

Notice of Meeting

Audit & Governance Committee



Date & time
Thursday, 12 April
2018
at 10.30 am

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

Contact
Joss Butler
Room 122, County Hall
Tel 020 8541 9702
joss.butler@surreycc.gov.uk

Chief Executive
Joanna Killian

We're on Twitter:
[@SCCdemocracy](https://twitter.com/SCCdemocracy)

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

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Joss Butler on 020 8541 9702.

Members

Mr David Harmer (Chairman), Mr Keith Witham (Vice-Chairman), Mr Edward Hawkins, Mr Ernest Mallett MBE, Dr Peter Szanto and Mrs Fiona White

Ex Officio:

Mr David Hodge CBE (Leader of the Council), Mr John Furey (Deputy Leader, Cabinet Member for Economic Prosperity), Mr Peter Martin (Chairman of the Council) and Mr Tony Samuels (Vice-Chairman of the Council)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING - 22 JANUARY 2018

(Pages 1
- 6)

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 (*6 April 2018*).
2. The deadline for public questions is seven days before the meeting (*5 April 2018*)
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER AND BULLETIN

(Pages 7
- 50)

To review the Committee's recommendations tracker and bulletin.

6 ETHICAL STANDARDS ANNUAL REVIEW

(Pages
51 - 56)

To enable the Committee to monitor the operation of the Members' Code of Conduct and to consider recommendations from the Monitoring Officer about ethical standards training to be offered to Members during 2018.

- 7 MEMBERS' ALLOCATION FUNDING OF EDUCATION COSTS - MOTION FROM FULL COUNCIL** (Pages 57 - 60)
- At the Audit and Governance Committee meeting on 22 January 2018, Members requested a short report detailing the educational-related costs that cannot be funded from the Members' Allocation grant.
- 8 EXTERNAL AUDIT - AUDIT PLAN** (Pages 61 - 78)
- This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2017/18 financial statements of the Council.
- 9 GRANT THORNTON: 2017/18 EXTERNAL AUDIT PLAN - PENSION FUND ACCOUNTS** (Pages 79 - 96)
- This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2017/18 financial statements of the Surrey Pension Fund.
- 10 UPDATE ON DEPRIVATION OF LIBERTY SAFEGUARDS** (Pages 97 - 102)
- This report provides Members of the Audit and Governance Committee with an update on assessments and authorisations in relation to Deprivation of Liberty Safeguards (DOLS).
- 11 INTERNAL STRATEGY AND ANNUAL AUDIT PLAN 2018/19** (Pages 103 - 132)
- The purpose of this report is to present the Internal Audit Strategy and Annual Internal Audit Plan for 2018/19 to the Committee.
- 12 COMPLETED INTERNAL AUDIT REPORTS** (Pages 133 - 140)
- 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 on 22 January 2018 - as attached at Annex A of the report.
- 13 LEADERSHIP RISK REGISTER** (Pages 141 - 150)
- The purpose of this report is to present the Leadership risk register as at 31 March 2018 and update the Committee on any changes made since the last meeting to enable the Committee to keep the Council's strategic risks under review.
- 14 DATE OF NEXT MEETING**
- The next meeting of Audit & Governance Committee will be on 24 May 2018.

Joanna Killian
Chief Executive
 Published: 03 April 2018

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Thank you for your co-operation

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.30 am on 22 January 2018 at Members Conference Room, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its meeting on Thursday, 12 April 2018.

(* present)

Elected Members:

- * Mr David Harmer (Chairman)
- * Mr Keith Witham (Vice-Chairman)
- * Mr Edward Hawkins
- * Mr Ernest Mallett MBE
- * Dr Peter Szanto
- Mrs Fiona White

Ex officio Members:

Mr David Hodge CBE, Leader of the Council
 Mr John Furey, Deputy Leader, Cabinet Member for Economic Prosperity
 Mr Peter Martin, Chairman of the Council
 Mr Tony Samuels, Vice-Chairman of the Council

In attendance

Dr Andrew Povey
 David Hodge CBE, Leader of the Council

1/18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

An apology was received from Mrs Fiona White.

2/18 MINUTES OF THE PREVIOUS MEETING [4 DECEMBER 2017] [Item 2]

The Minutes were approved as an accurate record of the previous meeting and signed by the Chairman.

3/18 DECLARATIONS OF INTEREST [Item 3]

There were none.

4/18 QUESTIONS AND PETITIONS [Item 4]

There were none.

5/18 RECOMMENDATIONS TRACKER [Item 5]

Declarations of interest:

None

Key points raised during the discussion:

1. A8/16 – The Audit Performance Manager reported that there were good improvements with record keeping for social care accounts and that new systems were in place. Audit were satisfied that staff were now on top of the record keeping and outstanding financial assessments.
2. A13/17 – Anti Money Laundering Policy – this was now complete and could be removed from the tracker.
3. A14/17 – Optimisation of Vacant Properties – Members were informed that the expected briefing was awaiting sign off by the Cabinet Member before circulation.
4. A15/17 – Business Continuity – see minute 83/17 below.
5. A5/17 – Internal Audit Irregularity & Special Investigation – It was noted that themes were to be agreed with the communication team in April when the website would be updated.

Action/Further information to note:

To update the Tracker as per discussion.

RESOLVED:

To note the following items as completed:

- A13/17 – Half-Year Irregularities
- A15/17 – Half Year Risk Management (business continuity)

6/18 REFERRAL OF COUNTY COUNCIL MOTION [Item 6]**Witnesses:**

Dr Andrew Povey

David Green, Senior Principal Accountant (schools funding)

Key points raised during the discussion:

1. Further to Minute 75/17(i), when the Council referred this motion to this Committee for further discussion before reporting back to Council, Dr Ian Povey put his Motion:
That the wording of the Financial Framework for Members' Allocations contained in Part 5 of the Council's Constitution, be modified in the section "What we cannot consider", point 7, to replace the word "core" with the word "statutory".
2. Mr Keith Witham proposed an amendment to keep the word 'core' rather than the proposed replacement of 'statutory' but to extend point 7 of the Framework to include a list of what is not allowed.
3. Members discussed the amendment at some length as there was general agreement that it would be helpful to have clarity and less ambiguity on what Members could use their allocations for in relation to schools.
4. They discussed whether there should be a list of areas they could spend allocations or a list of areas they could not. It was thought that the latter would be easier to propose.
5. The amendment proposed by Mr Witham was accepted and became the substantive motion.

Actions/ further information to be provided:

To request that a list of items be provided to the Committee for discussion at its next meeting.

Resolved:

That the Motion, as amended, be discussed at the next meeting in order to come to a conclusion and make a report to Council.

7/18 BUSINESS CONTINUITY [Item 7]**Declarations of interest:**

None

Witnesses:

Ian Good, Head of Emergency Management

Alan Morris, Deputy Head of Emergency Management

Key points raised during the discussion:

1. The Head of Emergency Management introduced the report that outlined the Council's assurance process for business continuity plans and the robustness of those plans. Whilst the Committee had been provided with the LGA Guidance for Members it was reported that this was soon to be updated following the Grenfell disaster. Service Standards were also to be reviewed with local providers.
2. In response to a Member query regarding having a seminar on the topic for all councillors, the Head of Emergency Management reported that a briefing had been done for Cabinet and that this area would become part of core training. However, a gap had been identified in the local resilience network with no Member involvement currently – this would be resolved.
3. Members expressed concern about the number of 'Red' items on Appendix 2 to the report. They were particularly concerned with IMT results. The Deputy Head of Emergency Management reported that the tables contained in the appendices to the report were considered at the Statutory Responsibilities Network on a half yearly basis. As a result it was now the practice that business continuity plans were to be reviewed as part of any restructure of service, rather than following any restructure.
4. There was discussion around income generation where the Head of Emergency Management explained some of the areas where the service is currently charged and explained that other areas were being reviewed with service directors.

Actions/ further information to be provided:

1. To put the LGA Guidance on the network portal and let all Members know that it was there and to read. **(Tracker A1/18)**
2. To discuss timings for future reports once training for Members had taken place. **(Tracker A2/18)**

Resolved:

That the report was noted.

8/18 TREASURY MANAGEMENT STRATEGY [Item 8]**Declarations of interest:**

None

Witnesses:

Nikki O'Connor, Finance Manager

Key points raised during the discussion:

1. The Finance Manager introduced the report which set out the council's Treasury Management strategy for 2018/19.
2. There was discussion around the increasing levels of borrowing year on year and asked if this was prudent or sustainable. The Finance Manager explained that following a thorough review of the capital programme last year, schemes requiring borrowing were only approved where there was a statutory duty or the scheme avoided revenue costs or generated revenue savings. Other Members noted how stable the figures were over the last few years.
3. The Finance Manager responded to other questions of clarification from Members and also reported that the annual cost of financial advisers was approximately £35,000.

Actions/ further information to be provided:

None

Resolved:

That the content of the Treasury Management Strategy for 2018/19 be approved prior to it being presented to full Council on 6 February.

9/18 LEADERSHIP RISK REGISTER [Item 9]**Declarations of interest:**

None

Witnesses:

Nikki O'Connor, Finance Manager

Key points raised during the discussion:

1. The Finance Manager introduced this report which updated the Committee on any changes made to the Leadership Risk Register since the last meeting. There were a few small changes as contained in the report.
2. There was much discussion and concern expressed about the four risks that, despite mitigating actions, continually remained at a high residual risk level. The discussion moved on to the table itself and the criteria used – especially for financial impact which should be realistic. Members questioned what was meant by 'council budget'. One Member stated that reputational damage should not be a key driver. They asked that criteria and the table be reviewed. The Finance Manager undertook to feedback the Committee's comments to the Statutory Responsibilities Network and the Strategic Risk Forum.

3. One Member spoke about the additional statutory duties put on council's over the last few years which were not funded and he had requested a list of those duties with associated costs from officers. He thought that list should be discussed by the Committee when available.

Actions/ further information to be provided:

1. That the Finance Manager feedback the Committee's comments to the Statutory Responsibilities Network and the Resilience Network. **(Tracker A3/18)**
2. That a list of additional statutory responsibilities, and associated costs, put on the council over the last five years be on a future agenda for discussion. **(Tracker A4/18)**

Resolved:

That the Finance Manager be requested to raise the Committee's concerns to the Statutory Responsibilities Network and the Strategic Risk Forum.

10/18 COMPLETED INTERNAL AUDIT REPORTS [Item 10]

Declarations of interest:

None

Witnesses:

David John, Audit Performance Manager

Key points raised during the discussion:

1. The Audit Performance Manager introduced a report that set out internal audit reports completed since the last meeting of this Committee. Full report of each of the audits had been provided to Members of the Committee and were available on the Members online library.
2. With regards to the Premises Security audit one Member thought that asking for security to escort public from Council meetings was an additional expense not needed. The Chairman stated that the Council chamber and the Ashcombe Suite were secure area and not open to the public and thought that there should be two security assigned to escorting the public from and to public meetings.
3. Members discussed the Deprivation of Liberty Safeguards (DOLS) audit and were very concerned about the numbers of outstanding assessments and the number of wasted assessments done previously. It was recognised that this situation had been as a result of a law court requirement, rather than Government, and asked if the council were talking to Government through Local Government bodies to try to address this situation. The Audit Performance Manager reported that a follow-up audit would take place in 2018/19. The Committee requested that the Committee be provided with updated figures, on the ones given in the report, to the next meeting of the Committee in April. It was also requested that the Committee be given officers best estimate on the annual number of applications expected in future.
4. The Committee were informed that the Overview and Budget Scrutiny Committee would be looking again at Surrey Choices.

Actions/ further information to be provided:

1. That the Committee's concerns be expressed to the Cabinet Member, Head of Service and Chairman of the Select Committee. **(Tracker A5/18)**
2. To have an item on the next agenda for the Committee to be provided with updated figures, on the ones given in the DOLS audit report. **(Tracker A6/18)**

Resolved:

1. That the Committee's concerns relating to the DOLS report be expressed to the Cabinet Member, Head of Service and Chairman of the Select Committee.
2. That an item be provided on the next agenda for the Committee to be provided with updated figures on the DOLS audit report.

11/18 DATE OF NEXT MEETING [Item 11]

The date of the meeting was noted as 12 April 2018.

Meeting ended at: 1.14 pm

Chairman



Audit & Governance Committee
12 April 2018

Recommendations Tracker

PURPOSE OF REPORT:

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

INTRODUCTION:

A recommendations tracker recording actions and recommendations from previous meetings is attached as Annex A, and the Committee is asked to review progress on the items listed.

RECOMMENDATION:

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

REPORT CONTACT: Joss Butler, Democratic Services Assistant
020 8541 9702 joss.butler@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
A1/17	20/02/17	Audit for Surrey Choices	Committee to invite Penelope Fell, MD of Surrey Choices/Shareholder Board to next meeting of A&G	Chairman	<p>July 2017 – That the Committee will see how the new Overview and Budget Scrutiny Committee will be dealing with this matter going forward.</p> <p>November 2017 – The Chairman of the Overview and Budget Scrutiny Committee has planned to take an item on the performance of the Shareholder Board (and the LATCs) in 2018. A&G Committee to be updated following this.</p> <p>December 2017 - The Chairman agreed to speak informally to the Chairman of the Overview and Budget Scrutiny Committee to raise concerns over the debt of Surrey Choices.</p>
A8/16 (Merged A20/15 A43/15 -Dec 2016)	28/05/15 07/12/15	Completed Internal Audit Reports Internal Audit Half Year Report 2015/16	<ul style="list-style-type: none"> record keeping for accounts relating to individuals' care charges outstanding financial assessments. 	Chairman	<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 as did Saj Hussain who is a member of SCSB.</p> <p>January 2017 – Committee agreed to keep on the tracker for the new committee.</p> <p>May 2017 – An audit is currently taking place so depending on outcome committee may wish to delete this item from the tracker.</p> <p>June 2017 – Committee requested this be kept on tracker until the audit report had been seen.</p>

Audit & Governance Committee Recommendations Tracking

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A1/18	22/01/2018	Business Continuity	To put the updated LGA Guidance titled 'A Councillor's guide to Civil emergencies' on the network portal and let all Members when it's available.	Democratic Services Assistant	Awaiting publication by Local Government Association.
A2/18	22/01/2018	Business Continuity	To discuss timings for future reports once training for Members has taken place on Business Continuity.	Chairman	
A3/18	22/01/2018	Leadership Risk Register	That the Finance Manager feedback the Committee's comments to the Statutory Responsibilities Network and the Resilience Network.	Finance Manager	
A4/18	22/01/2018	Leadership Risk Register	That a list of additional statutory responsibilities, and associated costs, put on the council over the last five years be put on a future agenda for discussion.	Chairman	
A5/18	22/01/2018	Completed Internal Audit Reports	That the Committee's concerns regarding the Deprivation of Liberty safeguards (DOLS) be expressed to the Cabinet Member, Head of Service and Chairman of the Select Committee.	Chairman	April 2018 - DOLS item to be considered at meeting on 12 April 2018.

Audit & Governance Committee Recommendations Tracking

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A14/17	04/12/17	Half Year Risk Management	For a briefing to be circulated to the Audit and Governance Committee outlining the optimisation of vacant properties within the county.	Democratic Services Assistant	Circulated to the Committee on 2 February 2018.
A6/18	22/01/2018	Completed Internal Audit Reports	To include an item on April agenda outlining updated figures from the those given in the Deprivation of Liberty safeguards (DOLS) audit report	Chairman	Item included within 12 April 2018 agenda.

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Bulletin

ISSUE: March 2018

Audit & Governance Committee

Welcome...

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

Contents

1. Internal Audit update
2. Gifts and Hospitality Update
3. Babcock 4S Ltd Director's Report and Financial Statements for the Year Ended March 2017
4. Petitions
5. Further information
6. Upcoming
7. Committee Contact Details

Internal Audit update

The consultation period for the revised structure of Orbis-Internal Audit ended on 12 February 2018. Observations made within that process will be considered by the Chief Internal Auditor before the team structure is finalised before the end of the month. Recruitment and appointment to the various posts will then follow with the intention of having all staff in post before the commencement of financial year 2018/19 on 1st April.

Within the Surrey sovereign audit team we said farewell to two colleagues, who have taken new opportunities outside of the council: Tasneem Ali, who had contracted with us for many years, and Tim Semken, Lead Auditor. We wish them both well in their future endeavours.

Currently a significant amount of stakeholder engagement is underway to understand risks and issues to shape the 2018/19 Internal Audit Annual Plan, which will be presented to Audit & Governance Committee in April for approval. This process, covering both officers and members, will be the first fully aligned annual audit plan between the three authorities under the Orbis-Internal Audit banner, and will allow for joint working and shared skills to benefit all three sovereign clients.

Gifts and Hospitality Update

The effectiveness of the Gifts & Hospitality policy continues to be dependent upon officer awareness of policy and declaration of any receipt of gifts and hospitality received. Through revision of policy and guidance documents, the HR Service has provided further clarity in areas such as receipt of 'luxury' items and small cash gifts. In addition there is general guidance for at risk officers working in a social care setting

Further amendments to the policy include naming the Head of HR as the policy owner, and delegating responsibility to Heads of Services to ensure that resources are in place within their services to allow officers to record any gifts received

The HR Service have been progressive in ensuring that there is sufficient scrutiny of the register by ensuring the annual register is published on the Surrey County Council public website, and putting measures in place to review register on a quarterly basis and provide assurance that the policy is being followed.

There was a need for the general awareness of the policy to be increased, especially at out-posted establishments where local registers were being maintained and corporate policy was not always being followed. As part of the relaunch of the G&H policy the HR service has taken active steps to raise awareness through the use of intranet promotion, promotional material and presentation of new policy at management level in services with out-posted establishments.

Babcock 4S Ltd Director's Report and Financial Statements for the Year Ended March 2017

The Audit & Governance Committee has annually reviewed the Annual Report and financial statements of Babcock 4S. The documents are this year attached to the bulletin, as annex 1.

Petitions

The Committee will receive information on petitions reaching 1,000 or more signatories. This is for information only to inform you of the big concerns of residents.

No petitions have been received reaching 1,000 or more signatories since the last bulletin.

Further information

Local government ethical standards: stakeholder consultation	<p>The Committee on Standards in Public Life invites responses to its consultation to inform its review of local government ethical standards.</p> <p>Robust standards arrangements are needed to safeguard local democracy, maintain high standards of conduct, and to protect ethical practice in local government.</p> <p>This consultation closes at 5pm on 18 May 2018.</p> <p>For details please follow this link - https://www.gov.uk/government/consultations/local-government-ethical-standards-stakeholder-consultation</p>
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Upcoming

The next meeting of the Audit & Governance Committee is on 12 April 2018.

Committee Contacts

David Harmer - Committee Chairman

Phone: 01428 609792

david.harmer@surreycc.gov.uk

Joss Butler – Democratic Services Assistant

Phone: 020 8541 9702

joss.butler@surreycc.gov.uk

Babcock 4S Limited
Annual report
For the year ended 31 March 2017
Company registration number:
04889149

Babcock 4S Limited**Directors and advisors****Current Directors**

T Newman
J Russell
R Taylor

Company secretary

M Liang

Registered Office

33 Wigmore Street
London
W1U 1QX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Savannah House
3 Ocean Way
Southampton
SO14 3TJ

Strategic report for the year ended 31 March 2017

The directors present their Strategic report on the Company for the year ended 31 March 2017.

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 net liabilities of £3,688,000 (2016: net assets of £752,000)

The company has produced the following financial statements under FRS 101.

	2017	2016
	£000	£000
Revenue	15,103	18,087
Profit for the financial year	7	927

The company completed its thirteenth year of operation. Funding reductions have continued to cause a decline in revenue. Close resource and cost monitoring have reduced the impact on gross profit margin which is 22% (2016: 23%).

Going forward, the company faces a number of operational risks including price pressure from reducing budgets, political direction, efficiency in delivery and other risks in delivering its main contracts and increased competition from its competitors.

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

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks and uncertainties. These are managed through the 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 68 to 79 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 2017 *(continued)*

Future developments

Over recent years the company's core contract with Surrey County Council has reduced significantly and is due to expire in March 2019. As a result, the majority of the company's revenue now derives from sales of services to schools and the Directors are developing a business plan for the company to operate as a fully traded business should a renewal of the core contract not be secured.

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 30 to 37 and 48 to 53 of the annual report of Babcock International Group PLC, which does not form part of this report.

On behalf of the board

A handwritten signature in blue ink, appearing to read 'T Newman', with a long horizontal flourish extending to the right.

T Newman

Director

19 December 2017

Directors' report for the year ended 31 March 2017

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2017.

Dividends

There were no dividends paid during the current year and the directors do not recommend a final dividend (2016: £nil).

Future developments

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

Going Concern

The Directors have prepared the financial statements on a going concern basis as confirmation has been received from Babcock Support Services (Investments) Limited that they will ensure the Company is able to meet its liabilities as they fall due, and that they will not seek repayment of any amounts due from Babcock 4S Limited to other companies within its group for a period of at least 12 months from the date of approval of these financial statements unless the Company generates sufficient cash flows from its operations to meet the repayments and its third party obligations as they fall due.

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.

Directors' report for the year ended 31 March 2017 (continued)**Financial risk management (continued)***Interest rate 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

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

K Garvey	(resigned 24 August 2016)
G Leeming	(resigned 1 July 2016)
T Newman	(appointed 31 March 2017)
D Olney	(resigned 31 March 2017)
J Russell	
R Taylor	(appointed 1 July 2016)

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 2017 (continued)

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.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

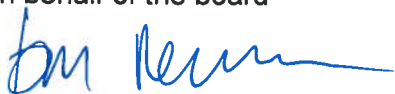
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies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

The directors 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.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is 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 that information.

On behalf of the board



T Newman
Director

19 December 2017

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 2017 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, comprise:

- the Balance Sheet as at 31 March 2017
- the Income Statement and 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 the preparation of the financial statements is United Kingdom Accounting Standards, comprising 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 judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters 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; and
- 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 set out 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
19 December 2017

Income statement*for the year ended 31 March 2017*

	Note	2017 £000	2016 £000
Revenue	4	15,103	18,087
Cost of sales		<u>(11,819)</u>	<u>(13,885)</u>
Gross profit		3,284	4,202
Administrative expenses		<u>(2,846)</u>	<u>(2,929)</u>
Operating profit	5	438	1,273
Finance income	6	36	68
Finance expenses	6	<u>(175)</u>	<u>(130)</u>
Profit before income tax		299	1,211
Income tax expense	9	<u>(292)</u>	<u>(284)</u>
Profit for the financial year		7	927

All of the above results derive from continuing operations.

Statement of Comprehensive Income*for the year ended 31 March 2017*

	Note	2017 £000	2016 £000
Profit for the financial year		7	927
Other comprehensive expenses: <i>Items that will not be subsequently reclassified to income statement:</i>			
Actuarial losses on pension scheme	17	(5,320)	(1,509)
Tax on net defined benefit obligation	9	873	206
Other comprehensive expenses		<u>(4,447)</u>	<u>(1,303)</u>
Total comprehensive expense for the year		<u>(4,440)</u>	<u>(376)</u>

Balance sheet*as at 31 March 2017*

	Note	2017 £000	2016 £000
Fixed assets			
Intangible assets	10	42	68
		42	68
Current assets			
Inventories	12	6	9
Trade and other receivables	13	3,120	2,608
Cash and cash equivalents		8,768	11,824
		11,894	14,441
Trade and other payables – amounts falling due within one year	14	(5,003)	(7,623)
Net current assets		6,891	6,818
Total assets less current liabilities		6,933	6,886
Provisions for liabilities	15	(1,052)	(1,321)
Post-employment benefits	17	(9,569)	(4,813)
Net (liabilities)/ assets		(3,688)	752
Equity			
Called up share capital	21	1	1
Share premium account		1,999	1,999
Accumulated losses		(5,688)	(1,248)
Total shareholders' (deficit) funds		(3,688)	752

The notes on pages 13 to 33 are an integral part of these financial statements.

The financial statements on pages 10 to 33 were approved by the board of directors and signed on its behalf by:

T Newman
Director

19 December 2017

Statement of changes in equity
for the year ended 31 March 2017

	Called-up share capital £000	Share premium account £000	Accumu- lated Losses £000	Total share- holders' funds/ (deficit) £000
Balance at 1 April 2015	1	1,999	(872)	1,128
Profit for the financial year	-	-	927	927
Other Comprehensive Expense	-	-	(1,303)	(1,303)
Balance at 31 March 2016	1	1,999	(1,248)	752
Profit for the financial year	-	-	7	7
Other Comprehensive Expense	-	-	(4,447)	(4,447)
Balance at 31 March 2017	1	1,999	(5,688)	(3,688)

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.

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).

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)
- 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.

Notes to the financial statements (continued)**2. Summary of significant accounting policies (continued)****Basis of preparation (continued)****Going Concern**

The Directors have prepared the financial statements on a going concern basis as confirmation has been received from Babcock Support Services (Investments) Limited that they will ensure the Company is able to meet its liabilities as they fall due, and that they will not seek repayment of any amounts due from Babcock 4S Limited to other companies within its group for a period of at least 12 months from the date of approval of these financial statements unless the Company generates sufficient cash flows from its operations to meet the repayments and its third party obligations as they fall due.

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.

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.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

Tangible Assets

Tangible 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 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.

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.

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

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.

Notes to the financial statements (continued)**2. Summary of significant accounting policies (continued)****Taxation (continued)****(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 and gains and losses on settlements and curtailments. 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 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.

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 is presented separately after other net assets on the face of the balance sheet.

The company also participates in a defined contribution scheme. Obligations for contributions are recognised as an expense in the income statement.

Notes to the financial statements (continued)**2. Summary of significant accounting policies (continued)****Pension costs and other post-retirement benefits (continued)****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 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 17 for the disclosures of the defined benefit pension scheme.

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.

Notes to the financial statements (continued)**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 / (crediting):

	2017	2016
	£000	£000
Amortisation of intangible assets	26	11
Impairment of trade receivables	(1)	32
Restructuring	-	90
Impairment of inventory	-	33
Operating lease charges	633	633
Inventories charged to cost of sales	3	33
Audit fees payable to the Company's auditors	20	24

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 financial statements are required to comply with the statutory disclosure requirements.

6. Finance income and expenses

	2017	2016
	£000	£000
Finance income:		
Bank interest	36	68
Finance expenses:		
Net interest cost on defined benefit pension liability (note 17)	(175)	(130)

7. Staff costs

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

	2017	2016
	Number	Number
By activity:		
Operations	139	165
Management and administration	25	32
	164	197

Notes to the financial statements (continued)

7. Staff costs (continued)

Their aggregate remuneration comprised:

	2017 £000	2016 £000
Wages and salaries	6,233	7,868
Social security costs	731	767
Other pension costs (note 17)	837	986
	7,801	9,621

Included in other pension costs are £609,000 (2016: £650,000) in respect of the LGPS scheme, £52,000 (2016: £61,000) in respect of the Teacher's pension scheme and £176,000 (2016: £217,000) 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.

8. Directors' remuneration

No directors received remuneration from the company in the current year (2016: 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

Tax expense included in income statement

	2017 £000	2016 £000
Current tax:		
UK Corporation tax on profits for the year	-	39
Adjustment in respect of prior periods	112	-
Current tax charge for the year	112	39
Deferred tax:		
Origination and reversal of timing differences	179	202
Adjustment in respect of prior years	(1)	18
Impact of change in UK tax rate	2	25
Total deferred tax charge (note 16)	180	245
Income tax expense	292	284

Notes to the financial statements (continued)

9. Income tax expense (continued)

Tax expense included in other comprehensive expense

	2017 £000	2016 £000
Current tax	-	-
Deferred tax:		
- Tax impact of actuarial gains/losses on pension liability	1,064	302
- Impact of change in UK tax rates	(191)	(96)
Tax expense included in other comprehensive expense	873	206

Tax expense for the year is higher (2016: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2017 of 20% (2016: 20%). The differences are explained below:

	2017 £000	2016 £000
Profit before income tax	299	1,211
Profit before income tax multiplied by standard UK corporation tax rate of 20% (2016: 20%)	60	242
Effects of:		
Group relief surrendered	119	-
Income not subject to tax	-	(1)
Adjustments in respect of deferred taxation for prior years	(1)	18
Adjustments in respect of prior periods	112	-
Impact of change in UK tax rate	2	25
Total tax charge for the year	292	284

In the UK 2015 Budget it was announced that the UK corporation tax rate will reduce to 19% for April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. It was subsequently announced in 2017 UK Budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 17% as this is the tax rate that will apply on reversal.

Notes to the financial statements (continued)

10. Intangible assets

	Other Intangibles £000	Computer Software £000	Acquired Intangibles £000	Total £000
Cost				
At 1 April 2016 and 31 March 2017	298	79	700	1,077
Accumulated amortisation and impairment				
At 1 April 2016	298	11	700	1,009
Amortisation	-	26	-	26
At 31 March 2017	298	37	700	1,035
Net book value				
At 31 March 2017	-	42	-	42
At 31 March 2016	-	68	-	68

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

11. Tangible assets

	Leasehold property £000	Computer equipment £000	Office equipment £000	Total £000
Cost				
At 1 April 2016	866	1,168	526	2,560
Disposal	-	(1,168)	-	(1,168)
At 31 March 2017	866	-	526	1,392
Accumulated depreciation				
At 1 April 2016	866	1,168	526	2,560
Disposal	-	(1,168)	-	(1,168)
At 31 March 2017	866	-	526	1,392
Net book value				
At 31 March 2017	-	-	-	-
At 31 March 2016	-	-	-	-

Notes to the financial statements (continued)

12. Inventories

	2017 £000	2016 £000
Finished goods and goods for resale	6	9
	<u>6</u>	<u>9</u>

13. Trade and other receivables

	2017 £000	2016 £000
Amounts falling due within one year:		
Trade receivables	441	540
Amounts owed by related parties	149	263
Amounts owed by group undertakings	67	213
Deferred tax asset (note 16)	1,779	1,086
Other receivables	372	107
Prepayments and accrued income	312	399
	<u>3,120</u>	<u>2,608</u>

Amounts owed by related parties and 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 £31,000 (2016: £32,000).

14. Trade and other payables

	2017 £000	2016 £000
Amounts falling due within one year:		
Trade creditors	901	716
Amounts owed to parent and group undertakings	2,030	2,366
Amounts owed to other related parties	4	1,403
Taxation and social security	144	733
Other payables	196	175
Accruals and deferred income	1,728	2,230
	<u>5,003</u>	<u>7,623</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 2016	1,007	314	1,321
Released to the income statement	(269)	-	(269)
At 31 March 2017	738	314	1,052

Contract provisions

Contract provisions relate to committed costs should the Company's main contract not be renewed in 2019. These are based on the assessment of future costs and are assessed with reference to past experience. These provisions are expected to be fully utilised during the year ended 31 March 2019. The release to the income statement took place after a reduction in the total provision required following the annual revaluation. During the year £nil was used in relation to a single smaller contract (2016: £90,000).

Other provisions

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

16. Deferred taxation

The major components of the deferred tax assets recorded are as follows:

	Accelerated capital allowances £000	Relating to the pension deficit £000	Other short term timing differences £000	Total £000
Deferred tax assets				
At 1 April 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 1 April 2016	29	866	191	1,086
- (Charged) / credited to the income statement	(6)	(112)	(62)	(180)
- (Charged) / credited to other comprehensive income	-	873	-	873
At 31 March 2017	23	1,627	129	1,779

Notes to the financial statements (continued)**17. Post-employment benefits**

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

Multi-employer schemes*Teachers' 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 current contribution rate is 16.4% of pensionable salary for eligible members.

The total cost of pension contributions for employees of the company during the year was £52,000 (2016: £64,000) and there was a creditor of £6,000 (2016: £9,000) in the balance sheet. The company expects to pay contributions of a similar level in the next financial year.

Defined contribution schemes*Babcock Defined Contribution scheme (formerly Shipbuilding Industries Pension Scheme)*

The Company participates in a defined 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 £176,000 (2016: £217,000) and there was a creditor of £nil (2016: £nil) in the balance sheet.

Notes to the financial statements (continued)**17. Post-employment benefits (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 2016 and was updated for accounting purposes to 2017 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 £3.9 billion.

The company does not expect to contribute 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)

17. Post-employment benefits (continued)

For the LGPS, the IAS 19 valuation has been updated at 31 March 2017 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 31 March 2016. The major assumptions used for the IAS 19 valuation were:

Major assumptions	2017 %	2016 %
Rate of increase in salaries	2.30	2.40
Rate of increase in pension payment	2.23	2.23
Discount rate	2.60	3.70
Inflation	2.10	2.10

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:

	2017 Years	2016 Years
Life expectancy from age 65 (male age 65)	22.2	22.7
Life expectancy from age 65 (male age 45)	23.9	25.0

The changes to the Company balance sheet at March 2017 and the changes to the Company income statement for the year to March 2018, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2017 £000	Income statement projection 2018 £000
Initial assumptions	54,007	957
Discount rate assumptions increased by 0.5%	49,049	789
Discount rate assumptions decreased by 0.5%	58,964	1,075
Inflation rate assumptions increased by 0.5%	58,077	1,110
Inflation rate assumptions decreased by 0.5%	50,084	809
Total life expectancy increased by half a year	54,678	983
Total life expectancy decreased by half a year	53,336	931
Salary increase assumptions increased by 0.5%	55,092	1,009
Salary increase assumptions decreased by 0.5%	52,932	905

Notes to the financial statements (continued)

17. Post-employment benefits (continued)

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.

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 were:

Analysis of assets and expected returns per annum:

	2017 £000	2016 £000
Equities	32,594	29,329
Property	3,178	2,660
Bonds	6,734	6,360
Cash and other	2,156	1,518
Total assets	44,662	39,867
Present market value of liabilities - funded	(54,007)	(44,488)
Present market value of liabilities unfunded	(224)	(192)
Gross Pension liability	(9,569)	(4,813)

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

Notes to the financial statements (continued)

17. Post-employment benefits (continued)

	2017 £000	2016 £000
Analysis of amount charged to the income statement		
Current service cost	609	705
Total included within operating profit	609	705
Net interest cost	175	130
Total charged to the income statement	784	835

	2017 £000	2016 £000
Analysis of amount included in statement of comprehensive income		
Actuarial (loss)/gain recognised on liabilities	(8,699)	133
Actuarial gain / (loss) recognised on assets	3,411	(1,599)
Actuarial loss recognised on unfunded arrangements	(32)	(43)
	(5,320)	(1,509)

	2017 £000	2016 £000
Reconciliation of present value of scheme liabilities		
At 1 April	44,488	43,172
Current service cost	609	705
Interest cost	1,557	1,470
Employee contributions	175	223
Benefits paid	(1,521)	(949)
Actuarial loss / (gain)	8,699	(133)
At 31 March	54,007	44,488

	2017 £000	2016 £000
Reconciliation of present value of scheme assets		
At 1 April	39,867	39,207
Expected return on scheme assets	1,382	1,340
Actuarial gain / (loss)	3,411	(1,599)
Benefits paid	(1,521)	(949)
Contributions paid by employer	1,348	1,645
Employee contributions	175	223
At 31 March	44,662	39,867

Notes to the financial statements (continued)

18. Dividends

There were no dividends paid in 2017 (2016: £nil).

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 (2016: £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 (2016: £nil).

b) Operating lease commitments

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

	2017 Land and buildings £000	2017 Other £000	2016 Land and buildings £000	2016 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	568	115	567	47
- between two and five years	662	119	1,229	283
	1,230	234	1,796	330

The Company leases one office under a non-cancellable operating lease agreement. The Company also leases 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 2017 are as follows:

	Sales to related party	Purchases from related party	Amounts owed by related party	Amounts owed to related party
Related party	£000	£000	£000	£000
Babcock Aerospace Limited	19	-	2	-
Babcock Civil Infrastructure Limited	63	-	-	-
Babcock Communications	6	-	-	-
Babcock Communications Limited	-	(10)	-	-
Babcock Corporate Services Limited	-	(10)	-	(1)
Babcock Skills, Development & Training Ltd	-	-	1	-
Babcock Education & Skills Limited	-	(88)	-	(48)
Babcock Education Holdings Limited	272	(1,084)	-	(31)
Babcock International Group PLC	-	(63)	-	(54)
Babcock Land Limited	11	-	-	-
Babcock Learning & Development Partnership LLP	104	(80)	46	(9)
Babcock Pension Trust	-	(42)	-	-
Babcock Skills Development & Training Limited	3	-	-	-
Babcock Support Services (Investments) Limited	107	-	-	-
Babcock Support Services Limited	-	(5)	-	(1,887)
Babcock Training Limited	568	(99)	18	-
Skills 2 Learn Limited	3	-	-	-
VT (UK) Limited	-	(11)	-	-
Surrey County Council	11,387	(14)	149	(4)

Notes to the financial statements (continued)

20. Related party disclosures (continued)

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

	Sales to related party	Purchases from related party	Amounts owed by related party	Amounts owed to related party
Related party	£000	£000	£000	£000
Babcock Aerospace Limited	1	-	-	-
Babcock Civil Infrastructure Limited	317	2	45	-
Babcock Communications	-	-	8	-
Babcock Communications Limited	121	-	-	-
Babcock Corporate Services Limited	-	31	-	(6)
Babcock Critical Services Limited	3	-	4	-
Babcock Education & Skills Limited	-	90	-	(10)
Babcock Education Holdings Limited	95	-	-	(514)
Babcock International Group PLC	-	126	-	(60)
Babcock Land Limited	9	-	-	-
Babcock Learning & Development Partnership LLP	394	89	8	-
Babcock Pension Trust	-	-	18	-
Babcock Skills Development & Training Limited	4	-	-	-
Babcock Support Services Limited	-	6	-	(5)
Babcock Training Limited	439	144	130	(1,768)
Cavendish Nuclear	-	28	-	-
Skills 2 Learn Limited	3	8	-	-
VT (UK) Limited	-	3	-	(3)
Surrey County Council	11,875	410	263	(1,403)

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. Called up Share capital

	2017 £000	2016 £000
Allotted and fully paid		
801 (2016 :801) "A" ordinary shares of £1 each	1	1
199 (2016 :199) "B" ordinary shares of £1 each	-	-
	<u>1</u>	<u>1</u>

Shares classified as equity

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

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

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



Audit & Governance Committee
12 April 2018

ETHICAL STANDARDS ANNUAL REVIEW

Purpose of the report:

To enable the Committee to monitor the operation of the Members' Code of Conduct and to consider recommendations from the Monitoring Officer about ethical standards training to be offered to Members during 2018.

Recommendations:

1. That the Monitoring Officer provides training to members during 2018 as outlined in paragraph 16 of this report.
2. The Committee notes the Monitoring Officer's report on recent activity in relation to the Code of Conduct and complaints made in relation to member conduct

Introduction:

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

The Code also includes provisions for the registration and disclosure of pecuniary and other interests.

5. The Act also requires the Council to appoint "at least one independent person" whose views must be sought after an investigation into a complaint has been conducted and before a decision on it is made. It also allows members who have had an allegation made against them to seek the views of the Independent Person if they wish.

6. The Council has delegated to the Audit and Governance Committee the roles of:
 - monitoring the operation of the Members' Code of Conduct and;
 - promoting advice guidance and training on matters relating to the Code of Conduct.
7. The Committee is also responsible for granting dispensations to Members relating to their disclosable pecuniary interests.

The Code of Conduct

8. At the Council meeting of 17 July 2012 members agreed that they wanted to adopt a simple, high level code. The current Members' Code of Conduct is based on the Department of Communities and Local Government ("DCLG") "illustrative" text of a code of conduct for members. The Code is linked to other Council protocols, including the Member/ Officer Protocol. There have been no revisions to the Code of Conduct.

Independent Person

9. The Act requires the appointment of at least once independent person who cannot be a councillor, officer or a relative or friend of any one of them. Mr Bernard Quoroll was appointed by Council for a term of four years from December 2016. Mr Quoroll had more than 30 years in public service (during which he was consecutively, the chief executive of a large district council, a London borough and a unitary county), he worked as a consultant and mediator and was for eight years a member of the Administrative Justice and Tribunals Council, an arms length body, sponsored by the Ministry of Justice which supervised the tribunal system in England and Wales, including ombudsmen and other complaint handlers. Most recently he has completed an MA at University College London in Legal and Political Theory with a dissertation on governance and integrity in public life.

Arrangements for receiving and handling complaints

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

Register of Interests

11. In July 2016 Council agreed to widen the registration requirement of its members to include a new category of significant personal interests and to include a new requirement to declare prejudicial interests in addition to disclosable pecuniary interests and significant personal interest at meetings of the council and its committees.
12. All members are now required to notify the Monitoring Officer, within 28 days of taking office of two categories of interest: Firstly, any disclosable pecuniary interests they have (including those of a spouse, civil partner or someone with whom the member is living as husband and wife or as civil partner) and secondly any of their

own significant personal interests. The Council's register is published on line in accordance with legal requirements.

13. Elected members' entries on the Register of Interests are accessible on their individual page on the Council's website. Co-opted members have also registered their interests and these can be found on the Register of Interests page on the Council's website.
14. Steps taken to provide guidance, information and reminders are set out below.

Training and Guidance for Members

15. A joint code of conduct and register of interests training day for the new Council took place on 22 May 2017. The training covered the operation of the Code of Conduct, registering interests and the arrangements for dealing with complaints against members. Following the training, new and returning members received guidance in registering their interests, both pecuniary and personal, either on line or in hard copy.
16. It is proposed to offer training for all members on the role of the Member Conduct Panel in dealing with complaints in the summer of 2018.

Code of Conduct Complaints

17. The spreadsheet appended to this report shows the number of complaints received since the beginning of 2017. There have been no complaints alleging that a Member has failed to disclose or declare a pecuniary interest (this being a breach of the code which could result in criminal prosecution of the Member). The number of complaints received is slightly lower than previous years.
18. A number of the complainants wish to seek redress in connection with their dissatisfaction about the way a member has personally dealt with them. It would also appear that some complaints may be triggered by policy decisions which the complainant disagrees with, or perceives as impacting unfavourably on them.

Risk Management Implications

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

Financial and value for money implications

20. An external investigation of a complaint costs in the region of £5,000. In the last year there were no investigations that required an external investigator.

Equalities and Diversity Implications

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

Appendices

- a) Member conduct complaints

Next steps:

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

Report contact: Sarah Baker, Interim Monitoring Officer and Head of Legal Services

Contact details: 0208 541 7981 / sarah.baker@surreycc.gov.uk

Date complaint received	Complainant	Complaint	Controversial Service Matter	Person Consulted	Status of complaint
16/02/17	C1	Complainant alleges Cllr is discriminating against a minority group by holding a consultation in a pub	No	MO	Closed - No action
02/02/17	C2	Complaint alleges Cllr supported application using taxpayers money.	No	MO	Closed - No action
02/02/17	C3	Complaint alleges Cllr supported application using taxpayers money.	No	MO	Closed - No action
28/02/17	C4	Complainant alleges cllr has acted unprofessionally and failed to obtain full details on a matter	No	MO	Closed - No breach found
07/03/17	C5	Complainant alleges data protection breach and that cllr has behaved inappropriately.	No	MO	Closed - No breach found
23/03/17	C6	Complaint alleges only section of road outside cllr's house has been resurfaced	No	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
19/04/17	C7	Complainant alleges councillor used council resources improperly for political purposes - Cllr published an SCC email address on promotional material during Purdah	No	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
30/05/17	C8	Complaint that reply from Cllr is self-contradicting & unprofessional	No	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
11/01/17	C9	Complaint blocked on Facebook & Twitter leaving resident unable to contact him & subscribed him to newsletter without permission	No	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
22/08/17	C10	Alleged Cllr trespassed on land and measured boundaries	No	MO	Closed - complaint requires no further action
06/09/17	C11	Lack of response	No	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
03/12/17	C12	Complaint personal attack was made	No	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct
14/11/17	C13	Complaint of intimidation	No	MO	Closed - Complaint not upheld as not a breach of the Code of Conduct

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Audit & Governance Committee
12 April 2018

Members' Allocation Funding of Education Costs

Purpose of the report:

At the Audit and Governance Committee meeting on 22 January 2018, Members requested a short report detailing the educational-related costs that cannot be funded from the Members' Allocation grant.

Recommendations:

It is recommended that:

1. The Audit and Governance Committee notes the contents of this report.

Introduction:

2. Councillor Andrew Povey's Full Council motion was referred to the Audit and Governance Committee (AGC) meeting on 22 January 2018 for discussion. The motion proposed 'That the wording of the Financial Framework for Members' Allocations contained in Part 5 of the Council's Constitution, be modified in the section "What we cannot consider", point 7, to replace the word "core" with the word "statutory"'.
3. The AGC accepted an amendment to the original motion to keep the word 'core' and avoid replacing it with the word 'statutory'. Instead, an extension of point 7 of the Framework to include a list of what is not allowed to be funded was proposed.
4. The Committee requested a short report for the next meeting outlining what cannot be funded by Members' Allocations, in order to aid further discussion.

Local Authority Funding of Schools

5. Local authority funding of schools is governed by the annual School and Early Years Finance Regulations, issued under the School Standards and Framework Act 1998.
6. The core principle is that revenue funding for schools must be delegated to individual schools using a formula which has been consulted on locally and which complies with Department for Education regulations, except for specific exceptions which are set out in the schedules to those regulations. The legislation aims to ensure that all schools are funded on a consistent basis and can exercise choice in how to spend their budgets. School governing bodies may spend their delegated funds for any purposes of the school and in part, if they choose, for eligible community purposes (although they are not legally obliged to provide additional community services).

Restrictions for Members' Allocation Funding

7. The term "Purposes of the school" is not strictly defined by legislation, but is generally considered to be the provision of education to pupils registered at the school. School delegated budgets are provided to cover revenue expenditure associated with core education provision. This includes, but is not limited to, textbooks and library books and their electronic equivalents, routine maintenance of school buildings and grounds, internal redecoration and replacement of normal classroom furniture, equipment and IT.
8. The Council, and therefore Members' Allocations, is only able to fund schools for purposes which are specified in the regulations as eligible for funding over and above the delegated budget set by the regulations. The sample list of items detailed in paragraph 7, above, could not therefore be funded from the Members' Allocation grant.
9. The School and Early Years Finance Regulations are updated annually. This means that the definition of expenditure for the purposes of the school is subject to change. Expenditure on a particular item in a given year does not necessarily mean that funding the same item in a subsequent year will be eligible. As the delivery of education evolves, purchases can fall within the category of core curriculum items, as technology and teaching methods advance. Additionally, if a school(s) chooses to deliver the core curriculum in new or innovative ways, for example through dramatizations, external speakers, or external organisations, it does not mean that the cost of such activities would fail to be deemed as a core curriculum cost.

Conclusions:

10. The term "purposes of the school" is not strictly defined by legislation and is also subject to annual change. Therefore, it is not possible to provide an exhaustive list of every item of school expenditure that would fall

within this broad definition. Items listed at paragraph 7 provide a guide to members but can change over time.

Financial and value for money implications

11. Members' Allocation funding of core activities falling within the 'purposes of the school' definition would serve to duplicate public funding already provided through the school delegated budget.

Equalities and Diversity Implications

12. The Annual School and Early Years Finance Regulations, issued under the School Standards and Framework Act 1998 help to maintain a consistent basis for educational provision across all schools. By prohibiting Members' Allocation funding of such activities, we uphold the legislation's intention of promoting equality of provision across all Surrey schools.

Risk Management Implications

13. Members' Allocation funding of core activities falling within the 'purposes of the school' definition would jeopardise the equality of provision across all Surrey schools that the delegated grant formula intends.

Next steps:

14. On 30 January 2018, the Cabinet announced that a new Members' Community Allocation (MCA) grant would be created. This will replace the current Members' Allocation scheme.
15. The rules for the new MCA scheme will be taken to Cabinet and Full council for approval in May 2018.

Report contact: Sandra Brown, Engagement Manager, Community Partnership and Safety

Contact details: 03456 009 009

Sources/background papers:

- Members' Allocation Funding for Schools Advice Note.
- Financial Framework for Members' Allocation.

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Audit & Governance Committee
12 April 2018

Grant Thornton: 2017/18 External Audit Plan

Purpose of the report:

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2017/18 financial statements of the Council.

Recommendations:

1. It is recommended that the Audit and Governance Committee approves the Audit Plan attached as Annex 1.

Introduction:

2. The Audit Plan (Annex 1) provides an overview of the planned scope of the statutory audit of the Council's accounts for 2017/18. It also outlines the risks identified by Grant Thornton, the Council's external auditors, for the audit of the Council's 2017/18 financial statements and their planned response to these risks.
3. The report also outlines the work the auditor will undertake as part of the assessment of the Council's Value for Money arrangements.

2017/18 Financial Statements:

4. The Audit Plan has identified a series of 'significant' risks and 'reasonably possible' risks. These risks have been identified in accordance with auditing standards and are consistent with the risks identified across Grant Thornton's local government clients.
5. The 'significant' risks comprise:
 - Two presumed risks as required under International Auditing Standards, relating to fraud arising from revenue recognition (which has been rebutted) and management override of controls
 - Valuation of property, plant and equipment
 - Valuation of the pension fund liability
6. The other, 'reasonably possible' risks comprise; employee remuneration and operating expenditure. These areas are the most numerically significant

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

7. In addition, for 2017/18, the statutory deadlines for publication of audited local government accounts has been brought forward to 31 July. This represents a significant challenge for both local authorities and auditors. However, Surrey County Council has been working to a faster closedown timetable for a number of years and are considered to be well prepared for the earlier statutory deadline.

Value for Money Conclusion:

8. The Audit Plan summarises the auditors planned approach to the Value for Money work, and the significant risks identified. They will conduct their work with a focus on the following areas:
 - Financial health
 - Arrangements in children's services following the 2014/15 Ofsted report

Conclusions:

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

Financial and value for money implications

10. There are no direct financial or value for money implications of this report. The audit fee quoted for this work is included within the medium term financial plan.

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

13. The audited financial statements for 2017/18 are due to be reported to this Committee, alongside the Audit Findings Report on 26 July 2018.

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

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External Audit Plan

Year ending 31 March 2018



Contents



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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Surrey County Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit & Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Significant risks require specific audit consideration and procedures to address the likelihood of a material financial statement error. These risks have been identified in accordance with auditing standards and are consistent with the risks identified across our local government clients.

- Fraud in Revenue Recognition (Rebuttable)
- Management Override of Controls
- Valuation of the Pension Fund Net Liability
- Valuation of Property, Plant, and Equipment

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £30,265k (PY £26,782k), which equates to 1.5% of gross expenditure for the prior year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1,513k (PY £1,339k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Financial Health
- Children's Services (Ofsted inspection results and DfE intervention)

Audit logistics

Our interim visit will take place in January-February 2018 and our final visit will take place in June-July 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £142,098 (PY: £142,098) for the Council.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version was published in December 2017.

Devolution and integration

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas. Surrey County Council has campaigned for increased devolution as part of the 'Three Southern Counties' partnership alongside over 30 different Public Sector Bodies in the region. Surrey Heartlands, which covers the Guildford & Waverley, North West Surrey and Surrey Downs Clinical Commissioning Groups has been devolved powers for health and social care with effect from 1 April 2018 and will include new ways of working across the 11 public sector bodies involved.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Ministry of Housing, Communities and Local Government (MHCLG) is currently undertaking a review of the Regulations. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Key challenges

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July for the 2017/2018 financial year.

You have been meeting this deadline for a number of years.

Sustainability of services

Reductions in government funding, restrictions on raising local funds and the distribution of locally raised funds is challenging the long term sustainability of services.

You are responding to this challenge in a variety of ways efficiencies, new sources of funding, working with partners and service redesign.

Despite a good record of achieving savings in prior years, your forecast revenue budget outturn for 2017/18 is an overspend of £6m.

Our response

- We will consider your arrangements for managing and reporting your financial resources, including your progress on health integration and/or use of investment vehicles as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, and the impact of impairment assessments and the adequacy of provisions in relation to essential work on high rise buildings.
- In previous years the Value for Money conclusion for Surrey County Council has been qualified with regard to children's services due to OFSTED results and Department of Health intervention. We will review your response to the state of children's services in previous years when forming a conclusion on the your achievement of Value for Money.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Surrey County Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Surrey County Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. .</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test journal entries for appropriateness in accordance with the assessed level of risk associated with each journal • evaluate the rationale for any changes in accounting policies or significant unusual transactions.



Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	<p>The Council revalues its land and buildings on an rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work Consider the competence, expertise and objectivity of any management experts used. Discuss with the valuer the basis on which the valuation is carried out and challenge of the key assumptions. Review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding. Test revaluations made during the year to ensure they are input correctly into the Council's asset register Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out Undertake procedures to confirm the reasonableness of the actuarial assumptions made. Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	<p>Payroll expenditure represents a significant percentage (26%) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; • re-perform the year end payroll reconciliation and test whether year-end payroll accruals, e.g. tax and pension creditors, unpaid leave accrual) have been recognised and are not understated; • perform a substantive analytical review of payroll expenditure to analyse movements year-on-year.
Operating expenses	<p>Non-pay expenses on other goods and services also represents a portion of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • test whether year end operating expenditure accruals have been recognised and not understated; • test operating expenses on a sample basis as in prior years.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under the Act and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
- issue of a report in the public interest; and
- making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

Materiality for planning purposes

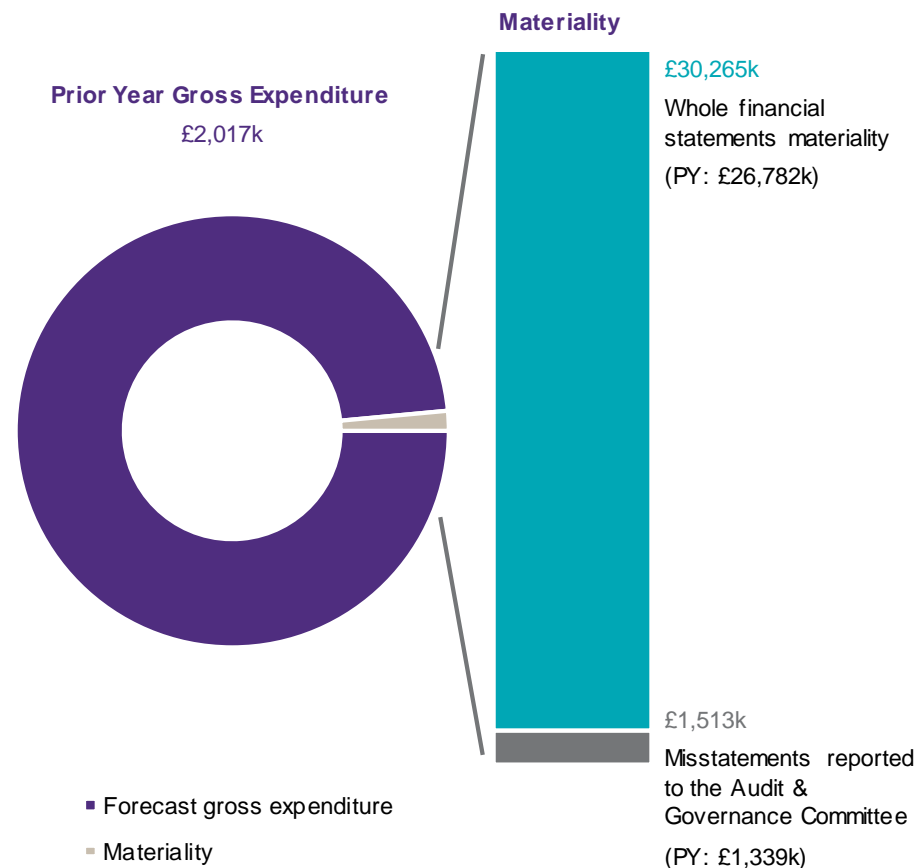
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £30,265k (PY £26,782k), which equates to 1.5% of gross expenditure in the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit & Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1,513k (PY £1,339k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit & Governance Committee to assist it in fulfilling its governance responsibilities.



Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
Halsey Garton Property Limited	Yes	Comprehensive	Valuation of Investments (Plant, Property, and Equipment)	Full scope UK statutory audit performed by Grant Thornton UK.
Surrey Choices Limited	No	Analytical	None	High level analytical review.
South East Business Services Limited	No	Analytical	None	High level analytical review.

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Key changes within the group:

- Halsey Garton Property Limited has made significant investments during the past two years which are material to our audit opinion. The company is now material to the group as a whole and must be audited prior to signoff of the group financial statements.

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of component audit teams will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component audit documentation and meeting with appropriate members of management.

Value for Money arrangements

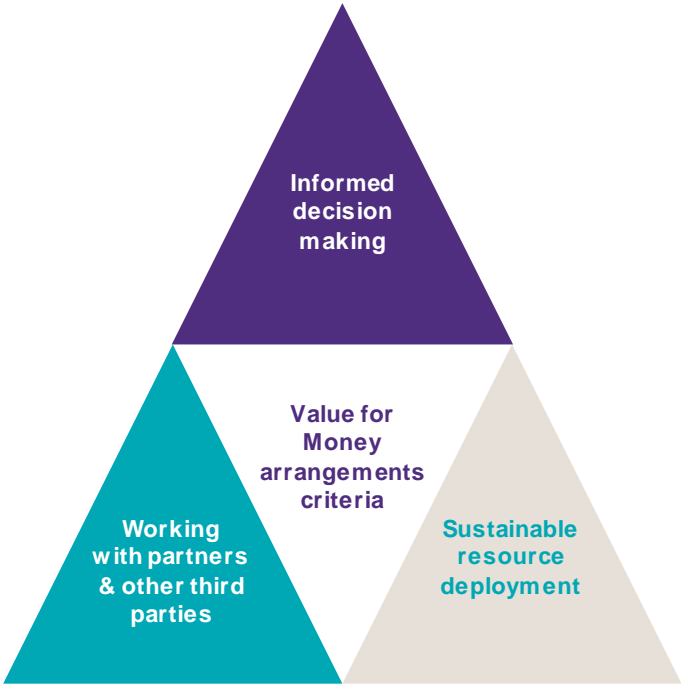
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below :



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



Financial Health

You have a strong track record of delivering a budget underspend at year-end, despite reduced funding from central government. Forecast revenue budget outturn for 2017/18 is a £6m overspend.

We will review your Medium Term Financial Plan, including the robustness of assumptions. We will review savings plans and revenue generating schemes. We will discuss your plans and outcomes with management, as well as reviewing how finances are reported to Councillors.



Children's Services

Ofsted issued a critical report on children's services in 2014/15 and you are currently subject to follow up review. We issued a qualified except for conclusion in 2014/15, 2015/16, and 2016/17 due to Department for Education interventions.

We will review any third party reports as well as your own monitoring and self-assessment.

We have not identified any further significant risks from our initial risk assessment. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

Audit logistics, team & audit fees



Ciaran McLaughlin, Engagement Lead

Responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit Committee.

Marcus Ward, Audit Manager

Responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit Committee.

Tom Beake, Audit Incharge

Responsible for management and delivery of audit fieldwork, including both interim and final accounts work.

Audit fees

The planned audit fees are no less than £142,098 (PY: £142,098) for the financial statements audit of Surrey County Council.

This does not include audit fees for the council's subsidiary companies, totalling £41,500. These audits will be undertaken by a separate engagement team.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have worked with you over the last few years to ensure you are well prepared for the earlier statutory deadline.

Nationally we have been working with our client base to:

- bring forward as much work as possible to interim audits
- start work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seek further efficiencies in the way we carry out our audits
- agree plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you continue to:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Non-audit services

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Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers' Pensions return	4,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit of £142,098 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pensions return –Surrey Choices Limited	3,500	Self-Interest (because this is a recurring fee)	Marcus Ward's wife is a teacher at a school in Surrey. Marcus will not be part of the audit team that completes the certification of the Teachers' Pension returns.
Non-audit related			
CFO Insights subscription	12,500	None	None
Financial Modelling for Morgan Sindall Investments Joint Venture bid (Non-SCC service)	-	None	We have not provided accounting services to Morgan Sindall. The scope of this piece of work was to build the functionality for a cash flow financial model to support their bid. The JV will be formed post final bid submission and we have had no involvement at later stages of the bid. Assumptions and figures used in the model are outside of the scope of this work and will be prepared by Morgan Sindall to support their bid. We will not be involved in the preparation of original data used to generate records that may be subject to audit.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.





Audit & Governance Committee
12 April 2018

Grant Thornton: 2017/18 External Audit Plan – Pension Fund Accounts

Purpose of the report:

This report provides the Audit & Governance Committee with the Audit Plan for the external audit of the 2017/18 financial statements of the Surrey Pension Fund.

Recommendations:

1. It is recommended that the Audit and Governance Committee approves the external audit plan attached as Annex 1.

Introduction:

2. The Audit Plan (Annex 1) outlines the risks identified by Grant Thornton, the Council's external auditors, for the audit of the Pension Fund's 2017/18 financial statements and their planned response to these risks.

2017/18 Financial Statements:

3. The Audit Plan has identified a series of 'significant' risks and 'reasonably possible' risks. These risks have been identified in accordance with auditing standards.
4. The 'significant' risks comprise:
 - Fraudulent transactions
 - Management override of controls
 - Inappropriate valuation of investments
5. The other, 'reasonably possible' risks comprise:
 - Incorrect recording of contributions
 - Incorrect calculation of benefits
 - Inappropriate valuation of investments

Conclusions:

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

Financial and value for money implications

7. There are no direct financial or value for money implications of this report.

Equalities and Diversity Implications

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

Risk Management Implications

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

Next steps:

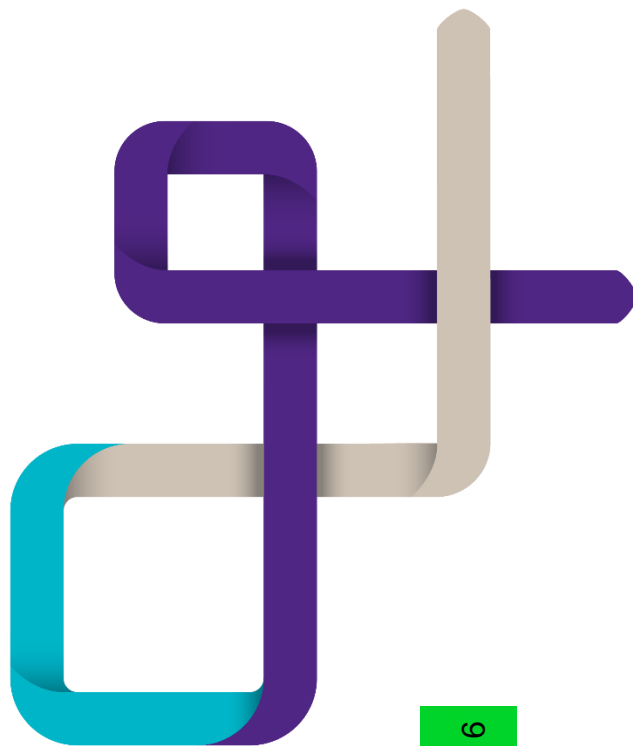
10. The external audit process will commence on the conclusion of the accounts closure.
11. The completed external audit findings report and final audited financial statements for 2017/18 will be presented to this Committee on 26 July 2018.

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External Audit Plan

Year ending 31 March 2018



Contents



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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Surrey Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Surrey Pension Fund. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for 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 & Governance Committee).

The audit of the financial statements does not relieve management or the Audit & Governance Committee of your responsibilities.

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

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Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- The valuation of Level 3 investments is incorrect

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £38.7m (PY £38.6m), which equates to 1% of your net assets at the end of the previous financial year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.9m (PY £1.9m).

Audit logistics

Our interim visit will take place in March and our final visit will take place in June. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £27,105 (PY: £27,105) for the Fund. Where requests are received from auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these may be billed in addition to the audit fee on a case by case basis.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Deep business understanding

Changes to service delivery

Pooling

Arrangements for the pooling of investments continue to develop. The DCLG have reported on the progress of pools and noted the pace of development, including the launching of procurements for pool operators, appointing senior officers and preparing applications for Financial Conduct Authority authorisation. This remains a challenging agenda, with arrangements required to be in place from 1 April 2018. These arrangements will have a significant impact on how investments are managed and monitored, with much of the operational responsibility moving to the pool operator.

Surrey Pension Fund has elected to become a shareholder in the 'Border to Coast Pensions Partnership' (BCPP). BCPP Limited will be a Financial Conduct Authority (FCA) regulated Operator and an Alternative Investment Fund Manager ("AIFM"). The BCPP submission received approval from Government on 12 December 2016.

Tranche one of Asset Pooling is currently scheduled to begin in July 2018, pending FCA approval of the Partnership.

It remains key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

Markets in Financial Instrument Directive (MiFID II)

January 2018 saw the implementation of MiFID II. The impact for the Fund is that to be able to continue to access the same investments as previously, they need to apply to 'opt up' and gain election to professional status. Without this change in status some financial institutions could terminate their relationship with the fund. The Fund has successfully opted up to meet this requirement.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced minor changes to the 2017/18 Code, these include a new disclosure of investment manager transaction costs and clarification on the approach to investment concentration disclosure.

On-going Matters

- Indexation and equalisation of GMP in public service pension schemes
- Reforms to public sector exit packages and the application, or not, of the 2013 Fair Deal changes to the LGPS
- SAB work on options for academies within the LGPS and review of Tier 3 employer risks

Key challenges

Financial pressures

The fund is under financial pressure as a result of increased levels of inflation and pensioner life expectancy.

These factors have been factored into the actuary's calculations as they affect the total pension liability and future service costs of the Fund. The Fund has also incorporated hedging against future interest rate risk as part of its investment strategy.

General Data Protection Regulations (GDPR)

GDPR comes into effect in May 2018 and replaces the Data Protection Act 1998. It introduces new obligations on data controllers. The Fund is both a data controller and a data processor and needs to ensure that it has appropriate processes in place to comply with the changes being introduced.

tPR 2016 Governance and Administration Survey

Published in May 2017 whilst showing improvements in governance tPR noted that its focus for 2017-18 would be scheme governance, record keeping, internal controls and member communication and that tolerance for scheme shortcomings in these areas was reducing and that they were more likely to use their enforcement powers where scheme managers have not taken sufficient action to address issues or meet their duties.

Our response

- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Surrey County Council as the Administering Authority of Surrey Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Surrey Pension Fund.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.	We will: <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 3 investments is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2017 with reference to known movements in the intervening period.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Contributions	Contributions from employers and employees' represents a significant percentage of the Fund's revenue.	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the Fund's accounting policy for recognition of contributions for appropriateness; • gain an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls; • Trend analysis of scheme contributions across the year to assess the completeness of scheme contributions • test a sample of contributions to source data to gain assurance over their accuracy and occurrence; • rationalise contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.
Pension Benefits Payable	Pension benefits payable represents a significant percentage of the Fund's expenditure.	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • Trend analysis of benefit payments across the year to assess the completeness of benefit payments • test a sample of individual pensions in payment by reference to member files; • rationalise pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

Reasonably possible risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 2 investments is incorrect	While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.	<p>We will:</p> <ul style="list-style-type: none"> gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls. Review the reconciliation of information provided by the fund managers, the custodian and the Pension Funds' own records and seek explanations for any variances If deemed necessary for additional assurance, we will test a sample of level 2 investment prices from the custodian / fund manager to independently obtained prices.

Other matters

Other work

The Fund is administered by Surrey County Council (the 'Council'), and the Fund's accounts form part of the Council's financial statements. Therefore as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.

We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

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

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the net assets of the Fund for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £38.7m (PY £38.6m), which equates to 1% of your net assets for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision.

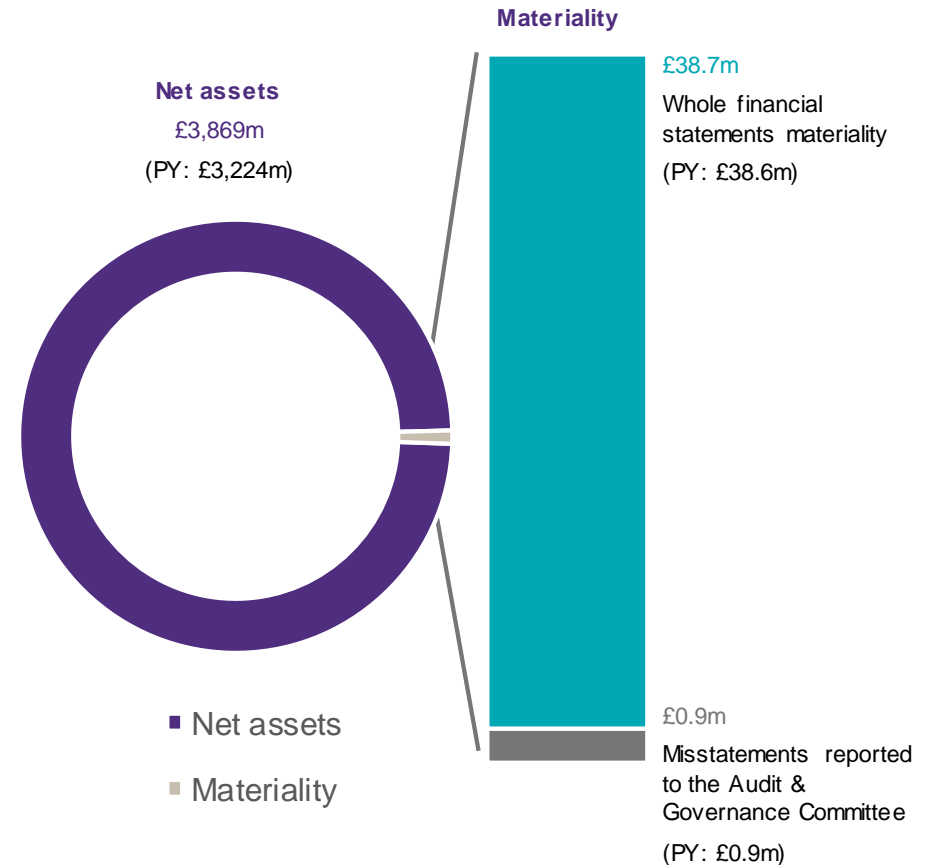
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We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit & Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.9m (PY £1.9m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & audit fees



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Ciaran McLaughlin, Engagement Lead
Responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit & Governance Committee.



Marcus Ward, Audit Manager
Responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit & Governance Committee.



Tom Beake, Audit Incharge
Responsible for management and delivery of audit fieldwork, including both interim and final accounts work.

Audit fees
The planned audit fees are no less than £27,105 (PY: £27,105) for the financial statements audit. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where requests are received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these may be billed in addition to the audit fee on a case by case basis.

Our requirements
To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have worked with you over the last few years to ensure you are well prepared for the earlier statutory deadline.

Nationally we have been working with our client base to:

- bring forward as much work as possible to interim audits
- start work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seek further efficiencies in the way we carry out our audits
- agree plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you continue to:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes,
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund.

Non-audit services

No non-audit services were identified.

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Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	<p>We will be required to conclude and report whether:</p> <ul style="list-style-type: none"> • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Fund's ability to continue as a going concern.
Material uncertainty related to going concern	<p>We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Fund's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements.</p> <p>Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.</p>
Other information	<p>We will be required to include a section on other information which includes:</p> <ul style="list-style-type: none"> • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.



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Audit & Governance Committee
12 April 2018

Update on Deprivation of Liberty Safeguards

Purpose of the report:

This report provides Members of the Audit and Governance Committee with an update on assessments and authorisations in relation to Deprivation of Liberty Safeguards (DOLS).

Recommendations

1. The Audit and Governance Committee is asked to note the contents of the report.

Introduction:

1. The Deprivation of Liberty Safeguards are a provision of the Mental Capacity Act implemented in April 2009. Their purpose is to prevent the arbitrary detention (deprivation of liberty) of adults in care homes or hospitals for the purpose of receiving care or treatment.
2. When a person who lacks mental capacity to consent to their admission to a care home or hospital it is sometimes necessary to restrict or restrain them in some way to ensure that they receive the necessary care or treatment e.g. Locking exit doors, use of medication, close supervision, physical restraint etc. This can be lawful under the Mental Capacity Act as long as it the restrictions do not constitute a deprivation of the person's liberty.
3. Where a care home or a hospital (Managing Authority, MA) believes that it is necessary for a person to be deprived of their liberty in order to give them care or treatment they must apply to their local authority (the 'Supervisory Body' - SB) to authorise this. The process for assessing, recommending and authorising such arrangements and putting appropriate protections in place are regulated by the 'Deprivation of Liberty Safeguards' (DOLS) provisions of the Mental Capacity Act.
4. Surrey County Council is the 'Supervisory Body' for all DOLS requests made by care homes and hospitals in Surrey, and as such must commission all assessments required in order to authorise a DOL and must authorise this once they are completed.
5. Authorisations can be put in place for a maximum of one year, and need to be reviewed and renewed if they are required for a longer period.
6. The assessment process involves six separate assessments:

- Age assessment
- Mental Health Assessment
- Mental Capacity Assessment
- Eligibility Assessment
- No Refusals Assessment
- Best Interests Assessment.

7. These assessments must be completed by at least two different professionals, including an approved doctor and a 'Best Interests Assessor (BIA)'.
8. An Internal Audit review of DOLS, completed in November 2017, reported approximately 6,000 DOLS applications were awaiting assessment and/or authorisation. This figure had increased year on year and included almost 400 assessments completed over a year ago and therefore unable to be authorised. The review also found an insufficient number of council employed, pool BIAs available to meet the demand for assessments

Impact of the Supreme Court Ruling:

9. The Supreme Court Ruling has effectively lowered the threshold set for what constitutes a deprivation of liberty in previous court rulings. It establishes that if a person a) without capacity to consent to their care and treatment and b) is not free to leave and c) is under continuous supervision and control, then their accommodation arrangements (in Hospital or Care Home) must to be assessed under the DOLS provisions to lawfully authorise their detention.
10. If such circumstances arise in Supported Living, Shared Lives placements or even in peoples own homes then authorisation currently needs to be sought from the Court Of Protection (with support from our legal department) to produce the necessary forms required for a judicial authorisation.

Draft Legislation

11. The Law Commission consulted widely in 2016 regarding how the DOLS should be amended or replaced. They submitted their draft bill to the Department of Health in March 2017 and in October 2017 the DOH published their initial response (See Appendix 1). We do not expect any change to legislation to be implemented within this parliament, due to other Political priorities in Central Government.
12. Surrey County Council Requests for DOLS authorisations:

Year	No. of requests
2013-2014	113
Supreme Court Judgment handed down 19 March 2014	
2014 -2015	3,045
2015-2016	3,879
2016-2017	3,533
2017-2018	3,363 (07.03.2018)

Updated figures

Assessments and authorisations

13. A comparison of the number of assessments and authorisations awaiting completion is shown in Table 1 below.

	August 2017	March 2018
Applications awaiting assessment	5,000 approx.	5,297
Applications awaiting authorisation	862	10 (07.03.2018)
Applications over a year old (therefore unable to be used/authorised)	394	0
Authorisations in place	387	743

14. The figures show a significant improvement in the number of completed authorisations in the last six months. This is as a result of management action following the last audit with the positive effect that the backlog of outstanding authorisations has now been effectively addressed. This has primarily been achieved by training more authorisers (we now have approximately 40 Senior Managers in Adult Social Care) with the management support of the Adult Leadership team.
15. We are now in position where we are able to keep up with authorising all assessments completed so will not find ourselves in the position we were in last year.
16. The frontline DOLS team now have two Senior BIA Practice leads and five BIAs, four administrative support staff, an Assistant Team Manager and myself. We have 45 Pool BIAs who are on a Rota and are expected to complete two assessments every six weeks. We have a pool of trusted, experienced independent BIAs who we spot purchase with. As a service we are confident that we are able to allocate and authorise the assessments that we consider require urgent allocation, but we remain unable to complete all the referrals made, and this will not change.
17. We screen all referrals on a daily basis, and triage them in line with ADASS (Association of Directors of Adult Social Services) guidelines. We went live with LAS (Adult Social Care Record System / DOLS Module) in September last year, which has provided an excellent platform with which to record and authorise DOLS assessments, and we hope to be able to further utilise this to allow independent BIAs and Drs to access it, saving further time and administration.
18. With regard to influencing government on the replacement for DOLS.
19. On 15 February 2018 Sharon Egan, Mental Capacity Deprivation of Liberty Safeguards Lead, Social Care Oversight, Care and Transformation Directorate, Department of Health and Social Care (DoHSC) and two DoHSC colleagues visited our service for the day at our invitation.
20. We provided our views and concerns regarding the proposed replacement for DOLS (Liberty Protection Safeguards), which was an excellent opportunity.
21. Debbie Chantler from our Legal Department and Shelley Cummins, a colleague from the NHS joined us.

22. Sharon has advised us that they found the day informative and useful and that our discussions had provided them with some very helpful insights into the proposals from a Local Authority perspective.
23. Andy Butler, SCC Principal Social Worker for Adults works with the DoHSC, ADASS, NHS England and Local Government Authority (LGA) on a number of regional and national groups influencing current and future practice and policy regarding The Mental Capacity Act and other associated legislation. He is also a member of The National Mental Capacity Forum, Leadership Group, chaired by Baroness Finlay.
24. With regard to the future, it is not possible to predict the exact number of DOLS requests that we will receive over the coming years, but we do consider that the number of possible referrals from care homes and hospitals will remain fairly constant, so our best predictor are the statistics provided in Paragraph 12.
25. There is a continuous turnover of people lacking capacity in hospital beds and in care homes, due to people moving on or dying.
26. Currently we are actively working on increasing the number of assessments our frontline and Pool BIAs are completing by encouraging proportionate assessments, and reviewing future targets.

Conclusions

Financial and value for money implications:

27. The Adult Leadership Team is regularly monitoring and reviewing our DOLS activity with a view to ensuring a proportionate service response to demand focussed on ensuring that our most vulnerable residents are protected whilst having due regard for our fiscal restrictions and responsibilities.

Risk management implications:

28. DOLS has been on the Risk Register since the Supreme Court Ruling in 2014
DOLS is reviewed at the Statutory Regulatory Network

Next steps

1. Audit in 2018/2019
2. Ongoing review at Adult Social Care (ASC) Adult Leadership Team Meetings to consider future targets and monitor this.
3. We would welcome any suggestions the Board has to make.

Report contacts: Jim Poyser, Senior Manager (MCA/DOLS)
Andy Butler, PSW and Senior Practice Development Manager

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01483 517610, andy.butler@surreycc.gov.uk

Sources:

[Mental Capacity and Deprivation of Liberty | Law Commission](#)



Department
of Health

From Jackie Doyle Price MP
Parliamentary Under Secretary of State for Care and Mental Health

10

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020 7210 4850

Nicholas Paines QC, Law Commissioner
Law Commissioner
1st Floor, Tower,
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Dear Nicholas

GOVERNMENT INTERIM RESPONSE TO THE LAW COMMISSION REPORT ON MENTAL CAPACITY AND DEPRIVATION OF LIBERTY

I would first like to formally thank you and your team for your comprehensive and thorough review, published on 13 March, on this important and complex issue. I am also grateful to the many people, local authorities, NHS organisations, legal and academic experts who contributed their views and experiences. In accordance with the Protocol between the Lord Chancellor and the Law Commission, I am writing to provide you with an interim response.

Mental capacity and deprivation of liberty

This Government is committed to take action to reform mental health and transforming care for people with conditions such as dementia, learning difficulties and / or autism. Taking action to reform the current Deprivation of Liberty Safeguards regime is an important contribution towards achieving these aims and providing greater protection for some of the most vulnerable people in our society.

The current Deprivation of Liberty system has been described as overly complex, with the result that it is unnecessarily cumbersome to ensure that thousands of vulnerable people are afforded the rights and protections to which they are entitled. In line with your first recommendation on the need to replace the current system, the Government recognises that it is increasingly unsustainable and may divert resources from frontline care at a time when the system is coming under pressure.

Liberty Protection Safeguards

We welcome the Law Commission report and the detailed recommendations to establish a new system of Liberty Protection Safeguards. We want in place a regime that will protect peoples' liberty and serve three purposes: to improve the quality of care, to ensure access to safeguards is improved and to deliver value for money. This will mean that the right people get the right safeguards at the right time through a streamlined process, which goes hand in hand with the person-centred care approach as enshrined by the Care Act.

We are carefully considering your report and plan to engage with stakeholders to understand in greater detail how these changes can be implemented. We will also consider what enabling actions need to be taken to support the Mental Capacity Act ethos of greater empowerment and care centred around people, their wishes and aspirations. We particularly want to hear from people, carers and families of those who have been deprived of their liberty and have first-hand experience of how the current system works for them.

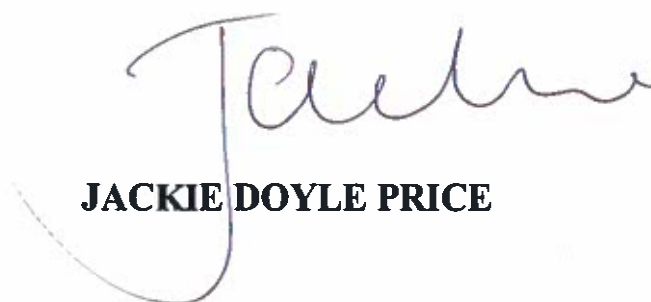
As you are aware, the government has committed to reform of mental health legislation and ensuring that parity of esteem is at the heart of treatment. We will ensure that our work on deprivation of liberty for the purpose of care and treatment is undertaken in consideration of our work reforming mental health.

Wider recommendations

We note the recommendations on mental capacity law relating to all children, changes to the best interests test; advocacy provision and the judicial body for determining challenges to authorisations of deprivation of liberty. My officials are working closely with those in the Ministry of Justice and the Department of Education to consider how best to take forward these recommendations. The Government will make a final response on the report in the spring and we will respond to the report's specific recommendations in more detail at that time.

May I express again how grateful I am for the Law Commission's thoughtful and exacting review in this area, and I look forward to meeting you in October.

I will be making a written Ministerial statement on this matter and will attach a copy of this letter to that statement.



JACKIE DOYLE PRICE



Audit & Governance Committee
12 April 2018

Internal Strategy and Annual Audit Plan 2018/19

SUMMARY AND PURPOSE:

The purpose of this report is to present the Internal Audit Strategy and Annual Internal Audit Plan for 2018/19 to the Committee.

Under-pinning the work of the Orbis Internal Audit Service in delivering the Annual Internal Audit Plan are the key principles and objectives as set out in the Internal Audit Strategy and Charter. These are presented alongside the Annual Internal Audit Plan for 2018/19 as good practice dictates that these should be updated and reviewed on an annual basis.

RECOMMENDATIONS:

Members are asked to consider the contents of this report and Appendixes, and to approve the following:

- I. The Internal Audit Strategy (Annex 1)
- II. The Internal Audit and Corporate Fraud Plan (Appendix A)
- III. The Internal Audit Charter (Appendix B)

BACKGROUND:

1. The statutory basis for Internal Audit in local government is provided in the Accounts and Audit Regulations 2015, which require a local authority to "*undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes*".
2. The Accounts and Audit Regulations contain the expectation that Internal Audit will take into account public sector internal audit standards or guidance. The Audit and Governance Committee recognises the mandatory nature of the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 (and revised 1 April 2016).

Internal Audit and Corporate Fraud Strategy, and Plan (Appendix A & Annex 1)

3. Under the PSIAS there is no longer a requirement to produce an Internal Audit Strategy. However, the Chief Internal Auditor is of the opinion that this is a useful document that links the work of Internal Audit to the Council's vision to be confident in Surrey's future.
4. Through approving the Orbis Internal Audit Strategy alongside the Annual Audit Plan for 2018/19, the link between the work of Internal Audit and the high level strategic vision of the Council is apparent.

Development of the Internal Audit Plan

5. The Internal Audit Plan for 2018/19, which is a risk based programme of work, is set out at Appendix A. There are a number of core elements to the Internal Audit Plan which are likely to feature each year such as.

- (i) Reviewing corporate governance arrangements to inform the Annual Governance Statement
- (ii) Grant certification
- (iii) Irregularity contingency
- (iv) Participation in the National Fraud Initiative (NFI)

In addition to these elements, Internal Audit also carries out testing on an annual basis of many of the Council's key financial systems.

6. Once these core elements of the Plan and follow up reviews are accounted for, the remaining audits shown in the proposed Plan have been included based on a risk priority which has been assessed following:

- (i) Consultation with:
 - a. Heads of Service and other senior management
 - b. Members of the Audit and Governance Committee
 - c. S151 Officer
 - d. The Risk and Governance Manager
- (ii) Consideration of risk registers
- (iii) Areas of concern emerging from liaison with partners from East Sussex County Council and Brighton and Hove City Council within the overall Orbis Internal Audit partnership
- (iv) Other Local Authority Internal Audit services through regional and national networking

7. The draft Plan, which attempts to demonstrate a link to the Council's strategic priorities, was also presented at a meeting of the Governance Panel on 21 March and has been agreed by the Section 151 Officer prior to this committee.
8. The Chief Internal Auditor is confident that the draft Internal Audit Plan at Appendix A provides comprehensive coverage across the Council's activities and addresses key areas of risk.

Resources

9. The Internal Audit planned available days are as follows:

	2015/16	2016/17	2017/18	2018/19
Plan Days	2,069	2,117	1,989	1,780

11. Whilst the overall level of resource has reduced for 2018/19, as part of the Internal Audit contribution towards planned organisational savings, it is still considered to be sufficient to allow Internal Audit to deliver its risk based plan in accordance with professional standards¹ and to enable the Chief Internal Auditor to provide his annual audit opinion. Any impacts of such a reduction

have been mitigated as far as possible through efficiencies and additional resilience offered from the Orbis partnership as explained above.

Internal Audit Charter (Appendix B)

13. The PSIAS require Internal Audit to have a Charter that has been formally approved and is regularly reviewed. The Charter attached at Appendix B reflects the PSIAS Local Government Application note which was published in April 2013 and has been refreshed in order to clarify the arrangements covering the appointment and removal of the Chief Internal Auditor as part of the Orbis Partnership.

IMPLICATIONS:

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

WHAT HAPPENS NEXT:

16. The Internal Audit team will deliver the 2018/19 Internal Audit Plan and Internal Audit reports will be produced and distributed in line with the Reporting and Escalation Policy.
17. Quarterly updates on completed audit work and performance against the 2018/19 Plan will be reported to the Committee throughout the year.

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Internal Audit Strategy and Annual Audit Plan 2018-2019

1. Role of Internal Audit

1.1 The full role and scope of the Council's Internal Audit Service is set out within the Internal Audit Charter and Terms of Reference, the latest version of which is attached to this Strategy as Appendix B.

1.2 The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

2. Risk Assessment and Audit Planning

2.1 Surrey County Council's Internal Audit Strategy and Annual Audit Plan is updated annually and is based on a number of factors, especially management's assessment of risk (including that set out within Directorate and Leadership risk registers) and our own risk assessment of the Council's major systems and other auditable areas. This allows us to prioritise those areas to be included within the audit plan on the basis of risk.

2.2 The update of the annual plan for 2018/19 has involved extensive consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual directorates and corporately, are identified and considered. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, every effort has been made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2018/19 audit planning process:



2.3 In order to ensure audit and assurance activity is properly focussed on supporting the delivery of the Council's priorities, the format of the audit plan has been aligned to the key corporate priorities of:

- Strengthening Our Economy
- Supporting Our Vulnerable Adults
- Helping Families Thrive
- Protecting Our Vulnerable People
- Improving Our Roads
- Investing In Our Schools

2.4 In producing the audit plan (which is set out in Appendix A to this report) the following key principles continue to be applied:

- All key financial systems are subject to a cyclical programme of audits covering, as a minimum, compliance against key controls;
- Previous reviews which resulted in either ‘no assurance’ audit opinions will be subject to a specific follow-up review to assess the effective implementation by management of agreed recommendations. This will also include a number of previous reviews with a ‘partial assurance’ opinion where deemed necessary or where the area under review is considered to be of a higher risk nature.

2.5 In addition, formal action tracking arrangements are in place to monitor the implementation by management of all individual high risk recommendations, with the results of this work reported to the Audit & Governance Committee on a quarterly basis.

2.6 During the last two years, Surrey County Council, East Sussex County Council and Brighton and Hove City Council have been working together to develop and form the Orbis Partnership, covering a range of business services, including internal audit. This work has resulted in the formation of a single, integrated internal audit service from April 2018, involving three locality based teams supported by two specialist teams in the areas of ICT audit and counter fraud. It is our ambition that this will provide greater resilience and capacity for our partner councils whilst also building on existing high quality services.

3. Key Issues

3.1 In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place. In order to respond to the continued reduction in financial resources and the increased demand for services, the Council needs to consider some radical changes to its service offer in many areas.

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and these new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2018/19, a number of major organisational initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include:

- General Data Protection Regulations
- Property Investment Company [LATC]

- Better Care Fund
- Multi-Agency Service Hub [MASH] and Early Help
- Prevent Agenda

3.3 In recognition that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2018/19 audit plan includes a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

3.4 In view of the above, Internal Audit will continue to work closely with senior management and Members throughout the year to identify any new risks and to agree how and where audit resources can be utilised to best effect.

3.5 Other priority areas identified for inclusion within the audit plan include:

- Information Governance
- Cultural Compliance
- Key Financial Systems
- Impact Of Corporate Savings Plans
- ICT Asset Management
- Direct Payments
- Academy Transition Arrangements
- Highways Contract Management

3.6 The results of all audit work undertaken will be summarised within quarterly update reports along with any common themes and findings arising from our work.

4. Counter Fraud

4.1 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud and corruption and will investigate allegations of fraud and corruption in line with the Council's Counter Fraud Strategy.

4.2 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

4.3 In addition, Internal Audit will promote an anti-fraud and corruption culture within the council to aid the prevention and detection of fraud. Through the work of the Counter Fraud Team, Internal Audit will maintain a fraud risk assessment and deliver a programme of proactive and reactive counter fraud services to help ensure that the Council continues to protect its services from fraud loss.

5. Matching Audit Needs to Resources

5.1 The overall aim of the Internal Audit Strategy is to allocate available internal audit resources so as to focus on the highest risk areas and to enable an annual opinion to be given on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

5.2 In addition to this, resources have been allocated to the external bodies for whom Orbis Internal Audit also provide internal audit services, at an appropriate charge. These include Horsham District Council, Elmbridge District Council, East Sussex Fire Authority and South Downs National Park.

5.3 Internal Audit activities will be delivered by a range of staff from across the Orbis Internal Audit Service, maximising the value from a wide range of skills and experience available. In the small number of instances where sufficient expertise is not available from within the team, mainly in highly technical areas, externally provided specialist resources will continue to be utilised.

5.4 The following table summarises the level of audit resources expected to be available for Surrey County Council in 2018/19 (expressed in days), compared to the equivalent number of planned days in previous years. Whilst the overall level of resource has reduced for 2018/19, as part of the Internal Audit contribution towards planned organisational savings, it is still considered to be sufficient to allow Internal Audit to deliver its risk based plan in accordance with professional standards¹ and to enable the Chief Internal Auditor to provide his annual audit opinion. Any impacts of such a reduction have been mitigated as far as possible through efficiencies and additional resilience offered from the Orbis partnership as explained above.

Table 1: Annual Internal Audit Plan – Planned Days

	2015/16	2016/17	2017/18	2018/19
Plan Days	2,069	2,117	1,989	1,780

6. Audit Approach

6.1 The approach of Internal Audit is to use risk based reviews, supplemented in some areas by the use of compliance audits and themed reviews. All audits have regard to management's arrangements for:

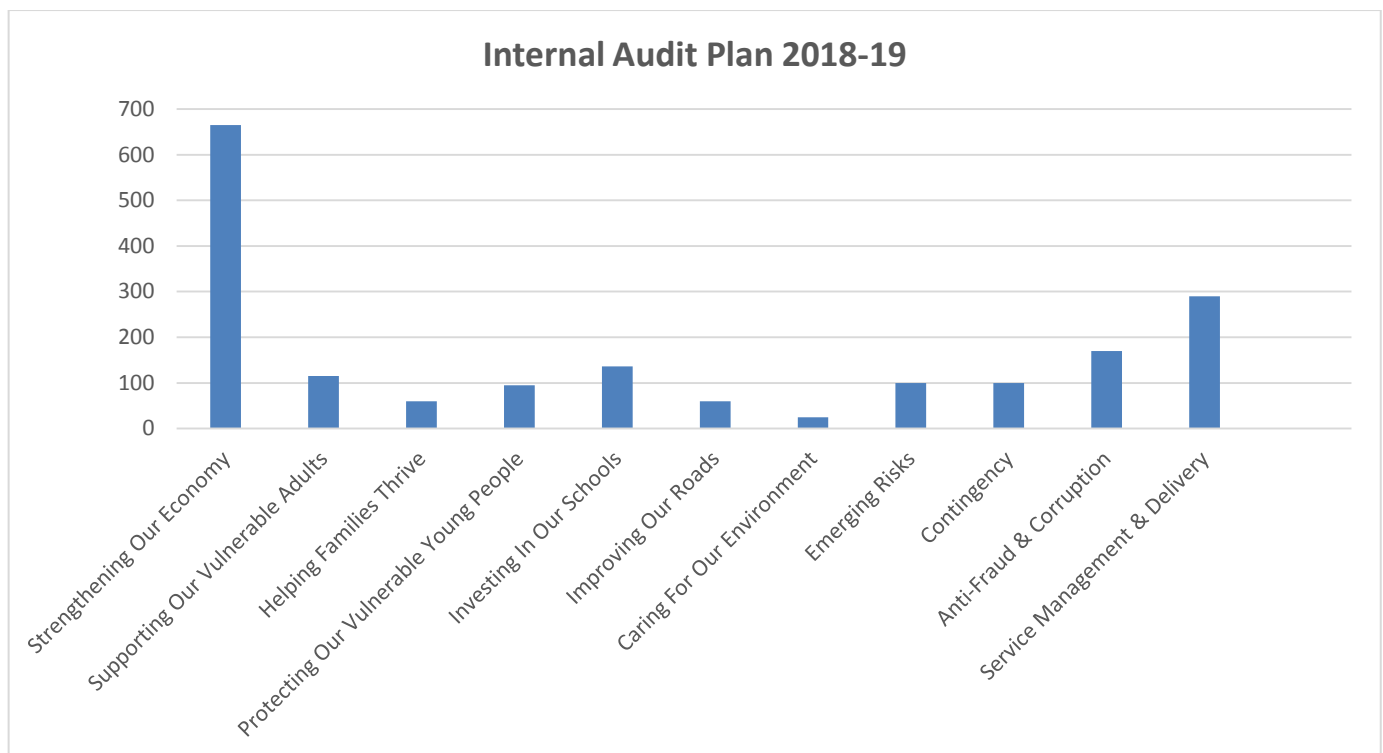
- Achievement of the organisation's objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

6.2 In addition to these audits, and the advice on controls given on specific development areas which are separately identified within the plan, there are a number of generic areas where demands upon Internal Audit cannot be planned in advance. For this reason, time is built into the plan to cover the following:

¹ Public Sector Internal Audit Standards (PSIAS)
Surrey County Council

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2017/18 plan;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

6.3 A summary of the allocation of audit resources (days) across the 2018/19 audit plan is set out in the following chart:



6.4 In delivering this Strategy the service will liaise with the Council's external auditors, Grant Thornton, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

7. Training and Development

7.1 The effectiveness of the Internal Audit Service depends significantly on the quality, training and experience of its staff. Training needs of individual staff members are identified through a formal performance and development process and are delivered and monitored through on-going management supervision.

7.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff holding a professional internal audit or accountancy qualification.

8. Quality and Performance

8.1 With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government.

8.2 Included within the new Standards is the requirement for the organisation to define the terms 'Board' and 'senior management' in the context of audit activity. This has been set out within the Internal Audit Charter, which confirms the Audit and Governance Committee's role as the Board.

8.3 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions arising, will be reported to Audit and Governance Committee, usually as part of the annual internal audit report. For clarity, the Standards specify that the following core principles underpin an effective internal audit service:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused;
- Promotes organisational improvement.

8.4 In addition, the performance of Orbis Internal Audit continues to be measured against key service targets focussing on service quality, productivity and efficiency, compliance with professional standards, influence and our staff. These are all underpinned by appropriate key performance indicators as set out in Table 2 below.

8.5 At a detailed level each audit assignment is monitored and customer feedback sought. There is also ongoing performance appraisals and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.

8.6 In addition to the individual reports to management for each audit assignment, reports on key audit findings and the delivery of the audit plan are made Audit and Governance Committee on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

8.7 Whilst Orbis Internal Audit liaises closely with other internal audit services through the Sussex and Surrey audit and counter fraud groups, the Home Counties Chief Internal Auditors' Group and the County and Unitary Chief Auditors' Network, we are continuing to develop joint working arrangements with other local authority audit teams to help improve resilience and make better use of our collective resources.

Table 2 – Orbis Internal Audit Key Performance Indicators 2018-19

Aspect of Service	Orbis IA Performance Indicators	Target
Quality	<ul style="list-style-type: none"> Annual Audit Plan agreed by Audit Committee Annual Audit Report and Opinion Satisfaction levels 	By end April To inform AGS 90% satisfied
Productivity and Process Efficiency	<ul style="list-style-type: none"> Audit Plan – completion to draft report stage by 31 March 2019 	90%
Compliance with Professional Standards	<ul style="list-style-type: none"> Public Sector Internal Audit Standards Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	Conforms Conforms
Outcomes and degree of influence	<ul style="list-style-type: none"> Implementation of management actions agreed in response to audit findings 	95% for high priority
Our Staff	<ul style="list-style-type: none"> Professionally Qualified/Accredited 	80%

Russell Banks
Orbis Chief Internal Auditor

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**Council Priority:****Strengthening Our Economy**

Review Name	Outline Objective
Information Governance	This review will provide assurance around the compliance of external suppliers to the council with SCC Information Governance Standards, and to understand the general risks and controls across the council.
Organisational Ethics ('Cultural Compliance')	To undertake 'cultural compliance' audits across a sample of teams in all directorates, focusing on the adherence by officers to key council policies and requirements, and understanding the causes of non-compliance. This will include areas such as payment of expenses, use of procurement cards, the management of system access when officers leave our employment, approval of overtime and other allowances, pre-employment checks and recruitment processes, risk-based budget management, and effective absence and annual leave management.
Expenses	This audit follows on from internal audit work in 2017/18 and will test the validity and accuracy of a ranged of sampled officer expenses claims across all directorates. In addition, it will similarly test a sample of members' expenses claims.
SAP Application Controls	An audit to evaluate the adequacy and effectiveness of the key configuration settings and access restriction mechanisms to a variety of sensitive transactions in SAP.
Procure To Pay	To review processes and key financial controls relating to procure-to-pay.
Capital Expenditure Monitoring	To review processes and key financial controls relating to capital expenditure monitoring across the council.
Payroll	This audit will review the key controls operating within the Payroll system, including those relating to starters, leavers, temporary and permanent payments and variations in pay.
Order to Cash	This audit will provide assurance over the key controls operating within the Accounts Receivable system, including those in place for ensuring the accuracy of customer details, completeness and accuracy of invoicing, recording and matching payments to invoices, and debt recovery.
Revenue Budgetary Control	A review of the Council's budget management arrangements, to include both central controls and

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	examination of a sample of individual service budgets.
Treasury Management	A review to assess the adequacy of key controls and procedures across the council's Treasury Management arrangements, including cashflow forecasting, segregation of duties, financial investments and use of treasury advisers.
General Ledger	To review processes and key controls relating to the maintenance and operation of the general ledger, including suspense accounts, reconciliations and journals.
Pensions Administration	To review the key controls over the calculation and payment of pensions, transfers to and from the pension fund and the collection and recording of pension contributions (incl. contributions from other admitted bodies).
Pension Fund Investments	A review to assess the adequacy of SCC Pension Fund management and governance arrangements. Also, to examine arrangements for obtaining assurance over the adequacy of the control environment of pension fund investment managers and the custodian.
Sport England	Through substantive testing, to provide an annual certification of Sport England funding received by the council.
Pothole Action Fund	Through a series of tests based around scheme criteria, to provide certification of funding received by the council by the due date of 30 September 2018.
Bus Subsidy Grant	Through a series of tests based around scheme criteria, to provide certification of funding received by the council by the due date of 30 September 2018.
Grant Contingency	To allow for the possibility of additional assurance work to audit and certify grant returns in year, based on ad hoc funding received in directorates in 2018/19. The time also allows for First Level Controller duties for any European Union grant claims, as required.
Compliance with Procurement Standing Orders	To provide assurance that Procurement Standing Orders are being complied with across the council. This review will specifically look at whether variations and waivers process is controlled effectively.
Ethical Procurement	To examine the robustness of processes that help ensure the council's suppliers and partners share and observe our ethical values.
Collusion in Procurement	A specific review to identify the controls that provide assurance that processes in place to prevent and detect procurement collusion are both robust and effective.

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Contract Management	As a continuation of previous audit work in this area, we will undertake a review of a sample of strategic and high risk and, where appropriate, joint contracts with East Sussex County Council to ensure robust contract management procedures are in place to manage the councils significant contracts.
General Data Protection Regulations (GDPR)	A review to ascertain compliance with the new General Data Protection Regulations, where there is a risk of non-conformance and ensuing financial penalties under the new regime. A gap analysis will be undertaken to assess how measures implemented by the Council align to the proposed GDPR.
Apprenticeship Levy	<p>The Apprenticeship Levy, introduced in April 2017, changes the way the government funds apprenticeships in England. As a result, the way the Council accesses funding and training for apprenticeships will also change.</p> <p>This audit will seek to provide assurance over the arrangements for calculating and accounting for the Apprenticeship Levy, the arrangements for ensuring the funds for apprenticeship training are spent in a timely manner and in accordance with the Department for Education's Apprenticeship Funding Policy.</p>
Impact Of Savings Plans	A review of directorate key savings targets to provide assurance that the risks around the impact of savings on the internal control environment are fully understood, managed and mitigated, and that decisions are taken with a clear knowledge of the residual risk. This audit will have a particular focus on savings plans within CSF and ASC.
Property Investment Company	This review will look at the governance mechanisms of how the newly signed Joint Venture is going to successfully deliver its stated objectives, and provide forward-looking advice to senior management on the robustness of current arrangements.
Third Party Services (non-corporate)	The Council is exposed to clear risks associated with parts of the organisation trading with third party IT providers without our own IT and Digital Department being aware, and therefore unable to implement adequate information governance and security controls. This review will therefore assess the adequacy of, and compliance with, Council policy in this area and, where non-compliance is identified, whether the associated risks have been properly considered and managed. This review will also

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	consider the effectiveness of controls where the council has allowed third party access to our systems (for example, by Health providers).
ICT Asset Management	To undertake a review of corporate ICT asset management to ensure that all significant assets are identified, recorded and traceable. As well as sampling across the authority, this audit will specifically look at the arrangements in place for the project overseeing replacement of obsolete Apple iPhones with new models.
IT and Digital Projects	To review the project management arrangements for a sample of high priority IT projects.
Emergency Planning and Response	Post Grenfell, to undertake a review across all 3 Orbis partners to ensure that appropriate systems are in place to identify and mitigate key risks across council services in regard to emergency planning.
Property Asset Management System (PAMS) Income	All property income due to the council is managed through the PAMS system, relying on integration for collection purposes through SAP. The purpose of the audit is to provide assurance that these two systems fully reconcile and that all income due to the council from its property portfolio is fully accounted for.
Anti-Fraud and Corruption	To cover the investigation of fraud and irregularities as well as proactive count-fraud work including the National Fraud Initiative (NFI) data matching exercise.

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Council Priority:	Supporting Our Vulnerable Adults
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Review Name	Outline Objective
Direct Payments (surplus balances)	This audit will focus on the controls and processes in place to identify and recover unspent balances on direct payments recipient accounts. The audit will also provide assurance over arrangements to re-review packages of care in the event that significant surplus balances have built up.
Direct Payments (payment cards)	This piece of audit work will examine the controls and governance arrangements in place as the council transitions to providing the recipients of direct payments with pre-loaded debit cards to make their funding more flexible.
Social Care Debt	This audit will involve a thorough review of the controls operating within Adult Social Care and Business Services to manage social care debt, particularly of aged debt and deferred debt.
Deprivation Of Liberty Standards	This is a follow-up audit scheduled for 2018/19 following a Partial Assurance opinion on the same area when reviewed in the previous year. The audit will focus on gaining assurance that agreed actions from the earlier audit have led to improvements in the service.
Transition of children in care into Adult Social Care	This audit will provide assurance over the effectiveness of arrangements for children in receipt of care through Children's Services as they transition as adults into Adult Social Care services. The review will also include a review of processes around children leaving care.
Public Health Commissioning Controls	A review of procedures and controls around services commissioned by Public Health to provide assurance that appropriate arrangements and are complied with for the identification and commissioning of the service, and that validation controls exist and are operated before payments are made.
Substance Misuse	A review of the effectiveness of the monitoring and strategic oversight of commissioned services to prevent substance misuse.

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Council Priority:	Helping Families Thrive
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Review Name	Outline Objective
Troubled Families	As a continuation of our work in this area, we will verify a proportion of result claims before they are made, including confirming families' eligibility for inclusion in the expanded programme and whether progress measures set out in the Troubled Families outcome plans have been achieved and evidenced.
Contact Bank Supervisors – claims for expenses	A specific review to assess the controls and governance arrangements in place for the payment of time and expenses due to contact bank supervisors employed as bank workers in Children's Services, who are engaged in the transport and supervision of children on court-ordered visits and other related activities.
Better Care Fund	This time in the annual plan is to allow for audits to be commissioned over specific aspects of both Better Care Fund activity and the integration of adult social care and health. The audits in this area are determined in year following discussion between Internal Audit and Adult Social Care/Clinical Commissioning Groups in light of emerging issues or areas for assurance work being identified.
Surrey Local Assistance Scheme	Building on the findings from audit work in 2017/18 this audit will seek assurance that new processes for the use of pre-paid cards minimise the risk of abuse of the system by staff or the public. Assurance will be provided on the controls in place for all of the support offered: prepaid cards; white goods; furniture (new contract); and travel warrants. The primary focus is on how these "awards" are administered within the LAS Team, but will also examine governance within white goods and furniture contracts e.g. delivery arrangements.

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**Council Priority:****Protecting Our Vulnerable Young People**

Review Name	Outline Objective
MASH and Early Help	We will continue to build on previous audit work in this area with a review to seek assurance that robust governance and processes are in place within the Multi-Agency Safeguarding Hub based at Guildford Police Station. This review will also examine the processes through which the MASH hands-off to Early Help, and will provide assurance that outcomes are as expected.
Children's Services - Quality Assurance	A review carried forward from 2017/18 plan at the request of the CSF Strategic Director, this audit will examine the underpinning principles and practices within the CSF Quality Assurance function and seek assurance over how it drives improvement within service practice.
Children's Services – Integrity of Data	A review to examine arrangements for the collection, and interpretation of key data within Children's Services that is used for sophisticated planning and modelling of future service provision and resource planning.
Unaccompanied Asylum Seeking Children	This is a follow-up audit scheduled for 2018/19 following a Partial Assurance opinion on the same area when reviewed in the previous year. The audit will focus on gaining assurance that agreed actions from the earlier audit have led to improvements in the service.
'Prevent' Agenda	To provide assurance that the local authority is meeting all of the statutory duties under the Prevent agenda. This will include both a review of compliance with strategic principles and an examination of the detailed aspects of the legislative requirements, including how council and school premises are let to avoid lettings being made to groups of an inappropriate nature.

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Council Priority:	Investing In Our Schools
Schools	We will continue our audit coverage in schools, which will involve a range of assurance work, including follow-ups of previous audit work and themed reviews. In addition, we will continue to work with Children's Services colleagues and Babcock 4S to help improve the level of scrutiny and challenge provided to our maintained schools. We will also work with our Orbis partners to provide bulletins and guidance for schools in the areas of risk, governance and internal control.
Academy Transition Arrangements	This review will consider the governance arrangements in place for managing the transition for schools becoming academies, having regard to the risks for both the schools themselves and the County Council.
Schools Data Analysis	An allocation of days to allow data analysis to be undertaken on financial and other information from SIMS in order to inform the service about potential risks and issues arising within schools in terms of procurement, staff costs and expenses, and overall budget management.
Schools Safeguarding Arrangements	To provide assurance over the completeness and accuracy of information reported by all schools (maintained, academy, voluntary, free and independent) to the council as part of statutory reporting of safeguarding issues under the Education Act 2002.
Non Maintained Independent School Placement	This is a follow-up audit scheduled for 2018/19 following a Partial Assurance opinion on the same area when reviewed in the previous year. The audit will focus on gaining assurance that agreed actions from the earlier audit have led to improvements in the service.

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Council Priority:	Improving Our Roads
Highways Contract Management (Kier Supply Chain)	The scope of the audit will be the Kier supply chain to provide assurance over the adequacy of the monitoring by the councils major highway contractor. The focus of testing will be subcontractor performance to ensure all works are delivered to agreed timescales and provide value for money.
Traffic Management	This audit will provide assurance that following the restructure within E&I, the Traffic System Team are effectively engaging with stakeholders to ensure that the newly let contract effectively manages traffic flow across the county, and that the team successfully handle complaints and other enquiries from the public.
Street Lighting PFI	To review the governance arrangements and contract management procedures in place following a change in team composition post restructure.

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Council Priority:	Caring For Our Environment
Green House Gas / Carbon Reduction Credits	This is an annual audit to provide assurance that the figures published by the council for Green House Gas Emissions and Carbon Reduction Credits are complete and accurate.
Surrey Wildlife Trust	A review to assess the effectiveness of governance arrangements in place for this partnership with the county council. The audit will also examine the council's contribution to the estate, and how income streams are managed and can be maximised.

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Service Management and Delivery

Review Name	Outline Objective
Annual Report and Opinion, and Annual Governance Statement	Creation of Annual Report and Opinion / Annual Governance Statement.
Action Tracking	Ongoing action tracking and reporting of agreed, high risk actions.
Audit Committee and other Member Support	Ongoing liaison with members on internal audit matters and attending Audit and Governance Committee meetings and associated pre-meetings.
Audit and Counter Fraud Reporting	Production of periodic reports to management and Audit and Governance Committee covering the results of all audit and counter fraud reporting.
Audit and Counter Fraud Management	Overall management of all audit and counter fraud activity including allocation and work scheduling.
Client Support and Advice	Ad hoc advice and guidance and support on risk, internal control and governance issues provided to clients and services throughout the year.
Orbis IA Developments	Audit and corporate fraud service developments including quality improvement and ensuring compliance with Public Sector Internal Audit Standards.
Organisational Management Support	Attendance and ongoing support at organisational meetings, e.g. Extended Leadership Team (ELT), Strategic Risk Forum, and Investment Panel.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
External Liaison	Liaison with external auditors and other external bodies, including attendance at national and regional audit groups and counter fraud hubs.
Strategy and Annual Audit Planning	Development and production of the Internal Audit annual plan including consultation with management and members.
System Development and Administration	Development and administration of Audit and Fraud Management systems.

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INTERNAL AUDIT CHARTER

1. Introduction

This Charter describes for the Council the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Statutory Responsibilities Network and the board will be the Audit & Governance Committee (described generically in this Charter as the Audit Committee)

The Charter shall be reviewed annually and approved by the Statutory Responsibilities Network and the Audit Committee. The Head of Internal Audit is responsible for applying this Charter and keeping it up to date.

2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined in the PSIAS as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Internal Audit supports the whole Council to deliver economic, efficient and effective services and achieve the Council’s vision, priorities and values.

3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

These regulations require any officer or Member of the Council to

- make available such documents and records; and
- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Council's Financial Regulations.

In addition, the Council's S151 Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

4. Internal Audit Responsibilities and Scope

Annually the Head of Internal Audit is required to provide to the Audit Committee an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Council.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Council risk registers). Extensive consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focussed.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and

- Compliance with laws, regulations, policies, procedures and contracts

5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Internal Audit has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance. This independence is further safeguarded by ensuring that the Head of Internal Audit's formal appraisal/performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chairman of the Audit Committee have the opportunity to contribute to this performance review.

All Internal Audit staff are required to make an annual declaration of interest to ensure that objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

6. Reporting Lines

Regardless of line management arrangements, the Head of Internal Audit has free and unfettered access to report to the S151 Officer; the Monitoring Officer; the Chief Executive; the Audit Committee Chairman; the Leader of the Council and the Council's External Auditor.

The Audit Committee will receive reports on a periodic basis – as agreed with the Chairman of the Audit Committee – on the results of audit activity and details of Internal Audit performance including progress on delivering the audit plan.

7. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will however be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

The Head of Internal Audit should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.



Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

8. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provide a specific named contact for each service; and, regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

9. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Head of Internal Audit is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Head of Internal Audit is responsible for appointing Internal Audit staff and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Head of Internal Audit may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

10. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:



- (i) The extent of work needed to achieve the required objectives;
- (ii) The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- (iii) The adequacy and effectiveness of governance, risk management and control processes;
- (iv) The probability of significant errors, fraud or non-compliance; and
- (v) The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

11. Quality Assurance

The Head of Internal Audit will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the council's Annual Governance Statement.

April 2017

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Audit & Governance Committee
12 April 2018

Completed Internal Audit Reports

SUMMARY AND PURPOSE:

1. 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 on 22 January 2018 - as attached at Annex A.
2. 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:

3. The Audit and Governance Committee is asked to consider whether there are any audit reports or agreed actions that it would like to review further and whether there are any matters they wish to refer to the relevant Select Committee.

BACKGROUND:

4. 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 findings.
5. The agreement of both the findings and appropriate actions to address them, which in the auditor's opinion adequately addresses the risks and/or control weaknesses, allows for the final report to be issued. Agreed actions are tracked for progress and implementation, and any follow-up work required forms part of future audit plans at the appropriate time.
6. There have been ten audit reports issued since the last report to this Committee in January 2018. The table below lists those audits and shows the audit opinion and number of high priority findings included in the report.

	Audit	Opinion	High Priority findings
1	Financial Assessments & Benefits	Reasonable Assurance	0
2	Grass Cutting Arrangements	Substantial Assurance	0
3	Gifts & Hospitality – follow-up	Reasonable Assurance	0
4	Nursery Education Funding – follow up	Reasonable Assurance	0
5	Efficiency Savings	Reasonable Assurance	0
6	Pavement Horizon	Reasonable Assurance	0
7	Order To Cash (accounts receivable)	Reasonable Assurance	0
8	General Data Protection Regulations (GDPR)	Partial Assurance	3

9	Risk Management	Substantial Assurance	0
10	Organisational Ethics	Reasonable Assurance	0

7. 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
8. 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.
9. 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:

11. 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:

12. See Recommendations above.

REPORT AUTHOR: David John, Audit Performance Manager

CONTACT DETAILS: telephone: 020 8541 7762 e-mail: david.john@surreycc.gov.uk

Sources/background papers: Final audit reports with agreed actions

Audit	Background to review	Key findings	Audit opinion ⁽¹⁾	Agreed Actions (Priority) ⁽²⁾
Financial Assessments and Benefits	SCC undertakes financial assessments of service users of Adult Social Care services in accordance with the council's charging policy. The audit sought assurance that adequate controls were in place and operating to meet the need of FAB operations.	<p>Delays in the completion of financial assessments were identified, caused in part by the need to prioritise cases in the context of limited resources for FAB advisors.</p> <p>Whilst the FAB service reports on a number of metrics, comparative statistics are not collated due to the limited reporting facility available in the old (outgoing) system</p>	Reasonable Assurance	<p>FABS are currently rolling out a mobile financial assessment application, and have launched an online Financial Assessment tool for the public to provide their information online to improve efficiency (Medium).</p> <p>Reporting in the new system has significantly improved since the audit and further reports being used to inform the development of a new suite of Key Performance Indicators from April 2018 (Medium).</p>
Grass Cutting	This audit was undertaken to provide assurance that controls were in place to ensure service delivery specifications in the Agency Agreements for grass cutting contracts were in place and operating effectively.	Grass cutting services are being delivered to a reasonable standard in line with Agency Agreements agreed with Borough and District Councils.	Substantial Assurance	There were no high or medium rated recommendations for this audit
Gifts & Hospitality (follow-up audit)	This audit followed up on agreed actions following an audit in August 2016, when the opinion was 'Significant Improvement Needed'	Revisions to the Gifts & Hospitality Policy and the Code of Conduct have successfully addressed all outstanding issues from the previous audit. Further improvements in transparency and raising awareness of this policy have also been made.	Reasonable Assurance	There were no high or medium rated recommendations for this audit

Completed Audit Reports (January 2018 – March 2018)

Annex A

Audit	Background to review	Key findings	Audit opinion ⁽¹⁾	Agreed Actions (Priority) ⁽²⁾
Nursery Education Funding (follow-up audit)	This audit was scheduled following a previous review in October 2015 that had an opinion of 'Significant Improvement Needed'. The follow-up was postponed in 2016/17 to allow for the implementation of the Free Early Education Portal and a restructure within CSF Directorate.	<p>All of the previous recommendations have been implemented in full or, in a few cases, superseded by the capacity of the new system. The introduction of the Portal has increased the accuracy of payments to settings, and has allowed for far greater scrutiny of data.</p> <p>The service are yet to implement an effective rolling programme of periodic visits to settings to ensure compliance with funding criteria and requirements.</p>	Reasonable Assurance	Following the restructure in the Directorate, suitable staff are being identified to be trained to undertake these visits. A programme of visits, and associated guidance notes, are being prepared with advice from Internal Audit (Medium).
Efficiency Savings	This audit was undertaken to provide assurance that controls are in place to ensure the effective planning and scrutiny of savings proposals and targets, and track and report progress against savings targets in the MTFP.	<p>On occasion the narrative and figure work within 'savings planning documentation' in projects was too generalised to provide assurance that controls were fully effective.</p> <p>There was no template or guidance to indicate the level of detail required when efficiency savings proposals are submitted, leading to an inconsistent standard of submission.</p>	Reasonable Assurance	<p>Individual savings projects with targeted annual savings exceeding a set threshold (provisionally £500k) will be required to develop a more detailed plan, which will be held in the overall tracker (Medium).</p> <p>Finance will develop such a template, and the revised approach is to be piloted in 2018/19 and introduced across all services in readiness for 2019/20 (Medium).</p>

Completed Audit Reports (January 2018 – March 2018)

Annex A

Audit	Background to review	Key findings	Audit opinion ⁽¹⁾	Agreed Actions (Priority) ⁽²⁾
Pavement Horizon	The audit objective was to ensure that controls and in place and operating effective to ensure the effective delivery of this corporate project - a planned pavement maintenance programme with a £20m budget over five years.	For one scheme there was no audit trail to confirm the validity of work completed as part of the 2016/17 programme. The scheme was added to the programme by verbal instruction from a manager, who is no longer employed by the council.	Reasonable Assurance	Moving forward, only schemes with demonstrable scores under the revised criteria will be added to the programme of works (Medium).
Order to Cash	The Order to Cash process is a Key Financial System and as such subject to annual Internal Audit review	<p>With the new Order to Cash management team only recently established, not all supervisory tasks have been reallocated or handed-over.</p> <p>There are no formal targets to reduced aged debt over six months old (currently £2.53m)</p>	Reasonable Assurance	<p>The new management team have identified this as a task to be addressed among other initial setting-up duties (Medium).</p> <p>A reduction in aged debt will be targeted including the establishment of format targets, focus on older debt known to be challenging to collect, and a review of the process to refer cases to Legal Services (Medium).</p>

Completed Audit Reports (January 2018 – March 2018)

Annex A

Audit	Background to review	Key findings	Audit opinion ⁽¹⁾	Agreed Actions (Priority) ⁽²⁾
General Data Protection Regulation (GDPR)	GDPR is a new EU Regulation designed to strengthen and unify data protection for individuals. As a new legislative requirement, Internal Audit undertook a review to assess the council's level of preparedness	<p>The audit found that whilst progress was in train, more preparatory work needed to be done in some key areas (based on the Information Commissioner's Office '12 key steps') namely:</p> <ul style="list-style-type: none"> • the new right for an individual to have data erasure and 'data portability'; • around the enhanced rights to data subjects submitting a Subject Access Request; and • around new rights in relation to giving consent for personal data processing 	Partial Assurance	Actions have been agreed with the Corporate Information Governance Manager with a target date of May 2018, which will address the issues identified within the report and ensure policies and other appropriate mediums (e.g. the SCC website) are updated to ensure compliance with the new requirements.
Risk Management	Internal Audit conducts an annual review of Risk Management, an integral part of effective corporate governance arrangements.	Progress is being made against the 2017/18 risk management plan. Risk management processes, roles and responsibilities are clearly defined and risk register recording is clear and consistent. The council is continuing to embed a consistent risk management culture.	Substantial Assurance	There were no High or Medium priority recommendations relating to this audit.

Audit	Background to review	Key findings	Audit opinion ⁽¹⁾	Agreed Actions (Priority) ⁽²⁾
Organisational Ethics	A review of organisational ethics has been an annual review to satisfy PSIAS requirement 2110.A1 to evaluate the design, implementation and effectiveness of the council's ethics-related objectives, programmes and activities.	<p>There was no assurance that below pay grade PS14 the registering of employee interests was being consistently applied across the council.</p> <p>Numbers of officers completing the Fraud E-Learning course were lower than expected.</p> <p>The annual staff survey did not ask specific questions about ethics, behaviours and values.</p>	Reasonable Assurance	There were no High or Medium priority recommendations relating to this audit.

Completed Audit Reports (January 2018 – March 2018)

Annex A

¹ Audit Opinions

Substantial Assurance	Controls are in place and operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

² Agreed Actions

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



Audit & Governance Committee
12 April 2018

Leadership Risk Register

Purpose of the report:

The purpose of this report is to present the Leadership risk register as at 31 March 2018 and update the Committee on any changes made since the last meeting to enable the Committee to keep the Council's strategic risks under review.

Recommendations:

It is recommended that the Audit and Governance Committee:

1. Review the Leadership risk register; and
2. Determine whether there are any matters that they wish to draw to the attention of the Chief Executive, Cabinet, specific Cabinet Member or relevant Select Committee.

Leadership risk register:

3. The Leadership risk register (Annex 1) is owned by the Chief Executive and shows the Council's key strategic risks. The register is regularly reviewed by strategic risk leads from across the Council, senior management and Members.
4. Since it was last presented to the committee on 22 January 2018, the risk register has been reviewed by the Strategic Risk Forum (chaired by the Director of Finance) and the Corporate Leadership Team (CLT) who have assumed Leadership risk register review responsibilities from the Statutory Responsibilities Network (SRN).

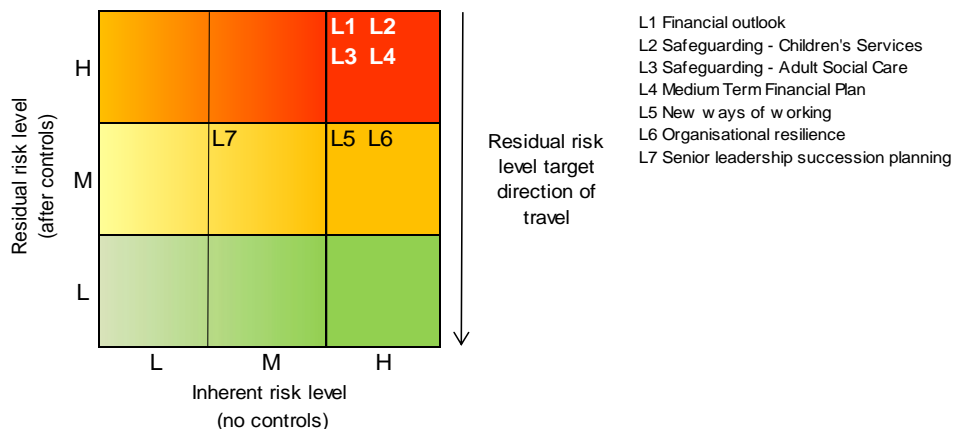
Changes to the Leadership risk register

5. The key changes to the risks are:
 - **Risk L2 (Safeguarding – Children's Services):** Bullet point added relating to the focus on improving practice and practice leadership.
 - **Risk L5 (New ways of working):** Removed reference to monitoring progress and risks against transformation programmes, added reference to nurturing strategic partnerships and close working with DfE and Ofsted.

- **Risk L7 (Senior Leadership Succession Planning):** Processes and controls updated to reference the changes to the leadership team.

Residual risk level

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



Implications:

Financial and value for money implications

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

Equalities and Diversity Implications

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

Risk Management Implications

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

Report contact: Rawdon Phillips, Risk Manager, Finance

Contact details: 01273 481593 or Rawdon.Phillips@eastsussex.gov.uk

Leadership risk register as at 31st March 2018 (covers rolling 12 months)

Owner: Joanna Killian

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	ASC1 CSF7 EAI1 FN1 ORB10	Financial outlook Further reductions in 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 core Government policy direction (specific areas to be developed as Government priorities become clear). 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 where economically advantageous). Cabinet Members induction programme to ensure continuity of informed decision making and service delivery. New Members induction programme in place to introduce them to the council and thereby facilitate informed decision making. <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 only able to recommend Medium Term Financial Plan where credible, sustainable budget is proposed. Members proactively take the opportunities to influence central Government. Officers continue to analyse events and create budget scenarios. The council pro-actively seek to participate in consultations and other opportunities to engage with Government as it develop future funding policies. 	Director of Finance	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 31st March 2018 (covers rolling 12 months)

Owner: Joanna Killian

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)
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"> Children's Improvement Board, with partnership membership, in place which has set improvement objectives for children through an Improvement Plan and regularly reviews impact for children and whole system capability and capacity. In addition to the Improvement Board there is scrutiny and quality assurance across the partnership through for example the Children's Safeguarding Board, Corporate Parenting Board, the Council's Select Committees and other scrutiny functions. Regular quality assurance and review within Children's, Schools and Families, including feedback from regulators, peer review, quality and performance insight, and feedback from children and families. Children's, Schools and Families Assistant Director roles and responsibilities have been reshaped to strengthen leadership and governance. Work now underway to strengthen practice leadership at all levels. Focus on improving practice and practice leadership. 	<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 wellbeing of children in Surrey. Quality assurance and management systems in place to identify and implement any key areas of learning so safeguarding practice can be improved. Actively respond to feedback from regulators, partners and service users. The Surrey Safeguarding Children Board (with an independent chair) is the key statutory mechanism to ensure agencies, including the council, work together effectively to safeguard and promote the welfare of children. An Improvement Board (chaired by the Leader) sets direction and reviews progress on the Improvement Plan and agrees any areas of action as required. 	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 31st March 2018 (covers rolling 12 months)

Owner: Joanna Killian

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)
L3	ASC6,7,13,14	Safeguarding – Adult Social Care Avoidable failure in Adult Social Care, through action or inaction, leads to serious harm, death or a major impact on wellbeing.	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 facilitating the sharing of good practice. Established a locality safeguarding advisor role to assure quality control. Surrey Safeguarding Adults Board has undertaken external auditing of adult safeguarding enquires in 2016 and 2017 and we have acted on the learning from these. We have improved our process including our case recording system and our internal quality assurance process. In addition to the work of the Safeguarding Adults Board, there is further scrutiny of the function through the activities of the Council's Adults and Health Select Committee. 	<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. We are working with Surrey Safeguarding Adults Board and our partners to revise our adult safeguarding policies, procedures and guidance, associated tools such as the competency framework and our learning and development offer to support these. It is anticipated that these will be completed by April 2018. 	Strategic Director of Adult Social Care & Public Health	High

Key to references:

ASC = Adult Social Care risk
 CSF = Children, Schools and Families risk

C&C = Customers and Communities risk
 EAI = Environment and Infrastructure risk

FN = Finance Service risk
 ORB = Orbis risk

Leadership risk register as at 31st March 2018 (covers rolling 12 months)

Owner: Joanna Killian

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)
L4	ASC1,2,12,16,17 C&C4 CSF1,2,7 EAI1,3 FN2 ORB01,10	<p>Medium Term Financial Plan (MTFP) 2017-20</p> <p>Failure to achieve the MTFP, which could be a result of:</p> <ul style="list-style-type: none"> • Not achieving savings • Additional service demand and/or • Over optimistic funding levels. <p>As a consequence, lowers the council's financial resilience and could lead to adverse long term consequences for services if Members fail to take necessary decisions.</p>	High	<ul style="list-style-type: none"> • Monthly reporting to Continuous Improvement and Productivity Network and Cabinet on the forecast outturn position is clear about the impacts on future years and enables prompt management action (that will be discussed informally with Cabinet). • Weekly review of the in year financial position at Chief Executives Direct Reports meeting and strong focus on development of plans for delivery of the 2017/18 service efficiencies and reductions – to enable early management action as relevant. • Budget planning discussions held with Cabinet and Select Committees. • Early conversations are undertaken with all relevant stakeholders to ensure consultations about service changes are effective and completed in a timely manner (savings tracker developed for use during 2017/18 to identify necessary consultations, milestones, Equality Impact Assessments). • Cross service networking and timely escalation of issues to ensure lawfulness and good governance. • Increased challenge and rigour on cost control. • Cabinet Members induction programme to ensure continuity of informed decision making and service delivery. • Ongoing Members development programme in place to ensure that all Members have the skills and information they need to understand the challenges facing the Council and to perform their roles effectively. 	<ul style="list-style-type: none"> - Prompt management action taken by Directors / Leadership Teams to identify correcting actions for any in year overspends or failure to deliver service reductions (evidenced by robust action plans). - Members (Council, Cabinet, Select Committees) make the necessary decisions to implement action plans in a timely manner. - Members have all the relevant information to make necessary decisions. 	Director of Finance	High

Key to references:

ASC = Adult Social Care risk

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 31st March 2018 (covers rolling 12 months)

Owner: Joanna Killian

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"> Induction programme for new Chief Executive to introduce them to the council and provide insight to all relevant issues. Significant focus on income generating activities through an enlarged property investment programme and the optimisation of the existing property assets. 			
L5	ASC2, 16 CSF1,2, 5,6,8 ORB01, 02,07, 12, EA13	New ways of working Failure to work effectively as part of a multi-agency system leads to severe service disruption and reputational damage.	High	<ul style="list-style-type: none"> Shared and aligned strategies to ensure no unintended consequences. Robust governance arrangements (e.g. Inter Authority Agreements, Health and Social Care Integration Board, Health and Wellbeing Board, financial governance framework) in place with early warning mechanisms. Robust and effective local oversight and challenge, e.g. Children's Improvement Board. 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, partners, inspectorates and regulators. Self-assessment continually refreshed in line with Ofsted inspection framework to inform Children's improvement work. Regular reviews with Department for Education, feedback from Ofsted and listen to feedback from partners and practitioners, all informs our Children's improvement work. 	<ul style="list-style-type: none"> Working closely with Department for Education and Ofsted to inform future Children's improvement strategy. Leadership and managers recognise the importance of building and sustaining good working relationships with key stakeholders and having early discussions if these falter. Continue to nurture strategic partnerships to affect better outcomes for residents. Work with Sustainability and Transformation Partnerships (including Clinical Commissioning Groups) on models of integrated care. Members continue to endorse approaches for integration across the council. 	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 31st March 2018 (covers rolling 12 months)

Owner: Joanna Killian

Ref	Risk ref.	Description of the risk	Inherent risk level (no controls)	Processes in place (ie the 'how' risks are being mitigated)	Controls (i.e. decisions needed)	Lead risk owner	Residual risk level (after existing controls)
L6	ASC4, 5,8 CSF5 EAI2, 3,4 ORB 02,03, 08 LD6 EMT1, 10,11	Organisational resilience Failure for the organisation as a whole to plan for and/or respond effectively to a significant event and or strains on workforce capacity or resilience, 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 cyber resilience and information assurance 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 Corporate Leadership Team. 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. Leadership and management development programme in place to increase skills, resilience and effectiveness of leaders, focusing on communication and setting clear expectations. Career conversations built into appraisal process looking forward five years Robust management networks in place including Corporate Leadership Team and Council Risk and Resilience Forum. Ongoing Members development programme in place to ensure that all Members have the skills and information they need to understand 	<ul style="list-style-type: none"> Corporate Leadership Team review business continuity plans at least twice annually. Regular monitoring of effectiveness of processes is in place and improvements continually made and communicated as a result of learning. Robust change management processes. Refresh staff awareness for IT security and information management. All externally hosted IT solutions should be considered by Security Working Group (IT&Digital and Information Governance), with contract approval via IT&Digital. Senior management annual assurance statement provides assurance that business continuity is well planned and staff are all aware. Mutual aid arrangements set up to provide support to other SE7 Authorities in the event of an emergency. 	Chief Executive	Medium

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Owner: Joanna Killian

Ref	Risk ref.	Description of the risk	Inherent risk level (no controls)	Processes in place (ie the 'how' risks are being mitigated)	Controls (i.e. decisions needed)	Lead risk owner	Residual risk level (after existing controls)
				the challenges facing the Council and to perform their roles effectively.			
L7		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.	Medium	<ul style="list-style-type: none"> Executive leadership team being reshaped and programme management capacity and capability being strengthened under leadership of Chief Executive. 	<ul style="list-style-type: none"> Executive leadership team reshape to People, Performance and Development Committee on 9 April 2018. Additional capacity at tier 3 to be secured over the next six months as appropriate. 	Chief Executive	Medium

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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

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