choose to make an anonymous referral, please consider the following:
- There will not be any opportunity to ask you follow up questions or seek clarification, which may prevent an investigation from reaching a satisfactory conclusion.
 - The Whistle Blowing Policy clearly sets out the council's zero tolerance approach to harassment or victimisation and its commitment to protect officers who raise concerns in good faith.
- 2.5 You must only report concerns that you believe to be true. If it is subsequently determined that a referral was made maliciously, or for personal gain, it may be dealt with as a disciplinary matter.

2.6 You may report your concerns to:

Chief Internal Auditor (Money Laundering Reporting Officer – see Appendix C)

Telephone: 020 8541 9190 / 020 8541 9299

Email: internal.audit@surreycc.gov.uk

Director of Finance (Section 151 Officer)

Telephone: 020 8541 7012

Email: sheila.little@surreycc.gov.uk

Director of Legal, Democratic & Cultural Services (Monitoring Officer)

Telephone: 020 8541 9088

Email: monitoring.officer@surreycc.gov.uk

Elected Members

Find your local councillor: <http://mycouncil.surreycc.gov.uk/mgFindMember.aspx>

Chairman of the Audit and Governance Committee

Email: stuart.selleck@surreycc.gov.uk

Grant Thornton (the council's external auditors)

Email: geoffrey.c.banister@uk.gt.com

Public Concern at Work (charity offering free whistle blowing advice)

Telephone: 020 7404 6609

Email: whistle@pcaw.org.uk

Expolink (independent, confidential hotline)

Telephone: 0800 374 199

Submit an online report: www.expolink.co.uk/whistleblowing/submit-a-report

Please note, this is not available to the public; the access code is available on s-net.

3. Initial response

3.1 If someone approaches you to report concerns, you should:

- Listen patiently and without prejudice to their concerns
- Ask whether they wish to remain anonymous (obtaining contact details if not)
- Treat all information seriously and in strict confidence
- Obtain as much information as possible during the referral (but do not conduct your own investigation), such as:
 - Outline of the allegations and their impact
 - People involved including job role in the case of employees
 - Amount of money and/or details of other assets involved
 - Timescales (one-off or ongoing)
 - Evidence (available notes, documents or other evidence)
- Not interfere with any evidence and ensure it is kept secure

3.2 As required by the Financial Regulations, you should contact the Chief Internal Auditor to agree any proposed action. The Chief Internal Auditor may request additional information before determining whether a full investigation is necessary and advice will be given on how to approach this without alerting the suspected perpetrator.

3.3 You should also consider whether the allegations pose any immediate safeguarding risks and contact the relevant managers in Adult Social Care or Children Schools and

Families directorates if necessary. Safeguarding concerns will take priority over an allegation of fraud and corruption, although this should still be reported.

- 3.4 Where an allegation involves an employee, it may not be appropriate for the employee to remain in their role whilst the investigation is undertaken. Any risk assessment and decision to suspend an employee (or move them to alternative duties) will be taken by Human Resources in consultation with the line manager and advice from the Chief Internal Auditor.

4. Investigating officer

- 4.1 The Chief Internal Auditor will evaluate the outcomes from the initial enquiries to determine whether a full investigation is warranted and, if so, appoint an investigating officer. In most cases this will be an officer from Internal Audit but, where an officer from another service is appointed, advice and support will be provided.
- 4.2 The investigating officer will remain impartial throughout the investigation and will:
- Conduct the investigation in a prompt manner;
 - Obtain evidence in line with the guidance in section 5 of this plan;
 - Record and secure all evidence obtained;
 - Ensure any information and/or knowledge is contained;
 - Involve and notify other key officers as appropriate (management, Human Resources, Insurance, Internal Audit); and
 - Conclude the investigation in line with guidance in section 6 of this plan.

5. Evidence

- 5.1 It is essential that all available evidence relating to the allegation is preserved. This involves a fine balance between not alerting the suspected perpetrator before it is appropriate, complying with council policies and ensuring evidence remains admissible in a court of law.
- 5.2 Legislative requirements must also be fulfilled, in particular those of the Police and Criminal Evidence Act 1984 (PACE) and the Regulation of Investigatory Powers Act 2000 (RIPA). If you are uncertain, seek advice from the Chief Internal Auditor. The most common forms of evidence and brief guidance are given below.

Council premises

- 5.3 Inspection of any council premises or property must be witnessed by a key/code holder in the case of locked areas, safes and cash tins, or at least one manager in the case of other store rooms, cupboards and work stations. A list of the contents should be made and the list signed and dated by both you and the witness as being a true record of what was found.
- 5.4 You must not remove any cash or other valuables without first speaking with the Chief Internal Auditor to agree such action and arrange alternative secure storage.

Original documents

- 5.5 Original documents should be obtained and retained, handled as little as possible and placed in a protective folder. Under no circumstance must they be marked in any way. All copies of original documents or screen images should be formally certified as a true copy with the date of copying. You should maintain a record of all documents detailing how, when and where they were obtained.

Computer data

- 5.6 When evidence is held on a computer hard drive, the computer should be secured. You must not attempt to access or download information from the computer yourself. Information may also be held on the council's network, for example, networked folders and emails.
- 5.7 In both cases, the Chief Internal Auditor and Technical Delivery Manager in IMT will advise on the most appropriate way of retrieving the data in accordance with council policy and the rules of evidence.

Video footage

- 5.8 If you suspect that a CCTV or other camera system may have information of value, secure the hard copy media or arrange for a certified download of the data that is compliant with PACE requirements. The camera system engineer should be able to provide an appropriate download but you should seek advice initially from the Chief Internal Auditor about how to proceed.

Interviews

- 5.9 You should maintain a record of interviews or meetings held, including the date, location, attendees and, as a minimum, summary notes. When obtaining evidence through interviews and meetings, be aware of how much (or little) information needs to be shared for the meeting to be useful.
- 5.10 Interviews with the suspected perpetrator are normally conducted by two people. Unless the interview is part of a formal disciplinary process, the person is not expected to be accompanied by a representative. You should retain original copies of any handwritten notes made during the interview in addition to any subsequently typed notes. These notes should try to reflect a full account of the conversation.
- 5.11 Within the council, 'interviews under caution' will only be conducted by officers from Internal Audit or Trading Standards to ensure such interviews are appropriately recorded and fully compliant with PACE.

Surveillance

- 5.12 RIPA provides a clear statutory framework for certain investigative techniques such as surveillance, the definition of which includes:
- Monitoring, observing or listening to persons, their conversations, their movements or their other activities; or
 - Recording anything monitored, observed or listened to in the course of surveillance; and
 - Surveillance by or with the assistance of a surveillance device.
- 5.13 RIPA authorisation must be obtained before conducting certain types of surveillance. You **must not** use any 'covert'³ and/or 'directed'⁴ surveillance without first seeking advice from the Chief Internal Auditor. Failure to comply with RIPA may result in evidence being deemed inadmissible in court and the council being fined.

³ Action is 'covert' if it is carried out in a manner that is calculated to ensure that the person who is subject to surveillance is unaware that it is or may be taking place.

⁴ 'Directed' surveillance targets an individual with the intention of gaining private information. This includes information relating to private and family life, home and correspondence, and includes activities of a professional or business nature.

6. Investigation conclusion

- 6.1 You will present your conclusions, together with your evidence and notes, to the Chief Internal Auditor who will review the outcome of the investigation irrespective of whether the investigating officer is a member of the Internal Audit team.
- 6.2 Your conclusions must be based solely on the available evidence and any recommended sanction should be in accordance with the Sanctions Policy (Appendix E). You should be prepared to give a statement, if required, as part of any subsequent disciplinary or legal action.
- 6.3 The Chief Internal Auditor will take into account your conclusions when agreeing the appropriate action to take including sanctions.

7. What to expect from Internal Audit

- 7.1 Any conversations you have, or information that you share, with the Internal Audit team will remain confidential. You should remember, however, that the Chief Internal Auditor has a responsibility to investigate all cases of suspected fraud.
- 7.2 When a decision is made not to conduct a full investigation, Internal Audit will offer advice and assistance to improve management controls and minimise adverse impacts on the service.
- 7.3 If the investigating officer is within Internal Audit, a summary email, briefing note or full report (as appropriate) will be issued to relevant council officers and members. Due to requirements of the Data Protection Act, however, and the council's duty of confidentiality to its clients, employees and members, information about investigation outcomes may be limited for those outside the council.
- 7.4 Any investigation led by Internal Audit will seek to make recommendations to reduce the risk of reoccurrence and strengthen control systems. Information gained during investigation may also be used to help disclose similar frauds within the council.

8. Press and publicity

- 8.1 Publicity can act as a strong deterrent to fraud and corruption with publicity of successful cases demonstrating the council's zero tolerance approach. Under no circumstance, however, must details of any cases suspected or under investigation be released to the press or public.
- 8.2 All press and publicity, whether internal or external, will be managed by the council's Communications team. Disclosure of details of a case, successful or otherwise, to the media without the express authority of Communications may be dealt with as a disciplinary matter.
- 8.3 Publicity within the council will be managed by Internal Audit in consultation with Communications. Case details in any such publicity will be anonymised.

Sanctions policy

Policy statement

Surrey County Council will ensure that:

- Appropriate sanctions are applied in all proven cases of fraud, theft and corruption;
- Public funds are recovered wherever possible; and
- The sanction decision making process is robust, transparent and fair.

1. Introduction

- 1.1 The council takes its responsibility to protect public funds seriously and expects its business to be conducted to the highest ethical and legal standards. Where there is evidence of fraud, theft or corruption against the council, those responsible, whether internal or external to the council, will be held accountable for their actions using the full range of sanctions available.
- 1.2 This policy forms part of the council's counter fraud framework and sets out:
- The range of sanctions available; and
 - Guidance on determining the appropriate action to take.
- 1.3 This policy is not prescriptive. A range of factors will require consideration before deciding on the appropriate sanction, including the individual circumstances of each case and the seriousness of the offence.

2. Sanction options

- 2.1 Where there is evidence of fraud, theft or corruption, the following options will be considered:
- No further action
 - Referral to professional bodies
 - Disciplinary action
 - Civil proceedings
 - Criminal prosecution
- 2.2 These options are not mutually exclusive and parallel sanctions may be pursued.

No further action

- 2.3 The council may consider closing a case without taking any further action. This may be due to the following factors:
- Evidence is not robust or reliable
 - The offence is minor
 - The cost to pursue the case is not proportionate to the offence committed

Referral to professional bodies

- 2.4 Where there is adequate evidence that a person or entity has breached professional duties or responsibilities, the council will refer the matter to the relevant professional body. This may include the Disclosure and Barring Service if there is evidence of a safeguarding concern.

Disciplinary action

- 2.5 In the event that an allegation is made against a council employee, the investigating officer will consult with Human Resources and the employee's line manager regarding risk assessments and disciplinary action. Any disciplinary action will be in accordance with the council's Disciplinary Policy. Sanctions may include warnings or dismissal on the grounds of gross misconduct.
- 2.6 Additional sanction options will be considered alongside any disciplinary action including referral to professional bodies, civil proceedings and criminal prosecution.

Civil proceedings

- 2.7 Where evidence is not sufficient to prove a case beyond reasonable doubt, and therefore successful criminal prosecution is unlikely, the council may consider civil proceedings for which the standard of proof is on the balance of probability.
- 2.8 Regardless of whether any sanction action is taken, the council will always seek recovery of overpaid, misused or unfairly gained monies. The following measures may be considered in the pursuit of financial recovery:
- Consultation with the council's Payroll and Pensions Teams to redress financial loss caused by employees;
 - Application of the Credit Control Team's usual procedures, which includes civil action when necessary;
 - Legal action such as search orders and freezing/tracing injunctions to preserve evidence and assets; and
 - Recovery of money through appropriate legal proceedings.

Criminal prosecution

- 2.9 Where there is sufficient evidence to indicate that a criminal act has taken place, the case may be referred to the police. The decision to refer the issue to enforcement agencies, such as Surrey Police, will be taken by the Director of Finance and/or Monitoring Officer as advised by the Chief Internal Auditor.
- 2.10 The police or Crown Prosecution Service will provide a final decision on whether to pursue the case. This decision will consider the following:
- **Evidential criteria** such that the evidence must be:
 - Clear, reliable and admissible in court
 - Strong enough for a realistic chance of prosecution; to prove a case 'beyond reasonable doubt'
 - Whether prosecution is in the **public interest**, taking into account:
 - Seriousness and/or monetary value of the offence
 - Cost and proportionality of the prosecution
 - Age, health and level of culpability of the suspect
 - Circumstances of and harm caused to the victim
 - Other factors such as community impact
- 2.11 Where the council considers it "expedient for the promotion or protection of the interests" of its residents, Section 222 of the Local Government Act 1972 empowers the council to:
- Prosecute or defend or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name; and

- In their own name, make representations in the interests of residents at any public inquiry held by or on behalf of a public body under any enactment.
- 2.12 The council will only consider undertaking prosecutions through this route under exceptional circumstances and any decision to do so will be taken by the Director of Finance and Monitoring Officer as advised by the Chief Internal Auditor.
- 2.13 Any criminal proceedings will include an attempt to recover money under the Proceeds of Crime Act 2002.

3. Leaving the council

- 3.1 During the course of an investigation or disciplinary action, the employee(s) suspected of fraud, theft or corruption may choose to resign from their employment with the council. In this case, following a review of evidence, the council may continue to pursue referral to professional bodies, civil proceedings or criminal prosecution.
- 3.2 The employee's line manager will also consult with Human Resources to determine whether it will be appropriate to provide a reference to future employers.

4. Publicity

- 4.1 Guidance on publicity is available in the Fraud Response Plan (Appendix D). The decision to publicise outcomes will consider the following criteria:
- Interests of Surrey County Council;
 - Interests of Surrey residents; and
 - Deterrent value to others.



Audit & Governance Committee
5 December 2016

Half year risk management report

Purpose of the report:

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

Recommendations

It is recommended that the Committee:

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

Introduction

3. The terms of reference of the Audit and Governance Committee include the requirement to monitor the effective development and operation of the council's risk management arrangements. This report summarises the risk management activity from April 2016 to date and provides an update on key changes to the Leadership risk register.

Key activity summary

Strategic risk arrangements

4. The Statutory Responsibilities Network (SRN) is provided with monthly risk updates by the Director of Finance (strategic lead for risk management). The risk updates are focused on the Leadership risk register and emerging risks, but also include the risk management strategy and updates on the risk management plan.
5. The Strategic Risk Forum (SRF), chaired by the Director of Finance, has met four times since April 2016. The Forum challenges and scrutinises strategic risk through reviewing strategic level risk registers, discussing common risk

areas and proposing Leadership risk register changes and emerging risks to SRN.

6. The SRF is focussing on programme/project risk management to gain assurance on the links with the corporate risk arrangements. Strategic risk leads are gathering information on the risk arrangements across key projects and programmes, which will be used to pull together an overall picture and identify areas of good practice.
7. The Leadership risk register is presented to Cabinet on a quarterly basis to provide oversight of the council's strategic risks and controls. The Environment and Infrastructure risk registers have been reviewed by the Economic Prosperity, Environment and Highways Board and the Fire and Rescue risk register has been reviewed by the Resident Experience Board to enable member scrutiny and challenge.

Operational risk arrangements

8. The status and consistency of risk registers is reviewed by the Council Risk and Resilience Forum and reported to the SRF at each meeting to monitor the risk registers against the council's risk framework standards. The Risk and Governance Manager uploads risk registers that she receives onto the snet so they can be viewed internally.

Council Risk and Resilience Forum (CRRF)

9. CRRF formal meetings are held twice a year and there has been one formal meeting during the period. The meetings are attended by service risk and business continuity representatives and help to share knowledge and good practice across the organisation to support the risk and business continuity arrangements.
10. There have also been two CRRF interactive workshops that have focused on IT resilience and winter resilience. The workshops are supported by officers from the relevant service area, such as IMT, to provide an overview and help services validate their business continuity arrangements through interactive scenarios.

Business Continuity

11. The Emergency Management Team has worked with CRRF reps and officers from IMT to develop a priority list for the restoration of critical IT software and applications in the event of an incident. Critical files are also being identified to support the priority list.

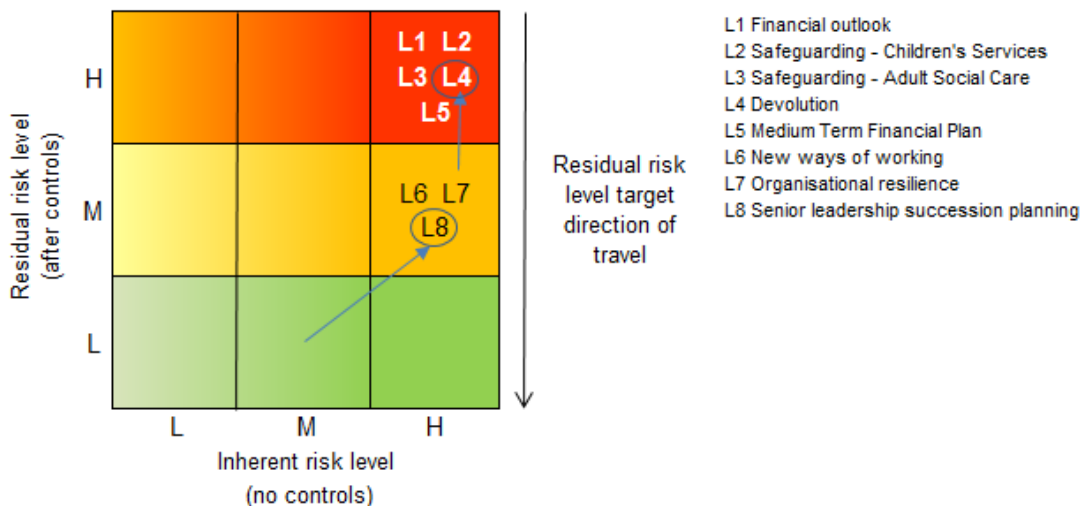
Internal audit review

12. Internal audit provide an annual independent assessment of the risk management arrangements. The 2015/16 audit received an overall opinion of some improvement needed.
13. The management action plan has been completed and is attached at Annex A.

14. The Leadership risk register as at 30 November 2016 (Annex B) is owned by the Chief Executive and shows the council’s key strategic risks. The risk register is regularly been reviewed by the SRF, SRN and Cabinet.

Changes to the risk register

15. Since it was last presented to the Committee in September 2016, risk levels have been increased on the following risks:
- Devolution (L4) – the residual risk level has been increased from medium to high; and
 - Senior Leadership Succession Planning (L8) – the inherent risk level has been increased from medium to high and the residual risk level has been increased from low to medium.
16. Updates have also been made to the following risks:
- Financial Outlook (L1) – risk description, processes and controls updated to further reflect the financial position;
 - Safeguarding – Children’s Services (L2) and Safeguarding – Adult Social Care (L3) – processes updated;
 - Devolution (L4) – changes to risk description to broaden the scope of the risk, updates to processes and controls;
 - Medium Term Financial Plan (L5) – updates to the processes to reflect changes and communication regarding the financial position; and
 - Organisational Resilience (L7) – additional processes specifically related to information governance.
17. There are eight risks on the Leadership risk register and following the recent changes to the risk levels, all the risks now have high inherent risk levels, as illustrated in the table below. Despite mitigating actions, five of these risks have a high residual risk level (L1,L2,L3,L4,L5) and three have a medium residual risk level (L6,L7,L8): showing the increasing 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

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

Equalities and Diversity Implications

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

Risk Management Implications

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

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

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

Sources/background papers:

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

PRIORITY RATINGS

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

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

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

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Progress as at November 2016
5.17	In order to ensure consistency across services, the Risk and Governance Manager should communicate to all risk representatives the need to use a standard format for the risk register.	Low	This will be communicated to all risk reps via SRF, CRRF and email.	September 2016	Risk and Governance Manager	Completed. All risk representatives have been reminded about the standard format for risk registers.
5.23	Consideration should be given to establishing timescales for mitigating actions where it is possible to do so.	Low	This will be considered at SRF and requirements communicated to the risk reps as appropriate.	September 2016	Risk and Governance Manager	Completed. SRF have considered timescales and will use on risk registers where it is appropriate and adds value.
5.30	Risk representatives should ensure that risk registers are reviewed in line with the risk framework and notify SRF of any variance to the agreed timescales.	Low	Risk reps will be reminded of the reporting requirements via SRF, CRRF and email. SRF continue to monitor the status of risk registers.	September 2016	Risk and Governance Manager	Completed. All risk representatives have been reminded of the reporting requirements. SRF and SRN have also discussed.

Leadership risk register as at 30 November 2016 (covers rolling 12 months)

Owner: David McNulty

Strategic risks – have the potential to significantly disrupt 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 ORB10	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 sustainability and service reductions leading to significant implications for residents.	High	<ul style="list-style-type: none"> Structured approach to ensuring Government understands the council's Council Tax strategy and unsustainable impact of current funding mechanism. 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 /austerity measures due to changes in ministerial responsibilities impacting on the council's long term financial sustainability.</p>	<ul style="list-style-type: none"> Members make decisions to stop new spending, 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. The organisation uses external expertise to confirm the facts relating to its sustainability. 	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. The Adult Social Care and Children, Schools and Families Multi-Agency Safeguarding Hub went live on 5 October 2016. 	<ul style="list-style-type: none"> Timely interventions by well recruited, trained, supervised and managed professionals ensures appropriate actions are taken to safeguard and promote the well being of children in Surrey. Actively respond to feedback from regulators. 	Deputy Chief Executive and Strategic Director of Children's Schools and Families	High

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 30 November 2016 (covers rolling 12 months)

Owner: David McNulty

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"> The Children's Services Improvement Plan was refreshed in October 2016 and 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. Appointees are now all in place. 	<ul style="list-style-type: none"> Robust quality assurance and management systems in place to identify and implement any key areas of learning so safeguarding practice can be improved. The Children's Safeguarding board (chaired by an independent person) comprises senior managers from the County Council and other agencies facilitating prompt decision making and ensuring best practice. An Improvement Board (chaired by the Deputy Leader) oversees progress on the Improvement Plan and agrees areas of action as required. 		
L3	ASC6,7,13,14	<p>Safeguarding – Adult Social Care</p> <p>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. The Adult Social Care and Children, Schools and Families Multi Agency Safeguarding Hub went live on 5 October 2016. 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 30 November 2016 (covers rolling 12 months)

Owner: David McNulty

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 devolution deal leaves Surrey County Council without a coherent response to the strategic infrastructure challenges facing the county.</p>	High	<ul style="list-style-type: none"> 3SC internal governance arrangements agreed - including a Strategic Oversight Group which manages 3SC risks (and 3SC risk register developed/approved). Programme office and workstream sponsors and leads agreed with roles and responsibilities defined. Regular meetings of local authority Leaders and Chief Executives. Regular engagement with 3SC partners. Regular engagement with central government at both political and official level. Negotiation with Government underway – Heads of Terms sent to officials as basis for negotiations: draft deal document to follow. Establishment of a shadow Sub National Transport Body to support the delivery of major strategic transport infrastructure. 	<ul style="list-style-type: none"> Keep all processes under active review. Strategic Oversight Group reviewing risk register quarterly. Next 3SC Leaders' Board in February 2017. 	Chief Executive	High

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Cross cutting risks – high level risks that can be mitigated more effectively through cross working.

Ref	Risk ref.	Description of the risk	Inherent risk level (no controls)	Processes in place (ie the 'how' risks are being mitigated)	Controls (i.e. decisions needed)	Lead risk owner	Residual risk level (after existing controls)
L5	ASC1,2,12 C&C4 CSF1,2,7 EAI1,3 FN2 ORB01,	<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 	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 sessions (Chief Executive and Director of Finance) continue to review and 	<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 	Director of Finance	High

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Leadership risk register as at 30 November 2016 (covers rolling 12 months)

Owner: David McNulty

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)
	10	<ul style="list-style-type: none"> 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>		<p>challenge the robustness of MTFP delivery plans and report back to Cabinet as necessary.</p> <ul style="list-style-type: none"> Weekly review of the financial position at Chief Executives Direct Reports meeting. 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. Increased challenge and rigour on cost control. 	<p>implement action plans in a timely manner.</p> <ul style="list-style-type: none"> Members have all the relevant information to make necessary decisions. 		
L6	ASC2 CSF1,2, 5,6,8 ORB01, 02,07	<p>New ways of working</p> <p>Failure to identify and manage the impacts / consequences of implementing a range of new models of delivery leads to severe service disruption and reputational damage.</p>	High	<ul style="list-style-type: none"> Shared and aligned strategies to ensure no unintended consequences. Robust governance arrangements (eg. Inter Authority Agreements, Health and Social Care Integration Board, Health and Wellbeing Board, financial governance framework) in place with early warning mechanisms. Regular monitoring of progress and risks against transformation programmes. 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. 	<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 Commissioning Groups on models of integrated care. Members continue to endorse approaches to integration across the council. 	Chief Executive	Medium

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Leadership risk register as at 30 November 2016 (covers rolling 12 months)

Owner: David McNulty

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)
L7	ASC4, 5,8 CSF5 EAI2,3,4 ORB0 2,03,08	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). Information Governance Board monitors information governance requirements and changes and reviews information governance risks. Review of third party information governance risks. External risks are regularly assessed through the Local Resilience Forum and reviewed by the Statutory Responsibilities Network. Active learning by senior leaders from external experiences / incidents 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. 	<ul style="list-style-type: none"> Regular monitoring of effectiveness of processes is in place and improvements continually made and communicated as a result of learning. Robust change management processes. 	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 the ability to deliver services to the level required.	High	<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 in place to increase skills, resilience and effectiveness of leaders. Career conversations built into appraisal process looking forward five years Shaping leaders programme. Senior leadership appraisal process 	<ul style="list-style-type: none"> Transparent and effective succession plans. 	Chief Executive	Medium

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 30 November 2016 (covers rolling 12 months)

Owner: David McNulty

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)
				incorporates feedback (shaping leaders) and succession planning into appraisal process.			

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

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	Nov 16	↑	High
L5	Medium Term Financial Plan	Aug 12	High	-	-	High
L6	New ways of working	Jan 16	High	-	-	Medium
L7	Organisational resilience	May 10	High	Aug 12	↓	Medium
L8	Senior Leadership Succession Planning	Mar 15	High	Nov 16	↑	Medium

Risks removed from the register in the last 12 months

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

Leadership level risk assessment criteria

Due to their significance, the risks on the Leadership risk register are assessed on their inherent risk level (no controls) and their residual risk level (after existing controls have been taken into account) by high, medium or low.

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



AUDIT & GOVERNANCE COMMITTEE 5 December 2016

GOVERNANCE UPDATE REPORT

SUMMARY AND PURPOSE:

The purpose of this report is to provide an update on the council's governance arrangements during the first six months of 2016/17.

RECOMMENDATIONS:

The Committee is asked to:

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

2016/17 GOVERNANCE ARRANGEMENTS:

- 1 Updates on many different areas of governance are continuously reported to senior management and members through networks, groups and boards. The information below provides a summary on the areas of governance that were identified within the 'Focus for 2016/17' section of the 2015/16 Annual Governance Statement and that are key to supporting the increasing number and scale of challenges that the council is facing.

Improving services for children

- 2 The 'Safer Surrey' approach is being embedded across the whole of Children, Schools and Families. The approach is built on empowering children and families to make positive decisions about their future.
- 3 The Children's Improvement plan was refreshed in October 2016 and is reviewed regularly at the Children, Schools and Families leadership team and updates are provided to the Statutory Responsibilities Network. Regular member scrutiny is provided through the Improvement Board, the Social Care Services Board and member seminars.
- 4 Progress has been made on the Children's Improvement plan but Ofsted noted that improvement needs to be initiated with greater speed across the service. Ofsted also confirmed that the service had taken the correct initial steps, particularly embedding the Safer Surrey approach, but there is more to do to ensure consistency in practice.

- 5 Leadership within the council is now stronger following changes to senior roles and responsibilities and the introduction of clearer expectations and routines for performance, accountability and collaboration.

Health and Social Care

- 6 Integration work is constantly expanding with a focus on enabling the council to commission or deliver better services. Surrey's Sustainability and Transformation Plans (STPs) are being developed across the three areas of Surrey Heartlands, Frimley Health and Sussex and East Surrey. The STPs are overarching strategic plans for local health and care systems over the next five years and are built around the needs of local people.

Devolution

- 7 Discussions are continuing with government about securing a Three Southern Counties (3SC) devolution deal. The council is working with a number of partners, including three county councils; 23 district and borough councils; three local enterprise partnerships; businesses; 12 Clinical Commissioning Groups and more, to meet local needs through having more control over local decision making.

Sustainability

- 8 The council reported a £22.4m forecast budget overspend for 2016/17 to Cabinet in October. The report highlighted the seriousness of the council's financial situation and that action is urgently required to identify and agree a plan to achieve a balanced and sustainable budget.
- 9 Senior officers and Cabinet Members have met with Surrey MPs to explain the council's financial pressures and the changes to services that will be required in order to secure a more sustainable financial basis for Surrey County Council.

Staff

- 10 Feedback on the pay and reward review proposals resulted in a changed and improved offer and a collective agreement was secured in relation to the pay settlement for non-school's based staff for 2016/17. A new behaviours framework has been launched to help strengthen appraisals and the role of performance management.
- 11 The 2016 staff survey has recently taken place. Results are due in early 2017 and will provide information on how staff feel about the organisation.

Appointing an external auditor

- 12 The Local Audit & Accountability Act 2014 established new arrangements for the audit and accountability of local authorities, which includes the ability of local authorities to appoint their own auditors from the 2018/19 financial year. Under the provisions of the new regulations Surrey County Council must appoint an external auditor by 31 December 2017 for the 2018/19 accounts.

- 13 County Council on 11 October approved the decision to opt-in to the sector led appointment provided by Public Sector Audit Appointments Ltd (PSAA¹) who are developing a national collective scheme. Invitations to opt-in have been sent to local authorities by the PSAA and a notice of acceptance must be sent back by 9 March 2017. The auditor appointment process will be similar to the current arrangements whereby a joint procurement process will be undertaken by PSAA and the council will be allocated an external auditor along with a fee for a fixed period of time.

IMPLICATIONS:

Financial

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

Equalities

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

Risk management

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

WHAT HAPPENS NEXT:

Governance update reports will be provided to future Committee meetings.

REPORT AUTHORS: Ann Charlton, Chair of Governance Panel

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

Sources/background papers: 2015/16 Annual Governance Statement, Governance Panel papers, working papers, Code of Corporate Governance

¹ PSAA is a company owned by the LGA's Improvement and Development Agency. It has been specified as the sector-led body and has the power to make auditor appointments from 2018/19 on behalf of principal local government bodies that opt in.

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Audit & Governance Committee
5 December 2016

Draft Workplan for Audit & Governance Committee 2017

PURPOSE OF REPORT:

For Members to consider and be notified of the draft work programme for 2017.

INTRODUCTION:

A draft workplan is attached as Annex A. It contains the regular reports that the Committee will receive over the year of 2017. Whilst this workplan is for information, suggestions and comments are welcome.

RECOMMENDATION:

The Committee is asked to:

1. To note the draft work programme and make any comments/suggestions on it.

REPORT CONTACT: Angela Guest, Regulatory Committee Manager
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angela.guest@surreycc.gov.uk

Sources/background papers: None

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DRAFT AUDIT & GOVERNANCE COMMITTEE: WORK PLAN 2017

20 February 2017			
Ethical Standards – Annual Review	To receive an overview of the operation of the Code of Conduct and provision of support to Members on the Code of Conduct.	Monitoring Officer	
External Audit – Audit Plan	The Council's external auditors are presenting their Audit Plan for the year 2016/17 in respect of Surrey County Council and for the Surrey Pension Fund.	Audit Manager/Engagement Lead (Grant Thornton)	
External Audit – Audit Findings Report Surrey Choices		Audit Manager/Engagement Lead (Grant Thornton)	
National Financial Resilience Report		Assistant Manager – Assurance (Grant Thornton)	
External Audit – KPIs		Audit Manager/Engagement Lead (Grant Thornton)	
Leadership Risk Register	The purpose of this report is to present the latest Leadership risk register and update the committee on any changes made since the last meeting.	Risk & Governance Manager	
Completed Internal Audit Reports	The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting.	Chief Internal Auditor	
Statutory Responsibilities Network		Chief Executive	
Annual Report of the Audit & Governance Committee	For Members to consider and comment on the annual report of the Audit & Governance Committee.	Chairman, Audit & Governance Committee	

27 March 2017			
Internal Audit Plan	The purpose of this report is to present the Annual Internal Audit Plan for 2017/18 to the Committee.	Chief Internal Auditor	
Effectiveness Review of the System of Internal Audit	This report summarises the work undertaken by the Audit and Governance Committee to evaluate the effectiveness of the system of internal audit.	Chief Internal Auditor	
Leadership Risk Register	The purpose of this report is to present the latest Leadership risk register and update the committee on any changes made since the last meeting.	Risk & Governance Manager	
Completed Internal Audit Reports	The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting.	Chief Internal Auditor	
Whistle blowing Update	Audit and Governance Committee have requested an annual update on whistle blowing.	Director of People and Development	
12 June 2017			
Completed Internal Audit Reports	The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting.	Chief Internal Auditor	
Annual Internal Audit Report	This report summarises the work of Internal Audit for the period 1 April 2016 to 31 March 2017, identifying the main themes arising from the audit reviews and the implications for the County Council.	Chief Internal Auditor	
Full Year Summary of Internal Audit Irregularity and Special Investigations	The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations undertaken by Internal Audit in the period from 1 April 2016 to 31 March 2017.	Reem Burton	

Annual Risk Management Report	This report enables the committee to meet its responsibilities for monitoring the development and operation of the council’s risk management arrangements. To include Leadership Risk Register.	Risk & Governance Manager	
Code of Corporate Governance	The purpose of this report is to provide the Committee with an update on the changes made to the Code of Corporate Governance.	Risk & Governance Manager	
Annual Governance Statement	This report presents the Annual Governance Statement, which provides an assessment of the council’s governance arrangements for the financial year ending 31 March 2017.	Risk & Governance Manager	David Hodge/David McNulty to present
Whistle blowing Update	Audit and Governance Committee have requested an annual update on whistle blowing.	Director of People and Development	
27 July 2017			
2016/17 Surrey County Council Accounts and External Audit’s Audit Findings Report	The purpose of this report is to receive the Council’s Statement of Accounts, as well as to inform the Committee of the result of the external audit of the council’s 2016/17 Statement of Accounts, to receive the external auditor’s Audit Findings Report and to approve the council’s letter of representation from the Chief Finance Officer and Deputy Director for Business Services.	Finance Manager – Assets, Investment and Accounting Audit Manager/Engagement Lead (Grant Thornton)	
Surrey Pension Fund Local Government Pension Scheme Accounts 2016/17 and External Audit’s Audit Findings Report	Grant Thornton as the Council’s external auditors has completed their audit and the Pension Fund financial statements are being presented to this Committee to be approved prior to publication.	Strategic Manager (Pensions & Treasury) Audit Manager/Engagement Lead (Grant Thornton)	

External Audit Fee Letter		Grant Thornton	
Annual Report of Surrey County Council	To consider the Annual Report for the authority and endorse it for publication.	Senior Principal Accountant – Management Accounting	Invite CEX and Leader to introduce.
Treasury Management Annual Report	This report summarises the council's treasury management activity during 2016/17. The report will include the latest risk register for Treasury Management.	Strategic Manager (Pensions & Treasury)	
25 September 2017			
External Audit: Annual Audit Letter	The Council's external auditors present their Annual Audit Letter for 2016/17.	Audit Manager/Engagement Lead (Grant Thornton)	
External Audit Performance	To report back on performance against KPIs agreed in December 2016.	Audit Manager/Engagement Lead (Grant Thornton)	
Leadership Risk Register	The purpose of this report is to present the latest Leadership risk register and update the committee on any changes made since the last meeting.	Risk & Governance Manager	
Completed Internal Audit Reports	The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting.	Chief Internal Auditor	
Statutory Responsibilities Network	The committee receives twice-yearly reports on progress of Statutory Responsibilities Network	Chief Executive	
Council complaints	To receive a report on the operation of the Council's complaints procedures.	Mark Irons Dilip Agarwal Jessica Brooke Jo Diggins	

4 December 2017			
Gifts and Hospitality (officers)	To receive a report on gifts and hospitality. The policy states that an annual report will go to appropriate committee.	Ken Akers Sue Lewry-Jones	
External Audit Update Report		Grant Thornton	
2016/17 Audit Findings Report for all SCC Trading Companies		Grant Thornton	
Babcock 4S Limited – Director’s Report and Financial Statements for the Year Ended March 2017	The annual report and financial statements of Babcock 4S (formally VT4S) for the year ended 31 March 2017 were considered at a private meeting of the committee and the committee’s findings are presented for noting.	Babcock 4S	
Treasury Management Half Year Report 2017/18	This report summarises the council’s treasury management activity during the first half of 2017/18.	Strategic Manager (Pensions & Treasury)	
Internal Audit Half-Year Report	This interim report summarises the work of Internal Audit during the first six months of 2017/18.	Chief Internal Auditor	
Half-Year Irregularities Report	<p>The purpose of this report is to inform Members about irregularity investigations undertaken by Internal Audit in the first half of this financial year, from 1 April to 30 September 2017.</p> <p>To include information on the council’s counter-fraud strategy and reviewing the strategy against recommended practices eg Managing the Risk of Fraud: Actions to Counter Fraud and Corruption (CIPFA) 2008; and Fighting Fraud Locally: The Local Government Fraud Strategy (National Fraud Authority) 2011.</p>	Lead Auditor	

Completed Internal Audit Reports	The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last meeting.	Chief Internal Auditor	
Ethical Standards – Annual Review	To receive an overview of the operation of the Code of Conduct and provision of support to Members on the Code of Conduct.	Monitoring Officer	
Risk Management Half-Year Report	This half-year risk management report has been produced to enable the committee to consider the risk management activity from April 2017 to date. To include the Leadership Risk Register.	Risk & Governance Manager	
Governance Update Report	The purpose of this report is to provide a half year update on the 2016/17 areas of focus outlined in the 2017/18 Annual Governance Statement.	Risk & Governance Manager	