

Notice of Meeting

Audit & Governance Committee



SURREY
COUNTY COUNCIL

Date & time

Monday, 29
November 2021
at 10.30 am

Place

Surrey County
Council, Woodhatch
Place, 11 Cockshot
Hill, Reigate, Surrey,
RH2 8EF

Contact

Angela Guest
angela.guest@surreycc.gov
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Chief Executive

Joanna Killian

We're on Twitter:
@SCCdemocracy

Members

Stephen Cooksey, Victor Lewanski (Vice-Chairman), David Lewis (Chairman), Rebecca Paul, Joanne Sexton and Richard Tear

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING [20 SEPTEMBER 2021]

(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 (*23 November 2021*).
2. The deadline for public questions is seven days before the meeting (*22 November 2021*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RECOMMENDATIONS TRACKER AND WORKPLAN

(Pages 7
- 14)

To review the Committee's recommendations tracker and 2021/22 workplan.

6 PENSIONS TURNAROUND PROGRAMME

(Pages
15 - 28)

Briefing requested at September meeting.

7 EXTERNAL AUDIT UPDATE REPORT

Report to follow.

- 8 EXTERNAL AUDIT PROCUREMENT** (Pages 29 - 38)
- We have a choice on whether our external audit is procured directly by SCC; e.g. we approach the market directly, or whether we take part in a national process run by Public Sector Audit Appointments LTD (A subsidiary of the LGA) where they commission external audit on behalf of the sector and allocate us an auditor.
- Decision to go to full council**
- 9 INTERNAL AUDIT PROGRESS - Q2** (Pages 39 - 56)
- To report on Internal Audit progress during quarter 2
- 10 ANTI-FRAUD AND CORRUPTION STRATEGY AND FRAMEWORK** (Pages 57 - 80)
- An update to Surrey's Counter Fraud Strategy for the Committee to approve
- 11 TREASURY MANAGEMENT HALF YEAR REPORT** (Pages 81 - 92)
- This report summarises the council's treasury management activity.
- 12 CORPORATE RISK UPDATE** (Pages 93 - 100)
- To receive an update on the overall corporate risks and a more detailed review on a specific risk
- 13 ANNUAL GOVERNANCE STATEMENT - HALF YEAR REPORT**
- Report to follow.
- 14 APPOINTMENT OF INDEPENDENT MEMBER** (Pages 101 - 104)
- This report details the process undertaken to date to recruit an Independent Member to the Audit and Governance Committee and confirms that the preferred candidate will be recommended to County Council for appointment as the Independent Member to the Audit and Governance Committee.
- 15 DATE OF NEXT MEETING**
- The next meeting of Audit & Governance Committee will be on 24 January 2022.

Joanna Killian
Chief Executive
 Published: 19 November 2021

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 2.00 pm on 20 September 2021 at Surrey County Council, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

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

Elected Members:

Stephen Cooksey
Victor Lewanski (Vice-Chairman)
David Lewis (Chairman)
Rebecca Paul
Joanne Sexton
Richard Tear

8/21 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

9/21 MINUTES OF THE PREVIOUS MEETING [23 MARCH 2021] [Item 2]

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

10/21 DECLARATIONS OF INTEREST [Item 3]

There were none.

11/21 QUESTIONS AND PETITIONS [Item 4]

There were none.

12/21 RECOMMENDATIONS TRACKER [Item 5]

Speakers:

Mark Hak-Sanders – Strategic Finance Business Partner

Key points raised during the discussion:

1. Tracker item A1/21 - The Committee had been emailed the narrative for the Statement of Accounts for any final comments by 30 September.

Action/Further information to note:

None.

RESOLVED:

That the tracker be noted.

13/21 EXTERNAL AUDIT: ANNUAL AUDIT LETTER [Item 6]

Speakers:

Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. The Committee received a verbal update from Grant Thornton and were informed that the target date of 30 September for auditing the accounts would not be met. There were various reasons for this including increased workload, changes to National Audit Office Code and impact of Covid. However, the Committee were assured that the accounts could be published on 30 September, but the audit would take a little longer. There were a small number of minor amendments to be made but nothing to bring to the Committee's attention.
2. Grant Thornton gave an update on the current progress of each stage of the audit process. He explained that the pension audit was 80% complete and that there were a few things being considered but nothing of concern.
3. In response to a Member query regarding delays for other local authorities, Grant Thornton reported that last year the deadline was 30 November, and it was thought that approximately 50% of local authorities would reach the 30 September deadline.

Actions/ further information to be provided:

None.

Resolved:

That the update be noted.

14/21 COUNCIL COMPLAINTS [Item 7]**Speakers:**

Sarah Bogunovic, Head of Customer Strategy and Futures
Jo Lang, Head of Customer Engagement

Key points raised during the discussion:

1. The Head of Customer Strategy introduced her report and highlighted the following:
 - a) That there were three different complaints procedures managed by three different teams (adult social care, corporate and children's social care). There were different statutory requirements for each, which was why adult social care only had one stage, corporate two stages and children's had a three stage process.
 - b) That it was important not to just look at the numbers when considering complaints handling performance, because low numbers might mean that a council was not open to receiving complaints or customer feedback. However, the overall number of complaints had increased in the last year due to an increase of 49% in complaints about education and children's services. Numbers had fallen in other areas.
 - c) There had been a general dip in performance with response timescales, with the exception of adult social care. The Covid-19 pandemic and complexity of complaints received, particularly about education & children's services, had been factors.
 - d) The Children's Customer Relations team were adopting an early resolution model, in line with the corporate approach.
 - e) There was a significant increase in the amount of financial redress paid in the last year. The majority of this related to education &

children's services. Payments over £1,000 were agreed in conjunction with the Cabinet Member.

- f) Pension complaints were included within the report but were managed through a different process.
- g) She drew the Committee's attention to information included within the report about Local Government & Social Care Ombudsman (LGSCO) complaints.
- h) That the report highlighted what had been done well last year and where improvement was needed. It was pointed out that more compliments than complaints were received and that it was important to present a balanced view of services.

2. Member questions and responses:

- a) Why the response times were not being met in 24% of cases and what was being done to improve this?
The Head of Customer Strategy responded that this was reliant on service areas having capacity to respond to complaints and that a number of staff had been redirected for Covid.
The Head of Customer Engagement stated that children's services needed to do more, that cases could be very complex dealing with different agencies and the numbers of complaints in this area had doubled in the last five years. She went on to explain the early resolution process being brought in this year and that staff training was underway. She also highlighted the importance of building relationships with families, which could take time.
- b) What was the total cost of complaints including other costs such as staffing?
The Head of Customer Strategy responded that an exercise was done a few years ago to establish this but that it was complex to calculate. The previous estimate of the cost of an Ombudsman complaint to the organisation was approx. £1,500 per complaint (not taking into account any financial remedies that may be recommended). It was agreed that it would be good to update this exercise.
- c) How reliable was the comparisons used for the LGSCO benchmarking as no population figures were given?
Officers responded that the councils chosen to benchmark against were most like Surrey County Council in terms of services offered and their topography (town vs rural). It was agreed it would be helpful to include per capita calculations in future benchmarking. It was also agreed that the annex to the submitted report would be revised to show numbers per population and would be recirculated to the committee.
- d) Was the early resolution process enough to resolve the issues in children's and education and how did 8% escalation rate to the Local Government Ombudsman (LGSCO) compare with other councils?
Officers explained that many of the children's complaints went back some years and referred to the transformation and improvement programme being undertaken by children's services. The escalation rate to the Ombudsman had decreased slightly from the previous year; however, because the LGSCO had paused their casework at the

height of the pandemic this was reflected in their data which made it more difficult to make meaningful comparisons.

- e) With the population in Surrey being approximately 1.2million, could the complaints data be broken down on a geographic basis into borough and district areas?

Officers explained that users of online services did not always give full contact details and they did try where possible to capture location. Work was being undertaken with the supplier of the self-service complaints system to improve reporting. There was also a council-wide piece of work happening to provide Members with better access to local information and complaints data would form part of this. Members requested that this work be expedited.

- f) Was one extra staff member within the Customer Relations team enough to get performance back on track and where staff were at fault was there further training?

Officers explained that service complaints should be dealt with by front line staff in the first instance, which would leave the complaints team to deal with more complex complaints. Officers also explained the 'no blame' culture, case reviews and learning and improvement processes that were in place. Where potential misconduct is identified, this may lead to disciplinary action following liaison with managers.

- g) In response to a question on why there were different response deadlines for different areas, officers explained the statutory requirements in place for the different complaints procedures.

- h) There was some discussion on how the committee could help make sure the Council was learning from complaints to improve its services. Officers were aware that the complaints process could be frustrating for residents and that it may not seem easy or accessible. They also spoke of managing expectations, having early and honest conversations with residents and staff focusing on finding solutions where this was possible.

Actions/ further information to be provided:

1. That the annex to the submitted report would be revised to show numbers per population and would be recirculated to the committee.
2. That the workplan be updated with more regular complaints reports.

Resolved:

1. That the report be noted.
2. That the Chairman be informed, along with the Cabinet Member, when a redress payment goes beyond £1,000.

15/21 INTERNAL AUDIT PROGRESS - Q1 [Item 8]

Speakers:

David John, Audit Manager

Russell Banks, Chief Internal Auditor

David Mody, Strategic Risk Business Partner

Key points raised during the discussion:

1. The Audit Manager gave a full precis of the submitted report and highlighted areas of interest.
2. In response to questions around audit work on unclaimed grants and pension fund investment returns the Audit Manager stated that not all grants needed certification by Orbis Internal Audit and that finance managed this. He also confirmed that Internal Audit did not look at returns on pension fund investments, though the system was audited as part of annual Key Financial Systems work.
3. The Committee were reminded that it would be appropriate to request updates directly from service managers.
4. There was some discussion around the connectivity between audit and the risk register. The Strategic Risk Partner stated that he was sighted on all audit findings and was working to ensure risks flagged by Internal Audit reconciled with information he had from services. Whilst pensions was not in the top 20 corporate risks he was also meeting with Finance and Pensions to discuss issues.
5. The Chief Internal Auditor explained that each high-priority action arising in an audit was assigned an action owner in MKI (Internal Audit's electronic working paper database) who was required to confirm to Internal Audit that the action had been implemented as agreed. It was also explained that if deadlines for agreed actions were delayed, then the service would need to raise this with Internal Audit and agree with us a revised date of implementation. If there was a delay on a high-priority agreed action then a mitigating control would have to be in place.

Actions/ further information to be provided:

None.

Resolved:

That the report be noted.

16/21 RISK MANAGEMENT [Item 9]

Speakers:

David Mody, Strategic Risk Business Partner

Key points raised during the discussion:

1. Committee Members raised concerns about whether or not the new risk (ST26) of SCC not being chosen for the Government's County Deal Pilot was indeed a risk or just a missed opportunity. Only two counties were to be selected so the chances of not being selected were high. Also, there was now a new Secretary of State and would they continue with this. Even if the Council were chosen it was thought that this would be the start of a range of discussions, and it would be much further down the line for it to become a risk.
2. The Committee discussed and queried a few of the risks on the register and were informed that relevant officers were to be invited to future meetings to discuss risks in depth. The Committee agreed to discuss, outside of the meeting, the order in which risks were to be looked at in-depth.

Actions/ further information to be provided:

1. That the Committee's thoughts on the strategic risk ST26 be relayed back to Corporate Management Team for consideration.
2. That the Committee Manager arrange a virtual informal meeting for Committee to discuss forward planning of risks.

Resolved:

1. That the strategic risks were noted and that comments regarding ST26 be relayed back to the Corporate Leadership Team.
2. That the Risk Management Strategy be approved.
3. That the Committee Manager arrange a virtual informal meeting for Committee to discuss forward planning of in-depth consideration of risks.

17/21 DATE OF NEXT MEETING [Item 10]

The date of the meeting was NOTED.

Meeting ended at: 3.22 pm

Chairman

Audit & Governance Committee Action Tracking

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A2/21	20 Sept 2021	Complaints	<ul style="list-style-type: none"> a) Annex to be revised showing 'per pop' and circulated to cttee b) To escalate work with supplier to capture borough/district of complainants c) To circulate quarterly snapshot to cttee d) That the A&G Chairman be informed along with the Cabinet Member when redress payment goes beyond £1K 	Sarah	a) Revised annex emailed to Members on 5 November 2021.
A3/21	20 Sept 2021	Complaints	That the committee receive quarterly complaints reports and add to committee workplan.	Committee Manager	workplan updated to include complaints update every other meeting Completed
A4/21	20 Sept 2021	Internal Audit – Pension Admin	To invite Neil Mason/Anna D'Allessandro to next meeting for update on Pensions Administration Turnaround Programme	Committee manager	Neil Mason to attend November Committee
A5/21	20 Sept 2021	Risk Management	That an informal meeting be set up for committee members to discuss and decide which risks they wish to deep dive first.	Committee Manager	Meeting held on 20 October Completed

Audit & Governance Committee Action Tracking

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

A1/21	18 June 2021	Draft Statement of Account 2020/21	The Audit and Governance Committee to provide feedback on the narrative statement which will then be reviewed by the Executive Director for Finance. Officers to make a decision outside the meeting on whether the consultation meeting should be held in public or private.	Committee Manager	Narrative statement emailed to Members and comments received back.
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AUDIT & GOVERNANCE COMMITTEE: WORK PLAN 2021-2022

29 November 2021		
EXTERNAL AUDIT UPDATE REPORT	To receive an update from the council's external auditors.	Grant Thornton
TREASURY MANAGEMENT HALF YEAR REPORT	This report summarises the council's treasury management activity.	Director – Corp Finance
INTERNAL AUDIT PROGRESS – Q2	To report on Internal Audit progress during quarter 2.	Audit Manager
CORPORATE RISK UPDATE	To receive an update on the overall corporate risks and a more detailed review on the Covid risk ST23.	Strategic Risk Business Partner Dir. Public Health
EXTERNAL AUDIT PROCUREMENT	We have a choice on whether our external audit is procured directly by SCC; e.g. we approach the market directly, or whether we take part in a national process run by Public Sector Audit Appointments LTD (A subsidiary of the LGA) where they commission external audit on behalf of the sector and allocate us an auditor. Decision to go to full council	Chief Accountant Strategic Finance Business Partner
ANNUAL GOVERNANCE STATEMENT HALF YEAR UPDATE	This report provides an update on progress on the improvement areas identified in the 2020/21 Annual Governance Statement.	Dir. Law & Governance
APPOINTMENT OF INDEPENDENT MEMBER	following the recruitment exercise, a report be presented to the Audit and Governance Committee at its November meeting to make recommendations to Council at the 14 December 2021 meeting, to agree the necessary changes to the Audit and	Dir. Law & Governance

	Governance Committee's membership, and formally appoint the Independent member.	
PENSIONS TURNAROUND PROGRAMME	Briefing requested at September meeting.	Neil Mason
COUNTER FRAUD STRATEGY	This will be an update to Surrey's Counter Fraud Strategy for the Committee to approve,	Simon White

WORK PLAN 2022

24 January 2022		
BUSINESS CONTINUITY	Report to be considered following external audit with bsi on the council's business continuity plans / emergency management. Along with this, if possible, a debrief to be noted on business continuity aspects of COVID-19.	Head of Emergency Management
COUNCIL COMPLAINTS UPDATE	To receive a report on the operation of the Council's complaints procedures.	Customer Relations & Service Improvement Manager
TREASURY STRATEGY	This report sets out the council's treasury management strategy for 2021/22, as required to ensure compliance with CIPFA's Code of Practice for Treasury management.	Finance Manager
CORPORATE RISK UPDATE	To receive an update on the overall corporate risks and a more detailed review on the Covid risk XXXX	Strategic Risk Business Partner
AUDIT FINDINGS REPORT FOR ALL SCC TRADING COMPANIES	Dec 2016 Committee requested that annual accounts also be presented. To include Surrey Choices as well as Halsey Garton & S E Business Services.	Grant Thornton

28 March 2022		
INTERNAL AUDIT PROGRESS Q3	The purpose of this progress report is to inform Members of the work completed by Internal Audit during Q3.	Audit Manager
EXTERNAL AUDIT – AUDIT PLAN	The Council's external auditors to present their Audit Plan in respect of Surrey County Council and for the Surrey Pension Fund.	Audit Manager/Engagement Lead (Grant Thornton)

INTERNAL AUDIT PLAN FOR 2022/23		Audit Manager
ETHICAL STANDARDS ANNUAL REVIEW	To enable the Committee to monitor the operation of the Members' Code of Conduct over the course of the last year.	Monitoring Officer
CORPORATE RISK UPDATE	To receive an update on the overall corporate risks and a more detailed review on the Covid risk XXXX.	Strategic Risk Business Partner

13 June 2022

DRAFT ANNUAL GOVERNANCE STATEMENT	This report presents the draft Annual Governance Statement, which summarises the council's governance arrangements for the financial year.	CEX to present Service Improvement and Risk Manager, Finance
COUNCIL COMPLAINTS	To receive a report on the operation of the Council's complaints procedures.	Customer Relations & Service Improvement Manager
INTERNAL AUDIT & COUNTER FRAUD ANNUAL REPORT AND OPINION (including IA report)	This report summarises the work of Internal Audit, identifying the main themes arising from the audit reviews and the implications for the County Council.	Audit Manager
DRAFT ANNUAL GOVERNANCE STATEMENT	This report presents the draft Annual Governance Statement, which summarises the council's governance arrangements for the financial year.	CEX to present (cc in Joanna/Hanna flutter on request) Service Improvement and Risk Manager, Finance
TREASURY MANAGEMENT OUTTURN REPORT	This report summarises the council's treasury management activity, as required to ensure compliance with CIPFA. The report will	Strategic Finance Manager

	include the latest risk register for Treasury Management.	
SURREY COUNTY COUNCIL ACCOUNTS AND EXTERNAL AUDIT'S AUDIT FINDINGS REPORT SURREY PENSION FUND LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS	The purpose of this report is to receive the Council's Statement of Accounts, as well as to inform the Committee of the result of the external audit of the council's Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation.	Strategic Finance Manager – Corporate Audit Manager/Engagement Lead (Grant Thornton) Senior Manager (Mamon Zaman)
CORPORATE RISK UPDATE	To receive an update on the overall corporate risks and a more detailed review on the Covid risk XXXX.	Strategic Risk Business Partner

18 July 2022

CORPORATE RISK UPDATE	To receive an update on the overall corporate risks and a more detailed review on the Covid risk XXXX.	Strategic Risk Business Partner
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12 September 2022

COUNCIL COMPLAINTS UPDATE	To receive a report on the operation of the Council's complaints procedures.	Customer Relations & Service Improvement Manager
CORPORATE RISK UPDATE	To receive an update on the overall corporate risks and a more detailed review on the Covid risk XXXX.	Strategic Risk Business Partner
EXTERNAL AUDIT: ANNUAL AUDIT LETTER	The Council's external auditors present their Annual Audit Letter	Director – Corp Finance

		Grant Thornton
EXTERNAL AUDIT PERFORMANCE	To report back on performance against KPIs agreed in September 2018.	Director – Corp Finance
INTERNAL AUDIT PROGRESS – Q1	The purpose of this progress report is to inform Members of the work completed by Internal Audit during Quarter 1.	Grant Thornton Chief Internal Auditor/ Audit Manager

28 November 2022

28 November 2022		
ANNUAL GOVERNANCE STATEMENT HALF YEAR UPDATE	This report provides an update on progress on the improvement areas identified in the 2020/21 Annual Governance Statement.	Dir. Law & Governance/Cex
CORPORATE RISK UPDATE	To receive an update on the overall corporate risks and a more detailed review on the Covid risk XXXX.	Strategic Risk Business Partner
EXTERNAL AUDIT UPDATE REPORT	To receive an update from the council's external auditors.	Grant Thornton
AUDIT FINDINGS REPORT FOR ALL SCC TRADING COMPANIES	Dec 2016 Committee requested that annual accounts also be presented. To include Surrey Choices as well as Halsey Garton & S E Business Services.	Grant Thornton
TREASURY MANAGEMENT HALF YEAR REPORT	This report summarises the council's treasury management activity.	Director – Corp Finance
INTERNAL AUDIT PROGRESS – Q2	To report on Internal Audit progress during quarter 2.	Audit Manager
ANNUAL GOVERNANCE STATEMENT HALF YEAR UPDATE	This report provides an update on progress on the improvement areas identified in the 2020/21 Annual Governance Statement.	Dir. Law & Governance
COUNTER FRAUD STRATEGY	This will be an update to Surrey's Counter Fraud Strategy for the Committee to approve,	Simon White

AUDIT & GOVERNANCE COMMITTEE
29 November 2021

Pension Turnaround Programme Briefing

SUMMARY AND PURPOSE:

1. In July 2020 a pension “Turnaround Programme” was established to oversee the following:
 - a) Dissolution of the Orbis pension partnership between Surrey County Council (SCC) and East Sussex County Council (ESCC).
 - b) Reversion of pensions administration to the respective ESCC and SCC sovereign authorities.
 - c) Reevaluate the relationships with other pension administration customers.
 - d) Redesign the pensions function as an integrated Surrey Pensions Team combining administration with all other Fund activities.
2. This report provides the Audit and Governance Committee with an update on the Turnaround Programme

RECOMMENDATIONS:

3. The Committee is asked to note the report and consider any further action required in their response to issues raised.

BACKGROUND:

4. As a result of a review of the Orbis partnership between ESCC and SCC, it was recommended that management of pension administration revert to the sovereign control of both councils.
5. SCC retained legacy responsibility for managing the administration of Surrey fire fighters pension scheme, as well as four London Borough LGPS funds (Kensington & Chelsea; Westminster; Hammersmith & Fulham and Hillingdon). After failing to agree on a revised pricing model, these are all now in the process of exiting Surrey’s management from April 2021 to February 2022.
6. A pension Turnaround Programme was established with Phase 1 overseeing the dissolution of the Orbis pension partnership, along with reversion to sovereign authorities and London Borough fund relationships and Phase 2 overseeing the Organisation redesign. The structure and governance of the Turnaround Programme is shown as Annexe 1.
7. Phase 1 comprises the following workstreams:
 - a) Dissolution of the Orbis pension administration.
 - b) SCC sovereign return.
 - c) ESCC sovereign return.
 - d) Systems procurement.

- e) Exit of London Boroughs.
- f) Exit of Surrey Fire and Rescue service (SFRS).

8. Phase 2 comprises the following workstreams:

- a) Organisation re-design – ensuring the Surrey Pension Team has the right structure, processes and people to successfully achieve the vision, mission and ambition of the service.
- b) People & Recruitment – to successfully manage the transition from the current structure to the new structure.
- c) Process & Technology – to ensure the right processes and technology are in place to successfully meet the vision, mission and ambitions of the service.
- d) Culture & Training – to ensure the culture of the team enables the vision, mission and ambitions of the service to be met and there is appropriate training in place to support the new culture.
- e) Communication & Engagement – to ensure effective communication and engagement with staff and relevant stakeholders throughout the programme.

9. A three year road map has been developed for Phase 2 as below:



- 10. This report provides an update on the progress of the Turnaround Programme, specifically in relation to the impact on SCC.
- 11. The governing body of the Pension Fund is the Pension Fund Committee and the statutory scrutiny function lies with the Local Pension Board.
- 12. The Pension Fund Committee and the Local Pension Board are provided with updates on the progress of the Turnaround Programme at their meetings and the Chairman of the Pension Fund Committee and the Local Pension Board are provided with an update on the progress of the Turnaround Programme on a monthly basis.

UPDATE:

Phase 1 programme update

- 13. Completed activity:

- a) Dissolution of the Orbis pension administration.
- b) SCC sovereign return.
- c) ESCC sovereign return.
- d) Systems procurement.
- e) Migration of the Royal Borough of Kensington and Chelsea.
- f) Migration of SFRS.
- g) Migration of London Borough of Hillingdon.
- h) Migration of Westminster City Council.

14. Planned activity:

- a) Ongoing activity with the exit of the London Borough of Hammersmith and Fulham.

15. The timeline for Phase 1 is shown as Annexe 2.

Phase 2 programme update

16. Executive Summary:

- a) Consultation period closed.
- b) Response to consultation including final structure issued to all staff and TUs.
- c) Bespoke workshops to support staff with expressions of interest and interview planning underway.
- d) Recruitment for Heads of Service planned and interview dates known.
- e) Recruitment approach for all other roles agreed.
- f) Marketing campaign starting with AON webinar and “teaser” video planned

17. Organisational redesign update:

- a) Completed activity this period:
 - i- Organisation Design finalised excluding Pensions Helpdesk
- b) Planned activity for next period:
 - i-Meeting with Heywoods to explore what capability is available that we may not be leveraging;
 - ii- Prepare Business Case to set out options for Pensions Helpdesk.
- c) Risks/dependencies:
 - i- Maintain ongoing dialogue with Business Operations re Pensions Helpdesk (i.e. to determine whether current design can meet future aims and ambitions at a cost that delivers the best value) so that decision can be made at an appropriate point.

18. People and recruitment update:

- a) Completed activity this period:
 - i- Equality Impact Assessment completed;
 - ii- Voluntary severance applications confirmed;
 - iii- Response to consultation document including confirmed structure issued to staff and Trade Unions;
 - iv- Marketing campaign in progress.
- b) Planned activity for next period:
 - i- Finalise marketing campaign;
 - ii- Head of Service advertisements and shortlisting completed;
 - iii- Head of Accounting & Governance interviews (ringfenced post).
- c) Risks/dependencies:
 - i- Date by which leadership structure can be in place is dependent on notice periods of successful candidates – likely to be longer notice periods if external appointments made.

19. Process and technology update:
- a) Completed activity this period:
 - i- Ongoing review of process mapping.
 - b) Planned activity for next period:
 - i- Complete review of process maps and make recommendations for next steps;
 - ii- Early engagement with IT&D to ensure resource is in place when needed;
 - iii- Engagement with Heywoods to ensure leveraging capability with current system and exploring future capabilities.
 - c) Risks/dependencies:
 - i- Progress and completion of process mapping could be delayed due to impact of consultation on staff leading this work.
20. Culture and training update:
- a) Completed activity this period:
 - i- Work continuing with Human Resources for most appropriate approach to culture change strategy.
 - b) Planned activity for next period:
 - i- Identify resource to build new process training manuals and approach.
 - c) Risks/dependencies:
 - i- Resistance to change could undermine success of new culture.
21. Communication and engagement update:
- a) Completed activity this period:
 - i- Bespoke workshops to support staff with preparing expressions of interest and interviews have been well attended with positive feedback received
 - ii- Dedicated pensions inbox remains open for staff queries.
 - b) Planned activity for next period:
 - i- Further interview skills workshops;
 - ii- Whole of Pensions meeting to take forward BAU priorities post consultation.
 - c) Risks/dependencies: n/a
22. The timeline for Phase 2 is shown as Annexe 3.

IMPLICATIONS:

23. Financial;
Equalities;
Risk management; and
Value for money
24. There are no direct implications to the Council arising from this report. Any implications relate to the Pension Fund.

WHAT HAPPENS NEXT:

25. See Recommendations above.

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Sources/background papers:

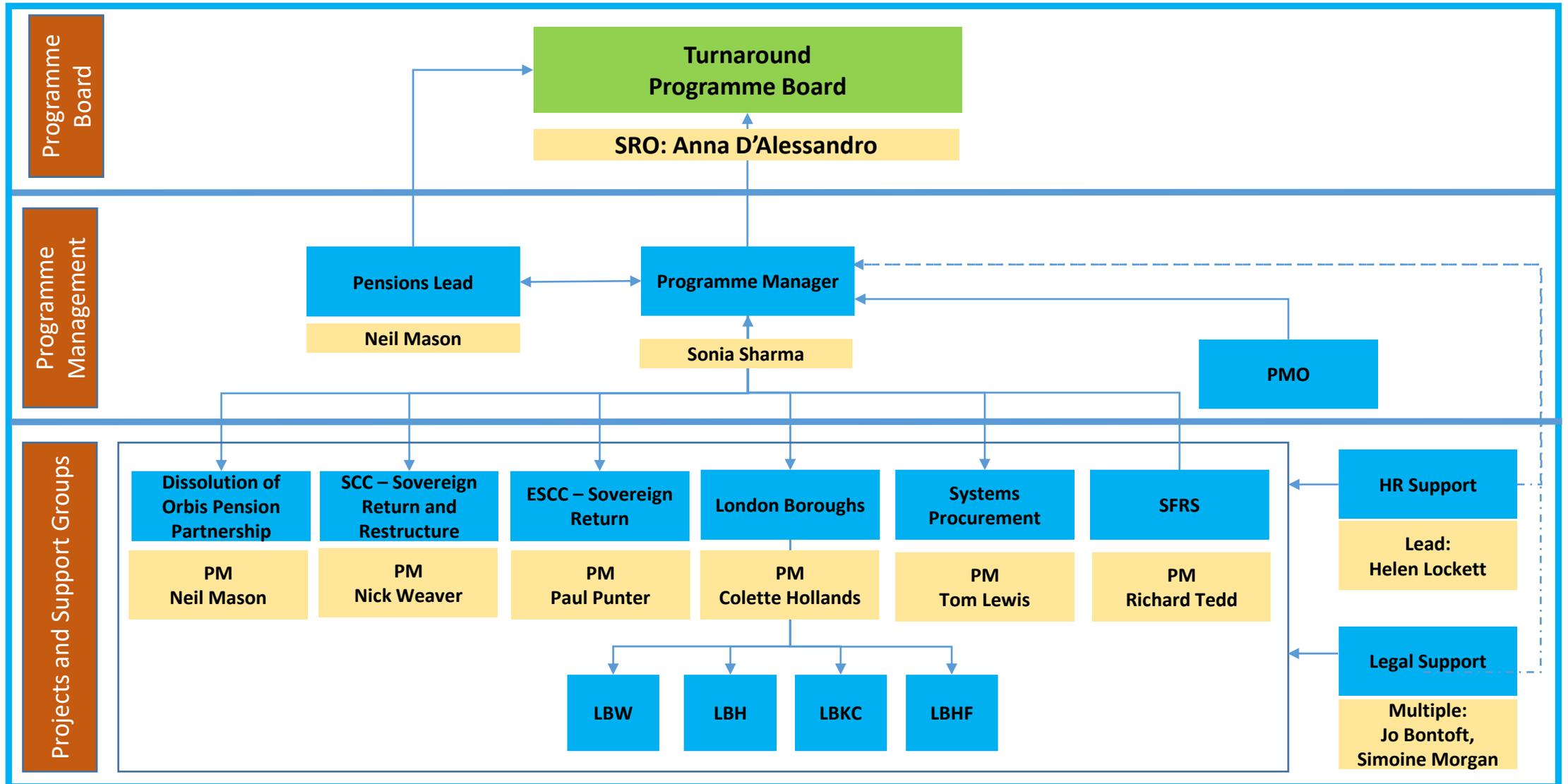
Annexes:

1. Structure and governance of the Turnaround Programme.
2. Timeline for Phase 1.
3. Timeline for Phase 2.

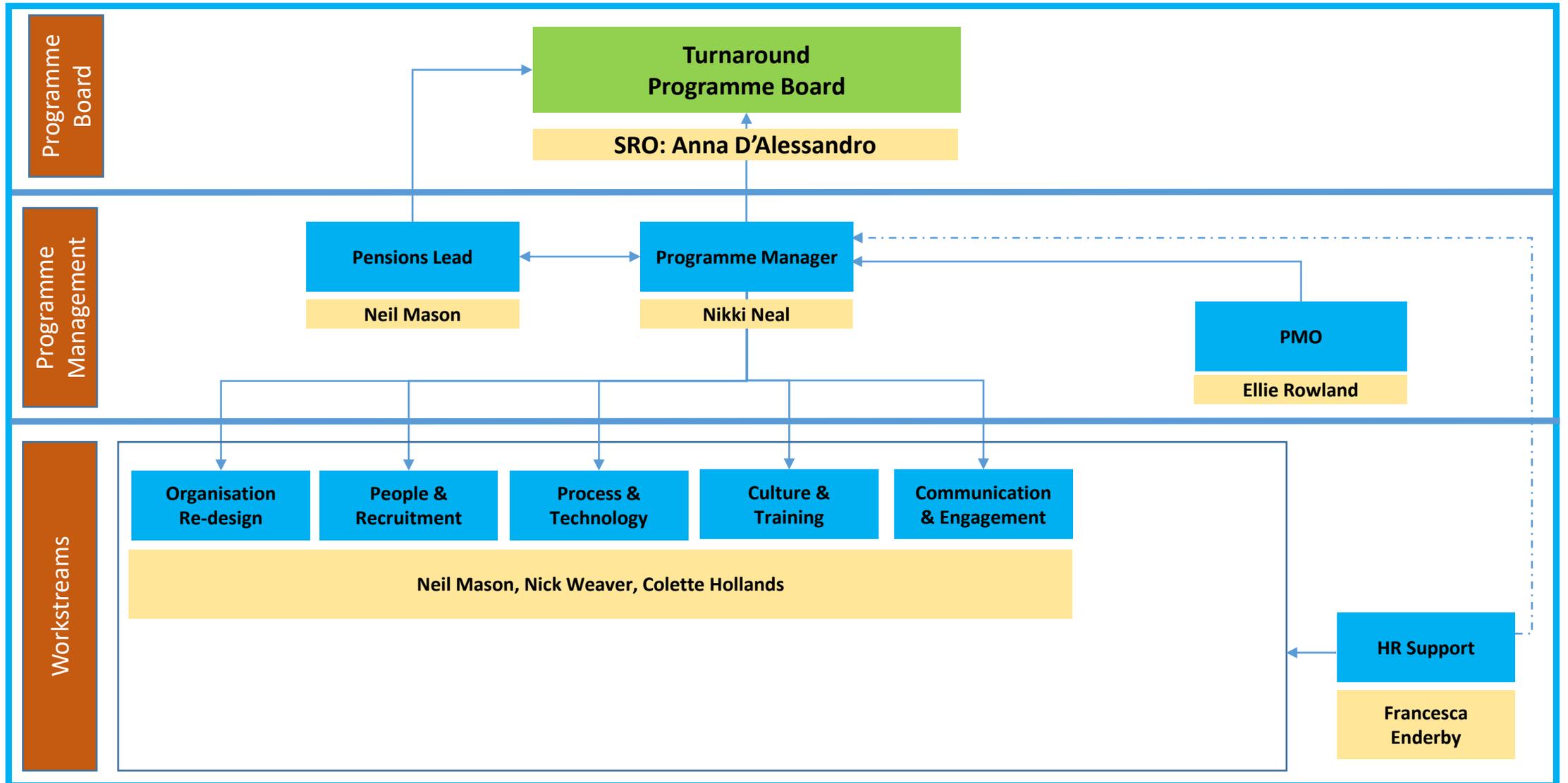
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Turnaround Phase 1 - Programme Structure

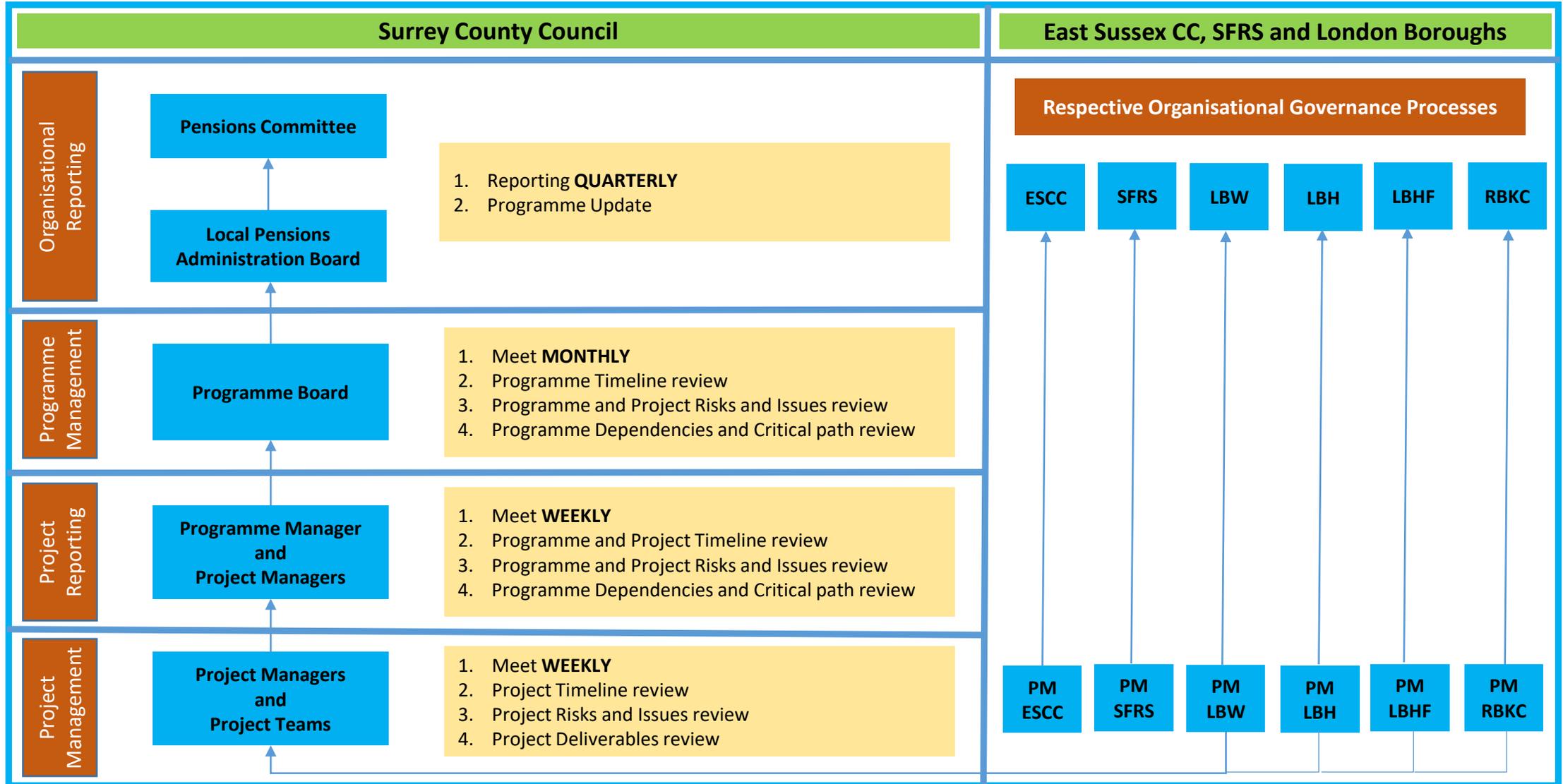
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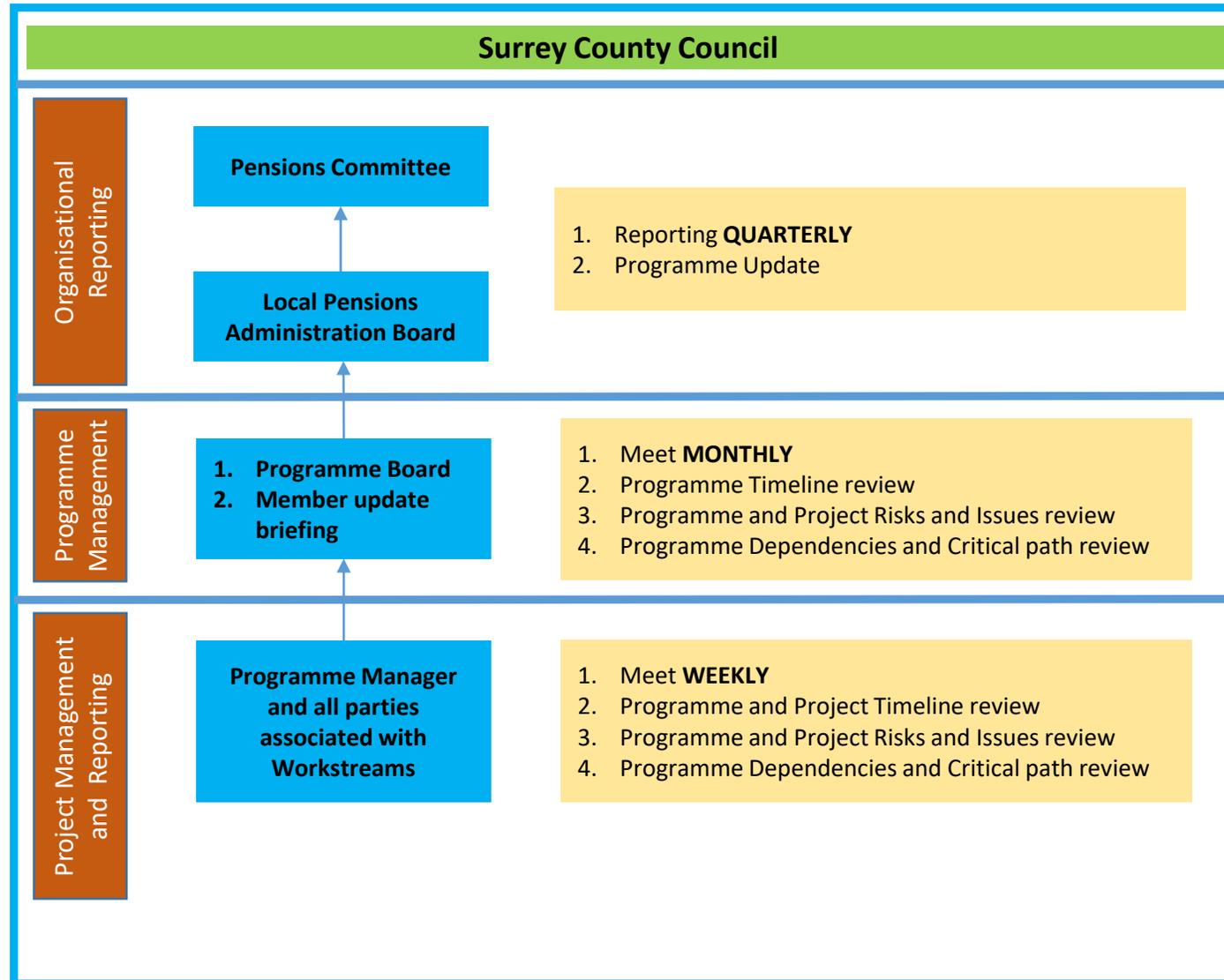
Turnaround Phase 2 - Programme Structure



Turnaround Phase 1 - Programme Governance



Turnaround Phase 2 - Programme Governance



Turnaround Phase 1 - Timeline



All projects delivered on time and all future projects expected to be delivered on time

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Turnaround Phase 2 - Timeline



All workstreams progressing as expected

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Audit & Governance Committee
29 November 2021

Decision to opt into the national scheme for auditor appointments managed by PSAA as the “appointing person” – Local Audit and Local Authority Financial Reporting

Purpose of the report:

This report sets out proposals for appointing the external auditor to Surrey Council for the accounts for the five-year period from 2023/24.

Recommendations:

1. The Audit and Governance Committee recommend that Council approve the decision to opt into the PSAA sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

Introduction:

Background and summary

2. The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. Surrey County Council opted into the ‘appointing person’ national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.
3. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

- 4 The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Surrey County Council than a procurement undertaken locally because:
- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements.
 - if it does not use the national appointment arrangements, Surrey County Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract.
 - it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and
 - supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.
- 5 If Surrey County Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council/Authority. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, Surrey County Council needs to return completed opt-in documents to PSAA by 11 March 2022.

Procurement of External Audit for the period 2023/24 to 2027/28

- 6 Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options.
- To appoint its own auditor, which requires it to follow the procedure set out in the Act.
 - To act jointly with other authorities to procure an auditor following the procedures in the Act.
 - To opt into the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

In order to opt into the national scheme, a council must make a decision at a meeting of the Full Council.

The Appointed Auditor

- 7 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.
- 8 The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
- 9 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.
- 10 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.
- 11 Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

Appointment by Surrey County Council itself or jointly

- 12 Surrey County Council may elect to appoint its own external auditor under the Act, which would require the council to.
 - Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by Surrey County Council itself, and the members of the panel must be wholly, or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for Surrey County Council external audit.
 - Manage the contract for its duration, overseen by the Auditor Panel.
- 13 Alternatively, the Act enables Surrey County Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council/Authority under the Act and the

Council/Authority would need to liaise with other local authorities to assess the appetite for such an arrangement.

The national auditor appointment scheme

- 14 PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.
- 15 In summary the national opt-in scheme provides the following:
- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023.
 - appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints.
 - managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy.
 - ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period.
 - minimising the scheme management costs and returning any surpluses to scheme members.
 - consulting with authorities on auditor appointments, giving the Council/Authority the opportunity to influence which auditor is appointed.
 - consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
 - ongoing contract and performance management of the contracts once these have been let.

Pressures in the current local audit market and delays in issuing opinions

- 16 Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees

had been reducing over a long period. 98% of those bodies eligible opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.

- 17 During 2018 a series of financial crises and failures in the private sector year led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.
- 18 The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.
- 19 This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams.
- 20 None of these problems is unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

The invitation

- 21 PSAA is now inviting Surrey County Council to opt in for the second appointing period, for 2023/24 to 2027/28, along with all other eligible authorities. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be Surrey County Council's auditor.

The next audit procurement

- 22 The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:
- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies.
 - continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme).
 - continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5million to relevant bodies and in 2021 a further £5.6million was returned.
- 23 PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.
- 24 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office)¹, the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

- 25 There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

Assessment of options and officer recommendation

- 26 If Surrey County Council did not opt in there would be a need to establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by Surrey County Council itself, and the members of the panel must be wholly, or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for Surrey County Council's external audit.
- 27 Alternatively, the Act enables Surrey County Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 28 These would be more resource-intensive processes to implement for the council, and without the bulk buying power of the sector-led procurement would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. The council is unable to influence the scope of the audit and the regulatory regime inhibits the council's ability to affect quality.
- 29 Surrey County Council and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.
- 30 The national offer provides the appointment of an independent auditor with limited administrative cost to the council. By joining the scheme, the council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.
- 31 The recommended approach is therefore to opt into the national auditor appointment scheme.

Conclusions:

- 32 It is recommended that the Committee accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

Financial and value for money implications

- 33 There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.
- 34 Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large-scale collective procurement arrangement.

Equalities and Diversity Implications

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

Risk Management Implications

- 36 The principal risks are that Surrey County Council:
- fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
 - does not achieve value for money in the appointment process

These risks are considered best mitigated by opting into the sector-led approach through PSAA.

Legal Implications

- 37 Section 7 of the Local Audit and Accountability Act 2014 requires Surrey County Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.
- 38 Section 8 governs the procedure for appointment including that Surrey County Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
- 39 Section 12 makes provision for the failure to appoint a local auditor. Surrey County Council would have to immediately inform the Secretary of State, who may direct Surrey County Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

- 40 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

Next Steps

- 41 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a full council meeting of Surrey County Council.
- 42 Surrey County Council needs to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022).
- 43 PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

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AUDIT & GOVERNANCE COMMITTEE
29 November 2021

Internal Audit Progress Report – Quarter 2 (01/07/21 – 30/09/21)

SUMMARY AND PURPOSE:

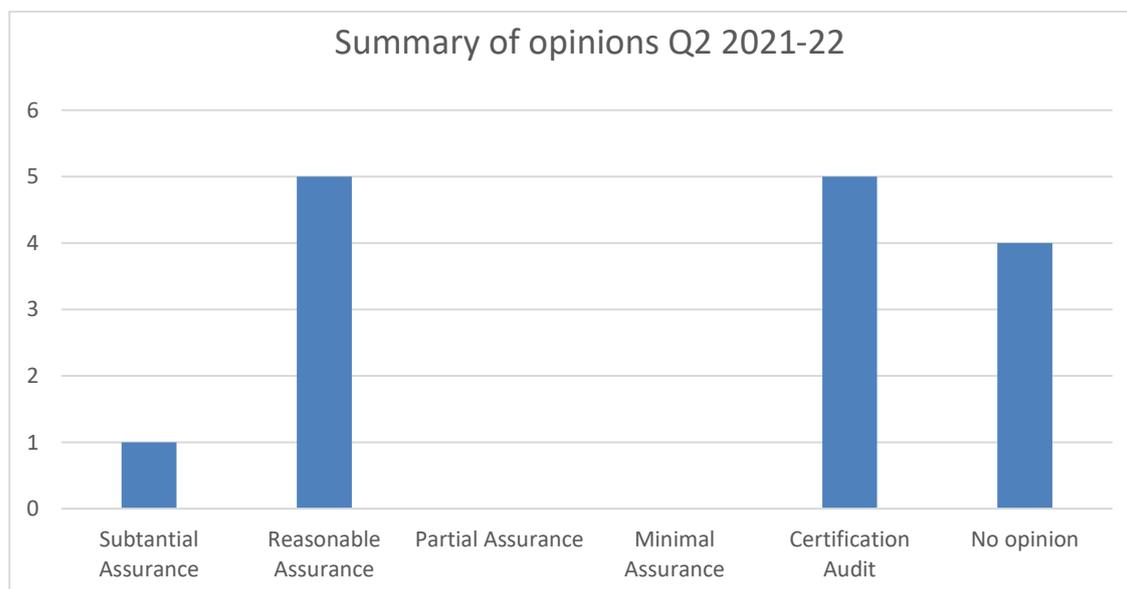
1. The purpose of this progress report is to inform members of the work completed by Internal Audit between 1 July 2021 and 30 September 2021.
2. The current annual plan for Internal Audit is contained within the Internal Audit Strategy and Annual Plan 2021-22, which was approved by Audit and Governance Committee on 23 March 2021.

RECOMMENDATIONS:

3. The Committee is asked to note the report and consider any further action required in their response to issues raised.

BACKGROUND:

4. Key audit findings from final reports issued during Quarter 2 are summarised in Appendix A.
5. Reviews completed in this quarter included a mixture of planned and unplanned audits, grant certification work, and irregularity work. Overall, of the 15 formal audits finalised during the quarter (excluding irregularity work), 1 received 'substantial assurance', 5 received 'reasonable assurance', 5 were grant certifications, and 4 were position statements which did not have an opinion given. Non opinion activities tend to relate to advisory type work where Internal Audit provides input and support to development initiatives or projects and programmes as they are progressing.



6. Formal follow up reviews continue to be carried out both for audits where 'minimal assurance' opinions have been given, and for higher risk areas receiving 'partial assurance'. One follow-up audit was completed in quarter two, in relation to application controls within the Adults Social Care LAS LiquidLogic system. We were able to raise the level of assurance from Partial to Substantial Assurance in light of actions taken by management to improve the control environment.
7. Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify emerging risks as business-as-usual continues to be restored.
8. Appendix A to the report also provides details of counter fraud investigations completed, information on the tracking of high priority actions and progress against our performance targets.

IMPLICATIONS:

9. Financial;
Equalities;
Risk management; and
Value for money
10. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report.

WHAT HAPPENS NEXT:

11. See Recommendations above.

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Sources/background papers: Internal Audit Strategy and Annual Audit Plan 2021/22.

Internal Audit and Counter Fraud Quarter 2 Progress Report 2021/22

CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

1. Summary of Completed Audits

LAS LiquidLogic Application Controls (follow-up)

- 9
- 1.1 The LiquidLogic Adult's Social Care System (LAS) is a key system within the Council, used for recording and processing information relating to adult social care client care needs, including the management of contacts, referrals and support plans, as well as safeguarding issues. Our previous audit in 2020/21 evaluated the adequacy and effectiveness of the key controls within LAS and due to weaknesses in the control environment could only give an opinion of Partial Assurance.
- 1.2 The objective of this follow-up audit was to review the actions agreed from the previous audit and to provide assurance that these had been implemented and that key controls were in place and operating effectively.
- 1.3 We found that all of the previously agreed actions had been fully implemented, and the control environment had significantly improved. In particular:
- System access has been restricted to appropriately authorised individuals and the permissions provided to those users are in line with job functions;
 - Roles and responsibilities for the system have been clearly defined and documented;
 - Controls over data passing through interfaces help ensure this is authorised, accurate, complete, and securely processed;
 - Improved data field parameters have improved accuracy of data entry;
 - Outputs produced by the system were found to be complete, accurate, reliable and confidential;
 - System updates and enhancements are performed in a consistent manner and subject to sufficient testing and authorisation before implementation; and
 - Robust business continuity and disaster recovery arrangements are in place to minimise disruption to service provision.
- 1.4 As a result of these improvements, we were able to revise our opinion to one of **Substantial Assurance** in respect of this system.

Department for Work and Pensions (DWP) 'Searchlight' System

- 1.5 In February 2021, the DWP wrote to all local authority chief finance officers (S151 officers) for support in addressing an upward trend in the number of suspected data breaches involving the inappropriate access, by local authority staff nationally, to the DWP & HMRC personal customer data held within the DWP's Searchlight system.

- 1.6 The letter set out and asked the S151 Officers for specific assurances over the controls for managing access to the DWP data. The data held within Searchlight enables Surrey County Council staff within the Crisis Fund, Blue Badge and Adult Social Care teams access to service user's confidential benefit information held by the DWP. Surrey employs 54 staff with access to this data, along with six members of staff with administrator rights.
- 1.7 In carrying out our review, we found the overall level of compliance with the DWP expectations set out within the letter to be satisfactory. However, two actions were agreed with management in respect of areas where the Council was not yet fully compliant with requirements, as follows:
- Ensuring all users of the Searchlight system had a Baseline Personal Security Standard (BPSS) check completed prior to being given access to the system (this was a new requirement from the DWP in April 2021 and is of a higher level of security than the DBS check the Council had been using); and
 - Improving the communication within the cohort of system users around any lessons learned from data breaches when they do occur.
- 1.8 Following our review, we were able to give an overall opinion of **Reasonable Assurance**, allowing the Council's S151 Officer to respond to the DWP letter accordingly.

Risk Management Arrangements

- 1.9 As part of our 2021/22 annual plan, we undertook an initial review of the Council's revised and refreshed risk management framework to ensure the process was both effective and in line with good practice.
- 1.10 The specific scope of this audit sought assurance that key governance arrangements and controls were in place with the following objectives being met:
- The revised risk management framework and associated process was robust, taking into account risk management standards and best practice;
 - Roles and responsibilities in relation to risk management were clearly defined;
 - The revised framework detailed the Council's approach to risk identification, assessment, control and reporting to ensure consistent principles were applied across the authority;
 - The revised Corporate Strategic Risk Register considered the diverse and complex environmental factors and organisational objectives, allowing risks to be promptly identified, assessed, recorded and addressed, reviewed and monitored;
 - Company risk registers (where the council has a shareholding in a local authority trading company) were adequate to ensure that the Council was aware of its exposure;
 - Revised service risk registers met service needs and allowed risks to be efficiently identified, assessed, recorded, and addressed, reviewed, and monitored; and
 - There was a robust plan in place to embed the revised framework and risk registers within the organisation.

1.11 Our audit identified that the key aspects of best practice had been considered and effectively addressed in the creation of the new risk management framework. Since the completion of our audit, we note that the revised Risk Management Strategy, corporate risk register, and risk heat map were taken to and approved by Audit and Governance Committee on 20th September 2021.

1.12 We agreed four actions with management in respect of further improvements to the evolving processes. These actions addressed:

- The need to update the Constitution of the council in respect of the preceding risk management strategy, which still sits under Part 5 ('Rules of Procedure'), but which is now superseded;
- The need to formally define the corporate and directorate 'risk appetite' (the level of risk that an organization is prepared to accept in pursuit of its objectives, before action is deemed necessary to reduce the risk);
- Formalising the arrangements for the communication, engagement and embedding of the revised risk management strategy with staff; and
- Establishing a timetable for the completion and implementation of service risk registers.

1.13 We were able to give an overall opinion of **Reasonable Assurance** in respect of this audit. Further work will be undertaken by Internal Audit later in this financial year to review the effectiveness of the new processes as they are embedded.

Information Governance (Remote Working)

1.14 Information Governance sets out the way the Council processes information, covering both personal information (relating to service users and employees) and corporate information (financial records, for example). Where data breaches occur, the Information Commissioner's Office can issue fines of up to 4% of annual turnover, or £20 million (whichever is greater) for the worst offences.

1.15 Working arrangements have changed dramatically since to the Covid-19 pandemic and more staff continue to work remotely. Because of this increased risk we undertook this review to assess the effectiveness of controls in place to ensure information governance compliance.

1.16 The objectives of the review were to ensure:

- Staff were aware of policy/procedure changes related to remote working;
- Service directors/managers were confident in their team's knowledge of the reporting processes for data breaches and were compliant with information governance policies and procedures;
- Processes were in place to ensure data breaches were being investigated and reported;

- New software/processes worked smoothly with minimal information governance issues;
- Council equipment was being used for official business only; and
- Digitised data was only accessible to authorised personnel and was held securely.

- 1.17 The audit also included a review of the controls over printing, confidentiality of data, use of communication and 3rd party 'cloud' tools. Additionally, we sought to ensure that there are sufficient arrangements in place to undertake the investigation and reporting of data breaches.
- 1.18 Our findings showed that policies and guidance were readily accessible to all staff via S:Net, albeit that some of the policies had not been updated for four years and were therefore in need of refreshing.
- 1.19 Information Governance arrangements had been supported throughout the pandemic by the Data Protection Officer (DPO) and Information Governance team, who have proactively and reactively worked with services and the wider authority. The Council has an official Information Governance and Risk Board in place that is attended by senior managers from services, information governance officers and is chaired by the Head of Legal Services. This has continued to operate throughout the pandemic.
- 1.20 The data breach reporting system was found to be easily accessible to staff through the intranet to log any data breaches. Through review of the annual breach report, we did not identify any significant increase in breaches as a result of increased remote working. This is, however, only reflective of breaches that are reported and, therefore, we were unable to provide assurance that there hadn't been an overall increase of (unreported) breaches as a result of greater remote working.
- 1.21 Overall, we were able to give an opinion of **Reasonable Assurance** following our audit, agreeing two low priority actions with management to further improve the control environment.

Unofficial School Funds

- 1.22 Unofficial School Funds (USFs) are any funds from non-public sources which exist for a school to use and are established under the authority of the school governors. These are distinct from official 'Delegated Funds', which derive from Central Government funding and are passed onto schools via the Local Education Authority.
- 1.23 A review of the governance arrangements around USFs was identified for the 2021/22 annual audit plan because their stewardship had been identified as a potential financial risk during the pandemic and such funds could therefore be susceptible to financial irregularity.
- 1.24 Whilst our testing covered 20% of SCC's maintained schools, we were unable to physically visit schools due to pandemic lockdown measures still in place at the time of our fieldwork. Given

that this review focussed on the governance framework around USFs, without detailed testing at a school-level, our report was issued without an opinion, recognising that further work is to come at individual schools as part of our future programme of schools' assurance work. However, our report did identify to management those areas where assurance can be given, and where weaknesses in the control environment were present, and has informed our future schools audit activity.

- 9
- 1.25 The scope of the audit was to provide assurance that an appropriate control framework is in place to help meet the following key control objectives:
- There were clear and robust policies and/or guidance in place, available to school staff and governors;
 - Banking and transactional processes for USFs were appropriate and include segregation of duties; and
 - There was effective stewardship of USFs including proportionate and effective governance, reporting and scrutiny of the funds.
- 1.26 Assurance was able to be taken from the evidence reviewed, including schools' own analysis of their control environment around USFs within the Schools Financial Value Standard (SFVS) return. However, we identified a number of areas of potential weakness in arrangements.
- 1.27 The main source of guidance to schools from the council for the stewardship of these funds was Section X of the School Finance Manual. This had last been updated in September 2019 and may not reflect all of the current Department for Education guidance in this area.
- 1.28 The Council should be able to satisfy itself that funds held by schools, even those deemed 'unofficial', are not being misused. Schools are required to make available on request copies of the independent 'audit' certificates they obtain in respect of USFs they hold, which should be annually reviewed by the Governing Body. However, such certificates have not been obtained by the Council's Schools Finance Team since 2018. If controls were to break down at local level and USF were not being audited, there is an increased risk of fraud, and currently this risk is not visible to the Council.
- 1.29 We agreed two medium priority actions in respect of these findings with management. Additionally, our programme of school audits commenced at the start of term in September and after this audit had reported, so the findings of this review have been shared to inform the school testing programme.

Digital Business & Insights (DB&I) Position Statement: Report-writing Requirements

- 1.30 Orbis Internal Audit has been working closely with the DB&I Programme Board to provide on-going advice and assurance to the project for replacing SAP with a new ERP solution. As part of

our support, a number of position statements have been issued to provide stakeholders with an update of our findings and conclusions over various aspects of the programme.

- 1.31 The first of two position statements issued in the quarter covered the system report-writing requirements, seeking to provide assurance that effective controls were in place to generate service user reports and that risks and issues, identified throughout the delivery and testing phase, are known, managed, suitably controlled. The scope of the audit did not provide assurance over the accuracy of the reported data.
- 1.32 Overall, we found that errors in the initial estimation for planning of resources and time, compounded by the poor quality of data, has resulted in significant delivery delays.
- 1.33 At the time of our testing, 77 of the 125 pre 'go-live' reports (based on the original go-live date of December 2021) were in development. The workstream also has a post go-live plan for the delivery of 267 additional reports, but as the go-live date has now been revised to April 2022, alignment to this new timeline is needed.
- 1.34 We concluded that the original plan had underestimated both the time and resource necessary to deliver the required reporting functionality. Our findings have been shared with the Programme Board in order for appropriate remedial action to be taken.

Digital Business & Insights (DB&I) Position Statement – Testing Arrangements

- 1.35 Testing is critical to ensure the new system operates as designed. Delivery of such testing involves the use of automated 'robotic' tools, as well as more traditional manual testing. The objective of our audit was to provide assurance that the testing arrangements in place are fit for purpose, robust and cover all expected key control mechanisms.
- 1.36 The scope of our review focused on examining progress made in developing a well-defined testing programme, to assess whether this provided a basis for testing to be performed in a consistent manner, and to consider whether the planned testing would provide assurance to the Council that the system performed as anticipated, including whether key controls work as intended.
- 1.37 Overall, we identified that the testing workstream had suitable governance arrangements in place to allow for a well-controlled testing programme, with a well-defined strategy and training and support for those staff involved.
- 1.38 However, issues in relation to both data quality within the test system, and the system build in some of the functional areas, have had a negative impact on the workstreams overall progress and success. Delays in the testing workstream have impacted upon other workstreams within the DB&I programme (e.g., reporting, user access, system security, etc.), as they are reliant on the build and testing being completed before they are able to make progress themselves.

- 1.39 We concluded that the revised implementation timeline should provide sufficient opportunity to resolve the ongoing issues prior to go-live in April 2022, allowing that all relevant stakeholders are consulted.

Surrey Fire and Rescue Service Automatic Fire Alarm Policy

- 1.40 Some premises within the national incident types that are listed as ‘commercial’, and which have no known sleeping risk, have a service agreement with a Fire Alarm Monitoring Organisation (FAMO) to monitor the premises’ fire alarm system. Upon receipt of a fire alarm signal, the FAMO notify Surrey Fire and Rescue Service (SFRS), who attend and investigate. SFRS data shows that attending non-incident related/unwanted fire signals over the last five years has resulted in a total of 1,353 hours of frontline appliance activity, equating to a total cost of £854,395.
- 1.41 SFRS are in the process of reviewing their current arrangements in relation to attendance of Automatic Fire Alarms (AFA) as it was found by Her Majesty’s Inspectorate of Constabulary and Fire and Rescue Service in 2018/19 that the service was inadequate at making the best use of its resources to manage risk effectively. Not only does this place a significant burden on SFRS’ resources and capacity to attend the more serious cases, but it also impacts on the service’s ability to deliver business and community safety activities, as well as undertake training.
- 1.42 The primary objective of our audit was to support SFRS by reviewing the analysis they had conducted in order to inform their decision-making around future AFA policy, with the specific scope of our work to provide assurance that:
- All stakeholders were identified, engaged and consulted during SFRS’ review;
 - Detailed research was undertaken to ensure compliance with statutory regulations; and
 - There was accurate and timely information available to properly inform policy decisions.
- 1.43 We reviewed stakeholder engagement (both within council, for example with Health & Safety and Legal Services, and outside of it) and we also reviewed sources of guidance SFRS had consulted, including from the National Fire Chiefs’ Council. Further, we reviewed the policies and approaches from a sample of other Fire and Rescue Authorities who had already adopted a similar approach to that proposed by SFRS. Finally, we examined the source of the data used by the service in this exercise and assessed it for quality and timeliness.
- 1.44 Whilst this audit did not result in an opinion due to the consultative nature of our role in an ongoing process, we were content that SFRS had undertaken diligent steps during the formulation of their revised policy. We agreed with management a number of additional actions that could be taken to further enhance the process, including re-engaging with stakeholders to

obtain feedback as plans evolve, and to develop an effective communications strategy to explain the changes when implemented.

Other Audit Activity

School Audits

1.45 In late quarter two, we began delivery of a comprehensive programme of school audits to provide assurance both to council and school management that the control environment within maintained schools was robust. This work, drawing upon knowledge and experience across the Orbis Internal Audit partnership, will be ongoing throughout the remainder of 2021/22 and into the following years' plans.

1.46 There is a standard audit programme in place for all school audits, with the scope of our work designed to provide assurance over key controls in relation to:

- Governance structures are in place and operated to ensure there is independent oversight and challenge by the Governing Body;
- Decision making is transparent, well documented and free from bias;
- The school is able to operate within its budget through effective financial planning;
- Unauthorised or inappropriate people do not have access to pupils, systems or the site;
- Staff are paid in accordance with the schools pay policy;
- Expenditure is controlled and funds used for an educational purpose;
- Value for money is achieved on contracts and for larger purchases;
- All income due to the school is collected, recorded and promptly banked;
- All Unofficial Funds are held securely and used in accordance with their agreed purpose; and
- Security arrangements keep data and assets secure and are in accordance with data protection legislation.

1.47 By the end of quarter two, two school audits had been completed with eight more underway.

Chandlers Field Primary School, West Molesey

1.48 We were able to give an overall opinion of **Reasonable Assurance** following the completion of this audit.

1.49 The control environment was assessed to be robust, particularly around safeguarding and governance arrangements, and also in upskilling of the Governing Body with additional training.

- 1.50 Our audit agreed 13 actions with the school (9 medium priority and 4 low priority) across a range of areas, the most significant of which centred around the need to keep key policies up to date; to implement more robust processes around members of staff who leave; improving arrangements to enable potential conflicts of interest to be declared and recorded; and ensuring IR35 checks are completed for off-payroll consultants being employed.

St Pauls Church of England Primary School, Tongham

- 1.51 We were able to give an overall opinion of **Reasonable Assurance** following the completion of this audit.
- 1.52 The control environment was assessed to be robust, particularly around overarching governance arrangements.
- 1.53 Our audit agreed 10 actions with the school (4 medium priority, 6 low priority) key of which were the need to ensure public liability insurance was in place for all providers; the need for an independent authorisation of the monthly payroll reconciliation by the headteacher; provision of Cumulative Expense Analysis data to the Governing Body to enable more detailed scrutiny of finances; and enhancing the data held within the contracts register.

Grant Claim certification

- 1.54 During quarter two, the following grant claims have been successfully certified by Internal Audit in accordance with Government and/or EU grant requirements, and relate to income previously received in financial year 2020/21:
- Local Transport Capital Funding grant – 4 x highways-related grants totalling £33,531,000;
 - Bus Services Operators grant – supporting bus services, £1,125,405;
 - Troubled Families (second claim) – supporting Surrey families, £97,600;
 - IMAGINE (half-year claim) – EU project funding, €35,015; and
 - Urban Links 2 Landscape (half-year claim) – EU project funding, €66,735.

2. Counter Fraud and Investigation Activities

Counter Fraud Activities

- 2.2 During quarter 2, three Fraud Awareness sessions have been delivered to Business Operations focussing on the risks to the Council of bank mandate fraud and cyber fraud.
- 2.3 In addition, the Council's Counter Fraud Strategy has been reviewed and will be presented to Audit and Governance Committee in November 2021. The Fraud Risk Assessment has also been reviewed to ensure that the current fraud threats to the Council have been considered and appropriate mitigating actions identified.

- 2.4 Internal Audit is continuing to liaise with the services to ensure that matches from the National Fraud Initiative are being reviewed and processed.
- 2.5 Finally, the team continue to monitor fraud intelligence alerts and share information with relevant services when appropriate.

Summary of Completed Investigations

Misconduct and Safeguarding concern

- 2.6 We provided Adult Social Care with support following an allegation relating to the professional conduct of a social worker. The employee has now left the employment of the Council. The matter has also been referred to the police and Social Work England.

Cheque Fraud

- 2.7 We provided Business Operations with advice and support following notification from HSBC of an attempted cheque fraud. Business Operations are continuing to monitor the situation.

Insolvency Arrangements

- 2.8 Finally, we also provided advice to the Payments Team in relation to invoices due to a supplier following their liquidation.

3. Action Tracking

- 3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. All high-priority actions due to be implemented by management by the end of quarter two had been implemented except one, which was partially implemented.
- 3.2 The sole part-implemented high priority action was in Land and Property in relation to an audit completed in March 2021, regarding lessons learned following a court judgement against the council in the tendering of a contract for flat-roofing. The outstanding element of the action is not fundamental to internal control and consists of the completion of an internal process within the department to alert Business Intelligence officers to any outstanding complaints in the service. The revised timeframe for this action to be completed by is the end of October 2021.
- 3.3 We remain engaged in follow-up audits of Local Enterprise Partnerships, and of the Officer Code of Conduct, both previously Partial Assurance audits. Once these audits are completed, we will report the outcome to this Committee as part of our quarterly progress reporting cycle.

4. Amendments to the Annual Audit Plan

4.1 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas, based on an assessment of risk. Through discussions with management, the following reviews were added to the original audit plan during the year:

Planned Audit	Rationale for Addition
LGPS Pension Fund Banking Controls	This audit was requested by management as part of our ongoing assurance work over pension administration arrangements. The audit will review the arrangements in place for the appropriate management and control of the Fund bank account, including the timely recording and reconciliation of receipts and payments and management of the suspense account.
Cash Collection Contract	This audit was added to the plan in the wake of the Council's contracted provider to collect cash from Council premises going into administration. The focus of the audit was to provide assurance around the mitigation of risks and implementation of temporary arrangements during the interim period before a new provider was selected, and to provide advice to Business Operations over governance arrangements moving forward as part of a wider lessons-learned exercise.
Your Fund Surrey (YFS) – Governance Processes	Part of our ongoing support for this £100m programme, this audit was added to the plan to review governance practices for the YFS programme to ensure they are sufficiently robust to prevent the inappropriate awarding of funds to projects that do not align with the council's priorities or scheme criteria.
River Thames Flood Alleviation Scheme	This audit will consider SCC's governance arrangements for this high-value, multi-agency project and seek assurance that risk management processes protect the council's financial, operational, and reputational interests.
Tree Management	Requested by service management, this audit will consider the effectiveness of the tree management policies and working practices within ETI, as well as the partnership to manage trees along the Basingstoke Canal.
Infection Control Grant	This review will consider the robustness of arrangements in place to distribute infection control funding, which supported additional lateral flow testing of staff in care homes, and

Planned Audit	Rationale for Addition
	enabled indoor, close contact visiting where possible. ICF allocations distributed by the Council to date from Central Government grant total £45,429,219. A main focus of the work will be to provide assurance that funding has being used as expected by providers, in light of issues identified nationally in this area.
School Purchasing Cards	An additional review to complement the school audit programme work, which will seek to provide additional assurance over arrangements for the control and use of purchasing cards in schools, in particular context of the increased risks in their use during the pandemic.

- 4.2 All of the new additions to the plan have been resourced through available contingencies.
- 4.3 Audits that have been removed from the plan in the quarter are shown in the table below. Changes to the plan have been made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits.

Planned Audit	Rationale for Removal
Norwell Case Management System - Application Audit	This planned audit has been removed as the procurement of the new system has been delayed. We will engage with management to determine if there is a need to defer this audit into the 2022/23 plan, based on risk.
Parking Review Process	This audit has been deferred following a discussion with management and a revision to audits in the ETI Directorate, allowing for emerging risks and key priorities for assurance work.

5. Internal Audit Performance

- 5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set up agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 23 March 2021
	Annual Audit Report and Opinion	By end July	G	2019/20 Annual Report and Opinion approved by Committee on 18 June 2021
	Customer Satisfaction Levels	90% satisfied	G	100% satisfaction for surveys received in the period
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	We have achieved delivery of 45.3% of the annual plan to draft report stage (pro-rata target 45%)
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	<p>January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings</p> <p>July 2021 - Internal Self-Assessment completed, no major areas of non-compliance with PSIAS identified.</p> <p>June 2021 - Internal Quality Review completed, no major areas of non-compliance with our own processes identified.</p>
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	97.5%

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Our staff	Professionally Qualified/Accredited	80%	G	91% ¹

¹ Includes staff who are part-qualified and those in professional training

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are 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 is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

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AUDIT & GOVERNANCE COMMITTEE
29 November 2021

Anti-Fraud and Corruption Strategy and Framework

SUMMARY AND PURPOSE:

The purpose of this progress report is to present the recently updated Anti-Fraud and Corruption Strategy and Framework.

RECOMMENDATIONS:

1. The Committee is asked to review and endorse the Council's Anti-Fraud and Corruption Strategy and Framework.

BACKGROUND:

1. This counter fraud strategy is aligned to 'Fighting Fraud & Corruption Locally' (FFCL), the Local Government Counter Fraud and Corruption Strategy for the 2020s, which provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. The previous two FFCL strategies focused upon pillars of activity, or strategic objectives, where the Council concentrated its counter-fraud efforts. These were 'acknowledge', 'prevent' and 'pursue'. The FFCL strategy 2020 has now been expanded to include two additional areas of activity that underpin tenets of those pillars; 'govern' and 'protect'.
2. 'Protect' is a new overarching responsibility to protect the public from fraud. 'Govern' is added as a new foundation of the Strategy, which sets out that those who are charged with governance, support the activity by ensuring that there are robust arrangements in place and that executive support exists to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.
3. The amendments made to the SCC Strategy include the following:
 - Aligning the pillars of the strategy to FFCL (addition of Govern and Protect);
 - An updated table summarising the activities required to achieve the strategic objectives included within the Strategy document under the heading 'Action Plan';
 - An introductory statement reinforcing leadership support for counter fraud measures (in line with FFCL).

IMPLICATIONS:

4. Financial;
Equalities;

Risk management; and
Value for money

5. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report.

WHAT HAPPENS NEXT:

6. See Recommendations above.

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Sources/background papers: None.

SCC Anti-Fraud and Corruption Strategy and Framework 2021 - 2024

Statement on Fraud by the Corporate Leadership Team

The Surrey County Council Corporate Leadership Team are committed to implementing and maintaining the highest standard of corporate and financial governance and ethical behaviour. We recognise that fraud against the Council harms the individuals, communities and businesses of Surrey and for that reason, fraud, bribery and corruption against the Council will not be tolerated, and all such occurrences will be investigated. We will undertake to consider the circumstances of each case of alleged fraud we investigate to ensure we seek a fair and balanced outcome.

We fully support the investigation of allegations of fraud, the continued development of a robust anti-fraud culture and framework within the Council, and a strong stance being taken where fraud is found.

The diverse nature of services provided by the Council mean that there are many areas where we could be a target for fraud. We will ensure we understand the main fraud risks we face and set out how we protect against them in our fraud risk registers.

We, the Corporate Leadership Team, with your support, will strive to ensure that we have robust processes in place to help prevent the risk of fraud, and that we do not forget the risk of fraud in our drive to improve efficiency in our services.

Introduction

The public is entitled to expect the Council to conduct its business with integrity, honesty and openness and demand the highest standards of ethical conduct from those working for and with it. The Council takes the threat of fraud and corruption and its statutory duty to protect the public funds it administers seriously, and has allocated specific resource to focus on coordinating its approach to protecting its assets and finances from fraud, corruption, and other wrongdoing. The Council expects the highest ethical and legal standards from its members, officers, contractors and agents carrying out business on its behalf.

It is essential that it protects the public purse and ensures that Council funds are used only for their intended purpose: to support and deliver services to our community. As such the Council maintains a zero-tolerance approach to fraud and corruption whether it is attempted from outside the Council or within.

It is an expectation that where employees have workplace concerns, or suspect wrongdoing, that this is raised through appropriate channels. All allegations relating to potential fraud, financial maladministration, conflicts of interest, breach of confidentiality, improper use of resources, ICT misuse or any other forms of financial irregularity should be reported to Internal Audit, who will take appropriate action.

The strategy forms part of the Council's counter fraud framework, a collection of interrelated policies and procedures including the Whistleblowing Policy, Anti-Money Laundering Policy, Sanctions Policy, Employee Code of Conduct, and Financial Regulations. The framework includes guidance on types of fraud and corruption, how to report concerns, and the investigation process. This strategy and framework set out the Council's commitment to preventing, detecting and deterring fraud and corruption to ensure public funds are used for their intended purposes.

Strategic approach

To fulfil the Council's Counter Fraud Strategy and Framework 2021 - 2024, the Authority must ensure that fraud, bribery, corruption, and misappropriation is minimised. Every pound lost to fraud and corruption is a reduction in resources and negatively influences the Authority's' ability to deliver its objectives.

The Council has reviewed its arrangements in line with the Fighting Fraud and Corruption Locally Strategy (2020) – the Local Government blueprint for tackling fraud in Local Government. The strategy outlines four strategic principles for effective fraud management, together with the overarching principle of 'Protect':



 **PROTECTING ITSELF AND ITS RESIDENTS**
Recognising the harm that fraud can cause in the community.
Protecting itself and its' residents from fraud.

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Action Plan

What we will do against each of these strategic principals is set out in the following table.

Our principles	What we will do
Govern	<ul style="list-style-type: none"> • Ensure that there is full support from the top of the organisation and throughout, for the robust investigation into any allegations of fraud, bribery, corruption, or wrongdoing; • Ensure that our zero tolerance culture is embedded throughout the organisation; • Promote our Whistleblowing Policy to both employees and those external to the organisation; • Report instances of fraud and corruption to the Audit Committee, who support officers in their work to prevent, detect and investigate fraud and corruption.
Acknowledge	<ul style="list-style-type: none"> • Acknowledge and understand fraud risks; • Commit the right support to tackle fraud and corruption; • Conduct and maintain a strategic fraud risk assessment for the Council; • Develop and maintain a strong framework of internal controls; • Commit support and resources to tackling fraud and corruption; • Demonstrate a robust counter fraud response; • Communicate the risks to those charged with Governance.

<p>Prevent</p>	<ul style="list-style-type: none"> • Develop and maintain a robust and effective anti-fraud culture; • Ensure that the standards in public life adopted are set out clearly in the Council’s policies and effectively communicated; • Conduct employee and third-party due diligence; • Make the best use of information and technology to identify and tackle fraud; • Continue to invest in the training and development of investigative staff to ensure high levels of competence, so that staff have the right skills and follow set standards; • Regularly communicate with staff on countering fraud and provide fraud awareness training; • Identify control weaknesses and enhance fraud controls and processes; • Communicate counter fraud activity and successes through reporting to Leadership, Audit Committee and staff training/workshops.
<p>Pursue</p>	<ul style="list-style-type: none"> • Prioritise the recovery of financial losses as a result of fraud, and use of civil sanctions where appropriate; • Develop capability and capacity to investigate and punish offenders, through the support of appropriate disciplinary processes and working with outside agencies, including the Police. • Monitor and promote our confidential reporting hotline; • Develop and maintain internal investigation protocols and disclosure protocols; • Provide a consistent and effective response for dealing with fraud cases; • Collaborate across geographical boundaries with other local authorities through working groups, sharing of intelligence, benchmarking, and on joint investigations; • Learn lessons from identified fraud and corruption and close the gaps in control weaknesses that allowed any wrongdoing to be perpetrated.
<p>Protect <i>(this is an overarching aim which sits across the previous four principles)</i></p>	<ul style="list-style-type: none"> • Recognise the harm that fraud can cause in the community; • Protect the Council, the public funds it administers, as well as residents and other stakeholders, from risks and financial losses relating to fraud and corruption, now, and in the future.

Governance

This is about the Council having robust arrangements and executive support to ensure ‘zero-tolerance’ anti-fraud, bribery and corruption measures are embedded throughout the organisation.

Internal Audit work closely with senior officers, including Leadership and the Chief Executive. The Corporate Leadership Team are committed to setting a ‘tone from the top’ through the support of a zero-tolerance approach to fraud and corruption, which includes the investment of resources into a dedicated Counter Fraud team that sits within Internal Audit.

The Chief Internal Auditor reports all instances of identified fraud, theft, and corruption quarterly to the Audit Committee. The Chief Internal Auditor additionally maintains a close relationship with the sitting chair of this committee, ensuring that members are appropriately briefed of all significant instances of identified wrongdoing.

The Council expects everyone carrying out Council business to protect the public purse and to report suspicions of dishonest behaviour. The promotion of a strong anti-fraud culture will deter potential fraudsters and those considering wrongdoing, as well as encouraging a safe environment in which individuals can feel comfortable to raise concerns, without fear of reprisals or victimisation.

Acknowledge

The Council accepts that no Authority is immune from the risk of fraud, bribery, and wrongdoing. It seeks to use all available recourse to help to reduce the opportunity, motivation and justification for fraud, bribery, and wrongdoing and to act robustly when it is identified.

A fraud and misconduct risk assessment is maintained to help the Council identify the risks it faces from fraud, corruption, bribery, and other wrongdoing. This risk assessment then documents the controls in place to mitigate these risks, identifies gaps or weaknesses in the control mechanisms, and feeds into the development of a work programme to target and reduce these risks.

The Council will regularly review its approach to tackling fraud, keeping abreast of emerging risks and current trends which occur across the Council and nationally.

This strategy is part of the counter fraud framework, which includes the following policies and procedures which set out the Council's commitment to preventing, detecting, and deterring fraud and corruption to ensure public funds are used for their intended purposes:

- Employee Code of Conduct;
- Code of Conduct for Members;
- Whistleblowing Policy;
- Anti-money Laundering Policy;
- Sanctions Policy;
- Financial Regulations;
- Procurement Standing Orders.

Prevent

The Council faces a variety of risks and threats and acknowledges that prevention is the best and most efficient way to tackle fraud, bribery, and wrongdoing and to prevent / minimise losses.

The best defence against fraud, corruption, bribery, and wrongdoing is to create and maintain a strong and robust anti-fraud culture within the Council. The Council will promote the standards of business conduct it expects and requires from all its employees (including contractors and Councillors) as documented in the Council's Code of Conduct (and set out under the 'Seven principles of public life' heading later in this strategy).

The Council will continue to invest in the training and professional development of Internal Audit staff to ensure high levels of competence, so that staff have the right skills to prevent, identify, investigate, and pursue fraud, corruption, and other wrongdoing.

Practical counter fraud and risk guidance and training has been produced and is disseminated to staff. This details risk identifiers and is based on lessons learned elsewhere and recognisable risk scenarios. Targeted anti-fraud presentations are also delivered to services, which are prioritised via a risk-based approach.

Internal Audit will continue to make the best use of information and technology to identify and tackle fraud. This will include the development and utilisation of data analytics, both as embedded tests that sit within audit work, and targeted proactive exercises aimed at identifying fraud and error.

The Council also recognises that a key preventative measure to combat fraud and misconduct is to ensure that the appropriate due diligence is exercised in the hiring, retention, and promotion of employees and relevant third parties. This applies to all staff whether, permanent, temporary, contracted, or voluntary. Procedures will be followed in accordance with the Council's recruitment and selection framework. We will always undertake the appropriate pre-employment checks (for example: qualification verification and obtaining references) before any employment offer is confirmed.

Any system weakness identified as part of the work carried out by Internal Audit will be recorded, with controls recommended to minimise any system weaknesses and these will be agreed and monitored to ensure compliance as part of the audit process.

Pursue

Fraud, corruption, and malpractice will not be tolerated and where it is identified the Council will deal with proven wrongdoings in the strongest possible terms, including:

- Disciplinary action;
- Reporting to the Police or other external agencies;
- Prioritise the recovery of any losses on behalf of the taxpayer, including use of criminal or civil legal action through the Courts.

The Counter Fraud team within Internal Audit will provide a consistent and effective response for responding to allegations of alleged financial irregularity. The team works to defined internal investigation protocols, which are under regular review and are shared with management and HR. The team collaborates across geographical boundaries with other local authorities through working groups, sharing of intelligence, and benchmarking.

Where information relating to a potential or actual offence or wrongdoing is uncovered, a comprehensive, independent, and objective investigation will be conducted. Any investigation will take account of relevant policies and legislation.

The purpose of any investigation is to gather all available facts to enable an objective and credible assessment of the alleged irregularity and to enable a decision to be made as to a sound course of action.

In such instances, Internal Audit will work closely with management and where appropriate, other local authorities or other agencies such as the Police, to ensure that all allegations and evidence are properly investigated and reported upon.

Referral to the Police on matters of alleged fraud or other financial irregularity is a matter for the Chief Internal Auditor, in consultation with the Section 151 Officer and the relevant senior managers. Any referral made to the Police will not prohibit action under the Council's disciplinary procedure.

In cases of alleged theft, fraud, corruption, or other irregularity involving staff, the Council may pursue the case through its disciplinary processes, even if the member of staff has submitted their resignation.

All completed investigations will include a review of lessons learned which may result in the production of an Internal Control Report for management. This aims to identify where there are any gaps or weaknesses in the system of internal control which contributed to the ability of the identified fraud, theft, corruption, or other irregularity to be perpetrated. This report will contain actions for management which will aim to close these gaps in control. These actions will be monitored and reported upon, in line with Internal Audit's action tracking process.

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Seven Principles of Public Life

The Council is committed to the highest ethical standards as set out in the Code of Conduct. The Council believes the 'seven principles of public life' are the foundation of a strong anti-fraud culture and expects all members, officers, and contractors to follow these principles, as well as all legal rules, policies, and procedures.

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

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

Definitions

Fraud - can be broadly described as, someone acting dishonestly with the intention of making a gain for themselves or another, or inflicting a loss (or a risk of loss) on another; including:

- Dishonestly making a false statement or representation;
- Dishonestly failing to disclose to another person, information which they are under a legal duty to disclose;
- Committing fraud by abuse of position, including any offence as defined in the Fraud Act 2006.

Theft - Theft is stealing any property belonging to the Council or which has been entrusted to it (i.e. client funds), including cash, equipment, consumables, machinery, or even data. Theft does not necessarily require fraud to be committed. Theft can also include the stealing of property belonging to our staff or members whilst on Council property.

Obtaining services dishonestly – is broadly where services which were to be paid for were obtained knowing or intending that no payment (or only part-payment) would be made.

Bribery – is ‘the offering, promising, giving, soliciting, agreement to accept or acceptance of a financial or other advantage which may induce or reward a person to perform improperly a relevant function’ under The Bribery Act 2010.

Corruption – is the offering or acceptance of inducements designed to influence official action or decision making. These inducements can take many forms including cash, holidays, event tickets or meals.

Money laundering – is the process of converting illegally obtained money or assets into ‘clean’ money or assets with no obvious link to their criminal origin. Detailed guidance is set out in the Council’s Anti-Money Laundering Policy (attached as annex 1.1).

This strategy also covers other irregularities or wrongdoing, for example failure to comply with Financial Regulations, Standing Orders, National and Local Codes of Conduct, Health and Safety Regulations and all other relevant laws and legislation that result in an avoidable loss to the Council.

Surrey County Council Related Policies

[The Whistleblowing Policy Code of Conduct](#)

The following policies are attached as an Annexes:

- 1.1 Ant-Bribery Policy**
- 1.2 Anti-Money Laundering Policy**
- 1.3 Sanctions Policy**

1.1 Anti-bribery policy

Policy statement

Surrey County Council will:

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

1. Introduction

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

2. Scope of the policy

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

3. Definitions and legal background

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

Bribery Act 2010

- 3.2 The Act includes four key offences:
- Offering, promising or giving a bribe to reward a person for improperly performing a relevant function (Section 1);
 - Requesting, agreeing to accept or receiving a bribe as a reward for improperly performing a relevant function (Section 2);
 - Bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business (Section 6); and

- A corporate offence by a 'commercial organisation' of failing to prevent bribery that is intended to obtain or retain business or an advantage in the conduct of business (Section 7).

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

Public Contracts Regulations 2006

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

4. The Council's approach to bribery

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

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

- Accept payment from a third party that is known or suspected to be offered with an expectation that it will obtain a business advantage for them;
- Accept a gift or hospitality from a third party if it is known or suspected that it is offered with an expectation that a business advantage will be provided by the Council in return;
- Retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy; or
- Engage in activity in breach of this policy.

5. Reporting suspected bribery

- 10
- 5.1 You should report any suspected acts of bribery. If you have been offered an inducement from another party, you should report this even if you declined.
- 5.2 The Council has put in place a safe environment to report suspected cases of fraud and corruption, including bribery. Any individual may contact the Council's Internal Audit team directly as below.

Email: internal.audit@surreycc.gov.uk

Telephone: 020 8541 9299

1.2 Anti-money laundering policy

Policy statement

Surrey County Council will do all it can to:

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

1. Introduction

- 1.1 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, the Proceeds of Crime Act 2002 and the Terrorism Act 2000 (and all relevant amending legislation) place obligations on the Council, including its members and employees, with respect to suspected money laundering.
- 1.2 While most money laundering activity in the UK occurs outside of the public sector, vigilance by Council employees and members can help identify those who are, or may be, perpetrating crimes relating to the financing of terrorism and money laundering.
- 1.3 This policy forms part of the Council's counter fraud framework and sets out:
 - Definitions and legal background in respect of money laundering;
 - The Council's approach to money laundering including the responsibility of members and officers to report suspicions promptly; and
 - Guidance and procedures for members and officers.

2. Scope of the policy

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

3. Definitions and legal background

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

3.3 There are also two secondary offences:

- Failure to disclose any of the three primary offences; and
- Tipping off (the act of informing a person suspected of money laundering in such a way as to prejudice an investigation).

3.4 Any member or employee of the Council may potentially be implicated in money laundering if they suspect money laundering and either become involved with it in some way and/or do nothing about it. The key requirement is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.

4. The Money Laundering Reporting Officer (MLRO)

4.1 The officer nominated to receive disclosures about money laundering activities within the Council is the Auditor Manager (Counter Fraud):

Simon White
Audit Manager (Counter Fraud)

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

Telephone: 0208 541 9191 / 07779 455501
Email: simon.white@surreycc.gov.uk

4.2 In the absence of the MLRO, the Principal Auditor (Counter Fraud) is authorised to deputise:

Alex McLaren
Principal Auditor

Brighton Town Hall
Bartholomew Square
Brighton
BN1 1JP

Telephone: 01273 292573 / 07592 103574
Email: Alex.Mclaren@brighton-hove.gov.uk

5. Procedures

Cash

5.1 The Council will not accept any cash payment in excess of £5,000 irrespective of whether this is through a single payment or series of linked payments. 'Cash' includes notes, coins, banker's drafts and travellers cheques.

5.2 This does not necessarily mean that cash transactions below this value are legitimate and legal. Professional scepticism is encouraged at all times and any suspicions must be reported to the MLRO or their deputy.

Responsibilities of members and officers

5.3 Any member or officer who suspects money laundering activity must report their suspicion promptly (as soon as practicable) to the MLRO or their deputy if appropriate. If you prefer, you can discuss your suspicions with your line manager first.

5.4 Your disclosure must be made at the earliest opportunity following the information coming to your attention, not weeks or months later, and should be made to the MLRO or deputy using the form attached at the end of this policy.

5.5 You must follow any subsequent directions from the MLRO or deputy. You must not:

- Make any further enquiries into the matter;

- Take any further steps in any related transaction without authorisation from the MLRO or deputy;
- Disclose or otherwise indicate your suspicions to the person suspected of money laundering; or
- Discuss the matter with others or make a note on file that a report to the MLRO or deputy has been made, as this may alert the suspected perpetrator.

Responsibilities of the MLRO

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

Risk based approach, customer due diligence and record retention

- 5.9 Under MLR 2017, the Council is obliged to adopt a risk-based approach towards anti-money laundering regulations and how they approach due diligence.
- 5.10 MLR 2017 stipulate risk mitigation policies must be in writing and be proportionate to the risks identified. They must include internal controls over money-laundering and terrorist financing risks. They must also include revised customer due diligence procedures as well as reporting, record keeping and monitoring requirements.
- 5.11 Regulation 18 of MLR 2017 requires a written risk assessment to identify and assess the risk of money laundering and terrorist financing that the Council faces. This will:
- Assist in developing policies, procedures and controls to mitigate the risk of money laundering and terrorist financing;
 - Help in applying a risk-based approach to detecting and preventing money laundering terrorist financing Inform an assessment of the level of risk associated with particular business relationships and transactions and enable appropriate risk-based decisions about clients and retainers;
 - Inform an assessment of the level of risk associated with particular business relationships and transactions and enable appropriate risk-based decisions about clients and retainers.
- 5.12 In carrying out risk assessments we will take into account information on money-laundering and terrorist financing risks made available by the Law Society and/or SRA, and risk factors relating to:
- Customers;
 - Geographic areas where the Council operates;
 - Products and services;
 - Transactions;
 - Delivery Channels.

- 5.13 Under MLR 2017, there ceases to be "automatic" simplified due diligence requirements for any transactions. Instead, a relevant person needs to consider both customer and geographical risk factors in deciding whether simplified due diligence is appropriate. There are various levels of due diligence as follows:
- Simplified due diligence is only permitted where it is determined that the business relationship or transaction presents a low risk of money laundering or terrorist funding, taking into account the risk assessment;
 - Enhanced due diligence' (Regulation 33) for those with a high-risk status, for example remote transactions where the customer is not physically present to be identified would require additional appropriate documents to be requested;
 - The 'beneficial owner', the individual that ultimately owns or controls the customer or on whose behalf a transaction or activity is being conducted, should be identified;
 - The business relationship should be scrutinised throughout its existence and not just at the beginning.
- 5.14 In all cases, the evidence of the customer identification and record of the relationship / transaction should be retained for at least five years from the end of the business relationship of transaction(s). The records that must be kept are:
- A copy of, or references to, the evidence of the identity obtained under the customer due diligence requirements in the Regulations;
 - The supporting evidence and records in respect of the business relationships and occasional transactions which are the subject of customer due diligence measures or ongoing monitoring;
 - A copy of the identification documents accepted and verification evidence obtained;
 - References to the evidence of identity.
- 5.15 If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transaction(s) cannot proceed any further.
- 5.16 The customer identification procedure must be carried out when the Council is carrying out 'relevant business' and:
- Forms a business partnership with a customer;
 - Undertakes a one-off transaction (including a property transaction or payment of a debt) involving payment by or to a customer of £5,000 or more;
 - Undertakes a series of linked one-off transactions involving total payment by or to the customer(s) of £5,000 or more;
 - It is known or suspected that a one-off transaction, or a series of them, involves money laundering;
 - This must be completed before any business is undertaken for that customer in relation to accountancy, procurement, asset management, audit and legal services with a financial or real estate transaction.
- 5.17 In the above circumstances, employees must:
- Identify the person seeking to form the business relationship or conduct the transaction (an individual or company);
 - Verify their identity using reliable, independent sources of information, Identify who benefits from the transaction;

- Monitor transactions to make sure they are consistent with what you understand about that person or country;
- Understand the source of their funds;
- Ensure there is a logical reason why they would want to do business with the Council.

5.18 Transaction and business relationship records should be maintained in a form from which a satisfactory audit trail may be compiled, and which may establish a financial profile of any suspect account or customer.

5.19 The steps that will be followed to continuously mitigate the risks associated with money laundering are:

- Applying customer due diligence measures to verify the identity of customers and any beneficial owners obtaining additional information on customers;
- Conducting ongoing monitoring of the transactions and activity of customers with whom there is a business relationship;
- Having systems to identify and scrutinise unusual transactions and activity to determine whether there are reasonable grounds for knowing or suspecting that money laundering or terrorist financing may be taking place.

5.20 Risks will be reviewed continuously as part of the annual review of the Council Risk Register.

6. Guidance and training

6.1 The Council will:

- Make members and officers aware of the requirements and obligations placed on the Council, and on themselves as individuals, by anti-money laundering legislation; and
- Give targeted training to those considered to be the most likely to encounter money laundering.

6.2 Further information can be obtained from the MLRO and the following sources:

- Anti-money laundering responsibilities from gov.uk:
<https://www.gov.uk/guidance/money-laundering-regulations-your-responsibilities>
- Anti-money laundering guidance from the Law Society:
<http://www.lawsociety.org.uk/support-services/advice/articles/quick-guide-to-the-money-laundering-regulations-2017/>
- CIPFA: www.cipfa.org/members/members-in-practice/anti-money-laundering
- The National Crime Agency: www.nationalcrimeagency.gov.uk

Confidential report to the Money Laundering Reporting Officer

To: Money Laundering Reporting Officer

From: _____ *[insert your name]*

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

Telephone: _____

Date of report: _____

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

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

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

Nature, value and timing of activity involved:

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

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

Details of investigation undertaken and/or discussions held:

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

10

To be completed by the Money Laundering Reporting Officer

Date report received:

Date acknowledged:

Evaluation	
What action is to be taken?	
Are there reasonable grounds to suspect money laundering activity? If so, please provide details	
Reporting	
If there are reasonable grounds for suspicion, will a report be made to the NCA?	<input type="checkbox"/> Yes <input type="checkbox"/> No
If 'no', reasons for non-disclosure	
If 'yes', date of report to NCA	Online / Manual [delete as appropriate]
Consent	
Is NCA consent required for any ongoing or imminent transactions?	<input type="checkbox"/> Yes <input type="checkbox"/> No
If 'yes', please confirm details	
Date consent received from NCA	
Date consent passed on to officer	
Other relevant information	

Signed _____

Date: _____

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

1.3 Sanctions policy

Policy statement

Surrey County Council will ensure that:

- Appropriate sanctions are applied in all proven cases of fraud, theft and corruption;
- Public funds are recovered wherever possible; and
- The sanction decision making process is robust, transparent and fair.

1. Introduction

- 1.3 The Council takes its responsibility to protect public funds seriously and expects its business to be conducted to the highest ethical and legal standards. Where there is evidence of fraud, theft or corruption against the Council, those responsible, whether internal or external to the Council, will be held accountable for their actions using the full range of sanctions available.
- 1.4 This policy forms part of the Council's counter fraud framework and sets out:
- The range of sanctions available; and
 - Guidance on determining the appropriate action to take.
- 1.5 This policy is not prescriptive. A range of factors will require consideration before deciding on the appropriate sanction, including the individual circumstances of each case and the seriousness of the offence.

2. Sanction options

- 2.4 Where there is evidence of fraud, theft or corruption, the following options will be considered:
- No further action
 - Referral to professional bodies
 - Disciplinary action
 - Civil proceedings
 - Criminal prosecution
- 2.5 These options are not mutually exclusive and parallel sanctions may be pursued.

No further action

- 2.6 The Council may consider closing a case without taking any further action. This may be due to the following factors:
- Evidence is not robust or reliable
 - The offence is minor
 - The cost to pursue the case is not proportionate to the offence committed

Referral to professional bodies

- 2.7 Where there is adequate evidence that a person or entity has breached professional duties or responsibilities, the Council will refer the matter to the relevant professional body. This may include the Disclosure and Barring Service if there is evidence of a safeguarding concern.

Disciplinary action

- 2.8 In the event that an allegation is made against a Council employee, the investigating officer will consult with Human Resources and the employee's line manager regarding risk assessments and disciplinary action. Any disciplinary action will be in accordance with the Council's Disciplinary Policy. Sanctions may include warnings or dismissal on the grounds of gross misconduct.
- 2.9 Additional sanction options will be considered alongside any disciplinary action including referral to professional bodies, civil proceedings and criminal prosecution.

Civil proceedings

- 2.10 Where evidence is not sufficient to prove a case beyond reasonable doubt, and therefore successful criminal prosecution is unlikely, the Council may consider civil proceedings for which the standard of proof is on the balance of probability.
- 2.11 Regardless of whether any sanction action is taken, the Council will always seek recovery of overpaid, misused or unfairly gained monies. The following measures may be considered in the pursuit of financial recovery:
- Consultation with the Council's Payroll and Pensions Teams to redress financial loss caused by employees;
 - Application of the Credit Control Team's usual procedures, which includes civil action when necessary;
 - Legal action such as search orders and freezing/tracing injunctions to preserve evidence and assets; and
 - Recovery of money through appropriate legal proceedings.

Criminal prosecution

- 2.12 Where there is sufficient evidence to indicate that a criminal act has taken place, the case may be referred to the police. The decision to refer the issue to enforcement agencies, such as Sussex Police, will be taken by the Section 151 and / or Monitoring Officer as advised by the Chief Internal Auditor.
- 2.13 The police or Crown Prosecution Service will provide a final decision on whether to pursue the case. This decision will consider the following:
- **Evidential criteria** such that the evidence must be:
 - Clear, reliable and admissible in court
 - Strong enough for a realistic chance of prosecution; to prove a case 'beyond reasonable doubt'
 - Whether prosecution is in the **public interest**, taking into account:
 - Seriousness and/or monetary value of the offence
 - Cost and proportionality of the prosecution
 - Age, health and level of culpability of the suspect
 - Circumstances of and harm caused to the victim
 - Other factors such as community impact
- 2.14 Where the Council considers it "expedient for the promotion or protection of the interests" of its residents, Section 222 of the Local Government Act 1972 empowers the Council to:

- Prosecute or defend or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name; and
- In their own name, make representations in the interests of residents at any public inquiry held by or on behalf of a public body under any enactment.

2.15 The Council will only consider undertaking prosecutions through this route under exceptional circumstances and any decision to do so will be taken by the Section 151 Officer and Monitoring Officer as advised by the Chief Internal Auditor.

2.16 Any criminal proceedings will include an attempt to recover money under the Proceeds of Crime Act 2002.

3. Leaving the Council

3.7 During the course of an investigation or disciplinary action, the employee(s) suspected of fraud, theft or corruption may choose to resign from their employment with the Council. In this case, following a review of evidence, the Council may continue to pursue referral to professional bodies, civil proceedings or criminal prosecution.

3.8 The employee's line manager will also consult with Human Resources to determine whether it will be appropriate to provide a reference to future employers.

4. Publicity

4.3 The decision to publicise outcomes will consider the following criteria:

- Interests of Surrey County Council;
- Interests of Surrey residents; and
- Deterrent value to others.



Audit & Governance Committee
29 November 2021

TREASURY MANAGEMENT MID YEAR REPORT 2021/22

Purpose of the report:

This report summarises the Council's treasury management activity during the first half of 2021/22, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management

Recommendations:

The Audit & Governance Committee is asked to note the content of the Treasury Management Mid-Year Report for 2021/22

Introduction:

1. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (the CIPFA Code) which requires the authority to produce treasury management mid-year and annual reports.
2. The Authority's Treasury Management Strategy Statement for 2021/22 was approved at the Audit and Governance Committee meeting on 29 January 2021. The investing and borrowing of cash potentially exposes the Council to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

External Context

3. Annex 1 contains commentary from Arlingclose, our Treasury Management advisors, on the economic backdrop for 2021/22. The economic recovery from the Covid-19 pandemic continued to dominate the first half of the year. The impact on Treasury Management activities is relatively limited as it has resulted in very low interest rates which

support our strategy of minimising cash balances and meeting our borrowing requirement with short-term debt.

4. The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with rates unchanged, future rises now appear more likely.
5. The revenue budget for interest costs over the five-year medium term financial strategy is set in the knowledge that current rates are at a historic low and that some increases are to be expected, including a contingency to deal with that eventuality. Officers discuss the best balance of short-term variable debt as against long-term fixed rate debt on a regular basis with Arlingclose and decisions are taken with the risk of interest rate rises in mind.

Mid-Year Treasury Management Report 2021/22

Overview

6. Table 1 shows that the Authority held a net borrowing position of £660m on 31 March 2021 arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investment.
7. The Treasury Management Strategy for 2021/22, approved by Audit and Governance Committee in January 2021, continued the policy of internal borrowing. This maintains borrowing below its underlying level by utilising available cash balances on a temporary basis (i.e. working capital and useable reserves) which are not required in the short to medium term. This approach reduces market and credit risk for the investment portfolio and reduces borrowing costs. The Balance sheet position at 31 March 2021 is summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/21 Actual £m
General fund CFR	1,344
Less: Other long-term liabilities	(186)
Gross Borrowing Requirement	1,158
Less: useable reserves and working capital	(498)
Net Borrowing Requirement	660

8. The Council also manages cash on behalf of Surrey Police and Crime Commissioner, the balance of which was £29.6m as at 30 September 2021. The Council accounts for this as short-term borrowing. The treasury management position as at 30 September 2021 and the change over the six months is summarised in Table 2.

Table 2: Treasury Management Summary

	31/03/21 Balance £m	Movement £m	30/09/21 Balance £m
Long-term borrowing*	434	(2)	432
Short-term borrowing	273	(123)	150
Surrey Police	12	18	30
Total Borrowing	719	(107)	612
Money Market Funds	(59)	48	(11)
Net Borrowing	660	(59)	601

*Total Long-Term Borrowing is £444m, which includes £4.3m of Local Enterprise Partnership (LEP) loans and £6.1m of Salix which are managed outside of the Treasury Management Strategy.

Borrowing Strategy

9. At 30 September 2021 the Authority held £612m of loans (a decrease of £107m since 31 March 2021).
10. The reduction in short-term borrowing of £123m is due primarily to a reduction of £48m of investment balances held in Money Market Funds; and receipt of £46m Schools Basic Need grant.
11. Outstanding loans on 30 September 2021 are summarised in Table 3 below.

Table 3: Borrowing position

	31/03/21 Balance £m	Net change £m	30/09/21 Balance £m	30/09/21 Weighted average rate %	30/09/21 Weighted average maturity (years)
Public Works Loan Board	424	(2)	422	3.86	28 years
Banks (fixed-term)	10	-	10	5.00	32 years
Local Authorities (short-term)	273	(123)	150	0.09	< 1 year
Surrey Police & Crime Commissioner	12	18	30	0.10	0 days
Total Borrowing	719	(107)	612		

12. The Authority's main objective when borrowing has been to strike a balance between securing low interest rates and achieving cost certainty over a period for which funds are required. This position provides short term savings with the flexibility to secure longer dated loans as and when the level of funds available for internal borrowing reduces, or financial forecasts indicate that external borrowing rates may increase.
13. In order to best meet these objectives, no new long-term borrowing was undertaken in the first half of 2021/22; internal borrowing was maximised, and short-term borrowing was utilised to manage cash flow. This strategy enabled the authority to minimise net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
14. Discussions with Arlingclose did not indicate any immediate need to borrow in advance for future years' planned expenditure and therefore none was taken.
15. A cost of carry assessment is currently being re-visited to ascertain how the change in interest rate expectations over the last month impacts on the outlook for the Council's borrowing strategy and borrowing decisions.

Investment Activity

16. The Authority holds invested funds, representing income received in advance for expenditure plus balances and reserves held. During the first half of 2021/22 the Authority's average daily level of investments was £58m compared to £67m for the first 6 months of 2020/21.
17. The Council can place cash on deposit on the money market through brokers, directly with counterparties, through the use of call accounts, money market funds or direct deal facilities, or with the Debt Management Office (DMO). No new fixed term deposits have been agreed during the first half of 2022/22. All investments have been made through overnight money market funds.
18. The weighted average return on all investments the council received in the quarter to 30 September 2021 is 0.02%. This compares to the average Bank of England (BoE) base rate of 0.10% for the same period.

Table 4: Investment Benchmarking

	BoE base rate	Weighted return on Investments
2021/22 Quarter 2	0.10%	0.02%
2021/22 Quarter 1	0.10%	0.02%
2020/21 Total	0.10%	0.14%
2019/20 Total	0.72%	0.69%

19. Both the CIPFA Code and the government's Investment Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. In furtherance of these objectives, the Council's strategy of maximising internal borrowing has reduced the cash available for investment and reduced the scope of creating longer-term investment deposits.
20. Ultra-low short-dated cash rates (which have been a feature since March 2020 when Bank Rate was cut to 0.1%) have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.

Other Investment Activity

21. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return.

The Authority holds the following non-treasury investments:

- £122m of directly owned investment property
- £240m of loans to Halsey Garton Ltd
- £96m of equity investments in Halsey Garton Ltd
- £3m of loans to other subsidiaries

22. It is projected that these non-treasury investments will generate £10.8m net investment income for the Authority in 2021/22 after taking account of direct costs and Minimum Revenue Provision (MRP).
23. The Council has updated the MRP Policy to ensure it is prudent in light of recent fluctuations in fair value of investment properties held by the subsidiary. The repayment profile of the loan is periodically reviewed to determine whether principal repayment is required over the asset's life on top of the current MRP provision. This is to ensure prudent provision to repay the Capital Financing Requirement over the asset's life.

Treasury Performance

24. The authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget. Table 5 outlines the forecast for the interest payable and interest receivable budget for the full year of 2021/22. Currently both interest payable and interest receivable are forecast to budget as both depend on the level of capital expenditure for the remainder of the year and the extent to which this is funded through borrowing.

Table 5: Revenue implications of treasury management activity

	Budget £m	Full Year Forecast £m	Variance £m
Interest Payable	17.7	17.2	(0.5)
Interest Receivable	(0.003)	(0.003)	0.0

Revision to CIPFA Codes

25. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. In June, CIPFA provided feedback from this consultation.
26. In September CIPFA issued the revised Codes and Guidance Notes in draft form and opened the latest consultation process on their proposed changes. The changes include:
- a clarification that local authorities must not borrow in order to invest primarily for financial return;
 - the requirement for Authorities to categorise investments for Treasury purposes, commercial purposes and for service delivery purposes;
 - the introduction of Investment Management Practices (IMPs) by which local authorities will need to start monitoring their non-treasury investment portfolios;
 - the requirement to for local authorities to assess the proportionality of non-treasury investments in the authorities overall financial capacity; and
 - some revisions in the prudential indicators, including the inclusion of the liability benchmark to measure the need to borrow.
27. The revisions, if implemented as drafted, are not expected to have a significant impact on the authority's activities but will increase the reporting requirements of the authority in respect of non-treasury investments among other items.

Treasury Advisors

28. The Authority's current contract for treasury advisory services with Arlingclose expires on 31 December 2021. A tender process is underway to re-procure these services which is expected to be concluded in the first half of December.
29. The outcome of the procurement will be reported alongside the presentation of the Authority's Treasury Management strategy for 2022/23 in January 2022.

Compliance Report

30. All treasury management activities undertaken during the first half of 2021/22 comply fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits, the authorised borrowing limit and operational boundary for external debt, is demonstrated in tables 6 and 7 below.

Table 6: Debt Limits

	01/04/21 to 30/09/21 Maximum £m	30/09/21 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied?
Total			1,435	1,729	
Less: Other long-term liabilities			(137)	(116)	
Underlying Borrowing	738	612	1,298	1,613	✓

31. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not considered a compliance failure. Total debt did not exceed the operational boundary in any period during the first half of 2021/22.

Table 7: Investment Limits

	01/04/21 – 30/09/21 Maximum £m	30/09/21 Actual £m	2021/22 Limit £m	Complied?
UK Central Government	0	0	Unlimited	✓
Money Market Funds	153	11	Unlimited	✓
Any group of pooled funds under the same management	0	0	25	✓
Any group of organisations under the same ownership	0	0	20	✓

Any single organisation, except the UK Central Government	0	0	20	✓
Unsecured Investments with Building Societies	0	0	10	✓

Treasury management Indicators

32. The Authority measures and manages its exposures to treasury management risks using the following indicators
33. Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Table 8: Maturity Structure of Borrowing

	30/09/21 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	31%	60%	0%	✓
12 months and within 24 months	0%	50%	0%	✓
24 months and within 5 years	0%	50%	0%	✓
5 years and within 10 years	0%	75%	0%	✓
10 years and above	69%	100%	25%	✓

34. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.
35. **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 9: Principal invested for more than one year

	30/09/21 Actual £m	2021/22 Limit £m	Complied?
Principal invested for more than one year	0	40	✓

Other Implications

Financial and value for money implications

36. The direct financial implications of this report are highlighted in table 5 and form part of the monthly budget monitoring report to Cabinet.

Equalities and Diversity Implications

37. There are no direct implications of this report.

Risk Management Implications

38. The noteworthy risks posed by Treasury management are outlined in the body of the report and are monitored through the Authority's compliance with the approved Prudential and Treasury Management Indicators.

Next steps:

- a. The Treasury Team will continue to monitor the UK and overseas economy and banking sector and will continue to update this Committee as appropriate.
- b. In line with the requirements of CIPFA's Code of Practice for Treasury Management, a full-year report for 2021/22 will be brought to the Committee after financial year end.
- c. Corporate Finance will prepare the annual Treasury Management Strategy for 2022/23, which will be presented to this committee in January 2022 for approval.

Report contact: Allen Fountoukos (Strategic Capital Accountant)

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Sources/background papers:

- Capital Budget, Prudential Indicators and Treasury Management Strategy 2021/22.
- CIPFA Code of Practice for Treasury Management
- CIPFA Prudential Code

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Annex 1

Arlingclose's Economic Outlook for the remainder of 2021/22

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.15	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.15	0.15	0.15	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure.

Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.

The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.

While Q2 UK GDP expanded more quickly than initially thought, the impact of Covid-19 on workforce availability and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.

Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.

The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increase in wages is possible given the pressures on businesses.

Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.

The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

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Audit & Governance Committee
November 2021

Risk Management

Purpose of the report:

To provide an update on risk management

To provide the Committee with more detailed information on a specific risk, namely : *There is a risk of a resurgence of Covid (variant) which leads to a major health crisis in Surrey*

Recommendations:

It is recommended that:

1. Members note the update on risk management

Introduction:

2. This report provides an update on risk management including the current status of the Corporate Risks.
3. Also, following a meeting with the AGC Members it was agreed that a specific risk would be reviewed in more detail (at this and future AGC sessions) to provide a better appreciation and understanding of the strategic risk.

Risk Management Update

4. As the end of the calendar year approaches, it is worth reflecting on some of the risk management activities that have taken place. Key steps include:
 - 4.1 A standard approach to capturing risks has been developed and is being implemented across the Council with the creation of a new format risk register. Moreover, this method has facilitated thinking by risk owners about underlying causes/effects of their risks along with what are the existing controls in place to mitigate and whether further actions are required.

- 4.2 A Corporate Risk Register has been developed along with an associated Corporate Risk Heat Map. Corporate risks are reviewed monthly at CLT and brought to every AGC.
- 4.3 Directorate Risk Registers are progressing to capture the 'next level' down. Service Risk Registers are also being established across the organisation to embed a risk culture.
- 4.4 A Risk Management Strategy was approved by AGC and has been communicated across the organisation to provide additional guidance and support for risk owners.
- 4.5 Over 80 staff members have received 1-2-1 sessions to explain the risk approach and to show how risk can be actively used within their area to support the organisational objectives.
- 4.6 Risk reviews of 'companies' that SSC has a financial interest in such as Hendeca and Halsey Garten have been undertaken to ascertain whether risk is being appropriately considered. The reviews considered the risks identified in their risk registers along with suggestions for improvement.

Audit

- 5. To provide additional rigour around risk, internal audit have reviewed the risk management process with a focus on the governance arrangements. The findings have a reasonable assurance with 4 areas identified for further work, summarised below:
 - Update the Council's constitution to reflect the new Risk Management Strategy approved by AGC in September
 - Communicate and embed the new Risk Management Strategy to key stakeholders
 - Define the Risk Appetite of the Council
 - Complete the roll-out of the risk registers at a Directorate and Service level
- 6. For each of the 4 recommendations, there is an agreed action plan and dates for completion. The Strategic Risk Business Partner is leading on all 4 initiatives.

Corporate Risks

- 7. The *Corporate Risk Heat Map* is provided at each AGC and is reviewed monthly by CLT. Based on the current situation there are 2 changes for this period :

ST.26	There is a risk that Surrey is not selected to be a pilot for the County Deal by government meaning a loss of flexibility in the way we operate (and reputational damage)
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The above risk is not regarded as a top corporate risk and is now being managed within a Directorate Risk Register.

ST.12 There is a risk that SCC will not be able to recruit and retain sufficient numbers of skilled staff to manage and deliver quality services

The above risk has increased in likelihood from 2 to 4 (out of 5). This increase is primarily due to growing difficulties in recruitment being experienced from labour shortages in the marketplace.

The following mitigations are being employed:

- salaries benchmarked against peers to attract and retain talent
- retention bonuses for key social care roles
- succession planning for key roles
- training and career pathways defined
- HR business partners working with Directorates to identify current and future resource requirements

Review of a Strategic Risk

The second part of this risk update is to provide more detail for a specific risk. As winter approaches it was agreed that the following risk would be reviewed and Members are invited to ask any questions.

ST.23 There is a risk of a resurgence of Covid (variant) which leads to a major health crisis in Surrey

Next Steps

8. The AGC will continue to receive updates on the current strategic risks including a focus on a specific risks at each AGC session. The focus will be on the 'top' rated risks. However, if a new risk is added onto the Corporate Risk Register then this would also be scheduled for a more detailed review. It is expected that the next risk review for AGC will be on:

ST.03 There is a risk of a deliberate and / or targeted cyber attack compromising IT systems and critical IT infrastructure

Conclusions:

9. The work in this area reflects a further improvement in risk management competency and a strengthening of the overall governance. The Council has an up-to-date set of strategic risks that are regularly reviewed both at CLT and AGC.

Financial and value for money implications

10. Improved decision making through risk management supports better allocation of resources and value for money.

Equalities and Diversity Implications

11. N/A

Risk Management Implications

12. Failure to implement effective risk management will reduce the quality of decision making within the Council. Moreover, the AGC will not be able to demonstrate that it is discharging its governance responsibility of having active risk management within the organisation.

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Corporate Risk Heat Map

Nov. 2021



12

Strategic Risk	Risk Lead	Risk with current mitigation controls in place		
		Likelihood	Impact	Overall Score
ST.03 There is a risk of a deliberate and / or targeted cyber attack compromising IT systems and critical IT infrastructure	LW	4	4	16
ST.21 There is a risk that the Dedicated School Grant, which is currently running at a deficit, does not begin to return an in year surplus within the period of the MTFs and therefore does not return the DSG to balance with reasonable timescale	RW	4	4	16
ST.23 There is a risk of a resurgence of Covid (variant) which leads to a major health crisis in Surrey	RC	3	5	15

ST25	There is a risk that a dispute with the waste management contractor SUEZ could lead to a potential early termination of contract and/or financial compensation payable by SCC	KS	3	5	15
ST.08	There is a risk that SCC will be unable to meet an increasing level of demand for child and family services expected by the community over the medium term	RW	3	4	12
ST.22	There is a risk that SCC will be unable to meet an increasing level of demand for adult services including spending pressures arising from NHS activity.	SW	3	4	12
ST.14	There is a risk that we do not deliver sufficiently good quality children's care services to the residents of Surrey as reflected in an OFSTED inspection	RW	3	4	12
ST.02	There is a risk of a significant gap between the medium-term financial plan (2021/22 - 2025/26) and actual expenditure leading to a need to reduce level and quality of services provided	LW	3	4	12
ST.09	There is risk that we will not achieve the intended outcomes of our transformation programme in the planned timeframe	MS	3	4	12
ST.24	There is risk that there could be higher costs in operating a fire service if moved to the Police and Crime Commission (PCC) which SCC might have to help subsidise, or the overall fire service capabilities could be diminished from a move to the PPC	LW	4	3	12
ST.12	There is a risk that SCC will not be able to recruit and retain sufficient numbers of skilled staff to manage and deliver quality services	PL	4 (WAS 2)	3	12 (WAS 6)
ST.05	There is a risk that some SSC staff will experience a significant decline in their health and / or wellbeing <i>e.g. isolation from home working, social distancing</i>	PL	3	3	9
ST.17	There is a risk that SCC will not implement sufficient measures to deliver carbon emissions reductions and be carbon net zero as an organisation by 2030	KS	3	3	9
ST.15	There is a risk of increasing duration, frequency and effects of various severe weather events leading to substantial loss of service around the network	KS	3	3	9
ST.06	There is a risk that a supplier or a commissioned service is unable to continue to provide a service, or that they fail to do so to the required level or quality standards	LW	3	3	9
ST.19	There is a risk of failure to comply with H&S statutory duties (or managers/individuals failing to comply with H&S responsibilities and processes) could lead to serious harm, loss of life and corporate liability	SOH	2	4	8
ST.04	There is a risk of a breach of the Data Protection Act from a loss/disclosure of personal data e.g. data is published into the public domain	LW	2	3	6
ST.18	There is a risk of failure to maintain key infrastructure or assets or deliver major infrastructure	KS	2	3	6
ST.11	There is a risk that the working partnerships we have with other organisations will not deliver the intended objectives	MC	2	3	6
ST.10	There is a risk that there is a serious breakdown in council governance which could result in external reporting/intervention	LW	1	4	4



NOTE :

1 risk downgraded from Corporate Risk Register to Directorate Risk Register :

ST 26 - There is a risk that Surrey is not selected to be a pilot for the County Deal by government meaning a loss of flexibility in the way we operate (and reputational damage)

CLT Owner – Michael Coughlin

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Audit and Governance Committee
29 November 2021

APPOINTMENT OF INDEPENDENT MEMBER TO THE AUDIT AND GOVERNANCE COMMITTEE

Purpose of the report:

This report details the process undertaken to date to recruit an Independent Member to the Audit and Governance Committee and confirms that the preferred candidate will be recommended to County Council for appointment as the Independent Member to the Audit and Governance Committee.

Recommendation:

1. That the Audit and Governance Committee notes the recruitment process being undertaken and following an interview process, will recommend the preferred candidate to County Council to be appointed as the Independent Member to the Audit and Governance Committee.

Introduction:

1. At its meeting on 12 October 2021 Council agreed the following:
 - a) The principle of appointing an Independent Member to the Audit and Governance Committee for a period of four years.
 - b) The recruitment of the Independent Member, to be led by a panel consisting of the Chairman of the Audit and Governance Committee, one Conservative group member and two opposition group members (appointed by Group Leaders) and supported by the Director of Law and Governance.
 - c) Following the recruitment process, a report to formally appoint the Independent Member be presented to a future Council meeting.
 - d) To delegate to the Director of Law and Governance, in consultation with the Chairman of the Audit and Governance Committee, authority to finalise the role description, skills, competencies and person specification.

Recruitment Process:

2. A recruitment campaign began in the week commencing 27 October 2021, with an advertisement placed on all the usual recruitment websites used by Surrey County Council: Guardian Jobs, JobsGoPublic, Reed, Indeed, Find a Job (GOV) and LinkedIn.
3. Applicants were asked to send a covering statement to express their interest and explain how they meet the desired requirements, together with a CV before the closing date.
4. A recruitment panel will be convened to interview suitable candidates. The panel will consist of the Chairman of the Audit and Governance Committee, one Conservative group member, and two opposition group members (appointed by Group Leaders), supported by the Director of Law and Governance.
5. Following the interview process, members of the Audit and Governance Committee will be updated and a recommendation of the successful candidate will be put forward to County Council for approval.

Financial Implications:

6. This is an unpaid appointment; the Independent Member will be able to claim travel expenses, which will be covered from the existing budget.

Legal Implications:

7. A council's audit committee is established further to the Local Government Acts 1972 and 2000 and its purpose is to give assurance to elected Members and the public about the governance, financial reporting and performance of the Council. The appointment of a non-voting Independent Member to the committee will assist and promote good governance and scrutiny by the committee and the Council.

Risk Implications:

8. This initiative should augment the Audit and Governance Committee's independence, provide additional expertise, and provide an opportunity for the community to play an enhanced role in the governance of the Council.

Next steps:

9. The name of the preferred candidate be submitted to a future County Council meeting for approval.

Contact Officer:

Paul Evans, Director of Law and Governance

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Sources/background papers:

Role profile, advertisement, list of candidates, interview process.

Applications and interview notes include personal data and are not therefore background papers.

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