



AUDIT & GOVERNANCE COMMITTEE
2 December 2013

Internal Audit Half Yearly Report 2013/14

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SUMMARY AND PURPOSE:

1. This interim report summarises the work of Internal Audit during the first six months of 2013/14. The purpose of this report is to enable the Committee to consider the activities of Internal Audit during the six month period to 30 September 2013 and determine whether there are any matters that they wish to draw to the attention of the Cabinet and/or the County Council. A list of all Internal Audit reports issued in the period April – September 2013 is attached at Annex A for information.
2. The Chief Internal Auditor reports key findings and recommendations arising from audits undertaken as part of regular reporting to this Committee on completed audits. As such this report focuses on activity undertaken rather than detailing audit findings previously identified. However in response to member interest in management action taken to implement Internal Audit recommendations this report also provides, at Annex B, an update on progress made to date for those audit reports issued since February 2013. In addition, at Annex C is an update on earlier audit reports where management action plan progress had not previously been rated as “Green”.

RECOMMENDATIONS:

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

BACKGROUND:

4. The Accounts and Audit Regulations 2003 (as amended 2009 and 2011) require every local authority to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. Within Surrey County Council the Internal Audit function, which sits within the Policy and Performance Service, carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.
5. The terms of reference of the Audit and Governance Committee include the requirement to consider the reports of the internal and external auditor, consider the effectiveness of the internal audit function, and make recommendations to the County Council or Cabinet, as appropriate, on any matters that it feels should be drawn to their attention.

PERFORMANCE SUMMARY:

6. The audit plan for 2013/14 was approved by this Committee on 18 March 2013. The table below shows actual performance against the original plan for the first half year.

Audit Area	Plan Days (whole year)	Actual Days (half year)	% Actual to planned
Corporate Governance Arrangements	40	22	55.0%
Key Financial Systems	200	78	39.0%
Grants	20	12	60.0%
Contract reviews	120	48	40.0%
Service reviews (systems and projects)	1023	437	42.7%
Follow-up Audits	50	46	92.0%
Client Support and Service liaison	136	75	55.1%
Irregularity and Special Investigations including Fraud Prevention	345	165	47.8%
Internal Audit Management, Corporate Support and Organisational Learning	294	151	51.4%
Total days	2228	1034	46.4%
Figures as shown in 2012/12 half year report (for comparison)	2201	995	45%

7. The above table shows that 1034 days were spent delivering the audit plan in the first half of the year, this represents 46.4% of the total number of days planned for the year and reflects the reality that proportionately more annual/bank holiday leave (non audit time) is taken in the period April – September.

8. The following table shows progress as at 30 September against the annual audit plan with 2012/13 and 2011/12 half year comparative figures also shown:

	2013/14		2012/13		2011/12	
	No	%	No	No	No	%
Audits in planning stage:	41	33	43	33	56	36
Audits in progress	39	31	39	30	44	28
Audits completed	44	36	47	37	55	26

9. The Internal Audit team has had a productive first six months with some 44 audits, projects or investigations completed since April, including 32 final audit reports issued (as detailed at Annex A), 3 grant certificates produced and 9 investigations closed.
10. The following table shows the spread of audit opinions for the 32 reports issued in the period with comparative information for 2012/13 full year:

Audit Opinion	2013/14 (half year)		2012/13 (full year)	
	No of Audit Reports	%	No of Audit Reports	%
Effective	10	31	14	22
Some Improvement Needed	18	56	39	61
Major Improvement Needed	0	0	8	12
Unsatisfactory	0	0	2	3
n/a	4	13	1	2
Total	32	100	64	100

Customer Satisfaction Survey (CSQ)

11. The Internal Audit team is continually aiming to improve the service it provides and as such, on completion of each review the auditee is asked to complete a Customer Satisfaction Survey (CSQ) to provide feedback on a number of aspects of the audit – from planning through to reporting. The CSQ also asks for an overall rating on the added value of the audit on a scale of 1 to 4, where 1 is **not very** useful and 4 is **very** useful.
12. The following table shows the breakdown of CSQ scores received during the six month period to September 2013:

CSQ Overall Rating	No of CSQs	%
4 – very useful	9	47
3	8	42
2	2	11
1 – not very useful	0	0
Total	19	100

MANAGEMENT ACTION PLAN PROGRESS

13. In June 2013 a report was presented to this Committee that assessed progress made for all audits reports issued in the period August 2012– January 2013. This information is summarised at Annex C and includes the latest position for those audits not assessed as “Green” at that time. A more detailed summary of progress made on implementing audit recommendations for those audits completed since February 2013 is attached at Annex B.
14. These progress updates show evidence of real improvements being made across the council. There are some areas however which have been (or continue to be) assessed as Red/Amber and Internal Audit will closely monitor these management action plans going forward.

AUDIT ACTIVITY – 2013/14 ANNUAL PLAN

Corporate Governance Arrangements

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

Key Financial Systems

16. Key Financial Systems audit reports issued in 2013/14 and presented to this Committee include:
Treasury Management; Accounts Payable; Accounts Receivable; Capital Monitoring; Pension Fund Investment Arrangements; Pensions Administration; SAP Application Controls; and, Payroll.
17. Most of the audit fieldwork for the key financial systems takes place in the last quarter of the year in order for testing across the period to be undertaken.

Grants

18. Three grant audits were completed in the period, as follows:
 - Local Transportation Capital Block Grant;
 - Troubled Families
 - RESTORE Interreg IV

Contract Reviews

19. Contract review audit reports issued in 2013/14 and presented to this Committee include:
 - Highways Contract (Lots 3 and 5)
20. The following contract audits were in progress at the 30 September:
 - Library Service Global Transport Van Service
 - Central Contract Management

Service Reviews

21. Service review audit reports issued in 2013/14 to date include:

Adult Social Care: Adult Social Care Transport; Safeguarding Assurance Process, and Reablement.

Business Services: Financial Assessments Process; Risk Management Arrangements; Employee Expenses; Energy Management; and, Insurance.

Customers and Communities: No audits in this area completed in the six months to 30 September 2013.

Children Schools and Families: Schools SFVS process; Head Teachers' Pay; Information Governance in Schools; Youth Service Transformation; Children and Families – Care Leavers; and, ICS ContrOCC.

Chief Executive's Office: Transfer of Public Health.

Environment and Infrastructure: Local Sustainable Transport Fund; Community Enhancement Fund; and, European Grant Funding.

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Follow-up Audits

22. Follow-up audit reports issued to date include:

Highways Contract (Lot 1); Direct Payments; and, Purchasing Cards.

Client Support and Service Liaison

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

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

- Sharing the findings of school compliance audits with all maintained schools via focused articles in the schools' bulletin;
- Attending a Spelthorne-wide meeting of school governors to provide advice on matters of control and governance;
- Providing advice and guidance to schools on a variety of issues, including unofficial funds, use of eBay accounts, charitable funds, VAT issues, premises security and information governance;
- Working with Babcock 4S on delivering joint training courses on financial security for new head teachers and bursars;
- Undertaking proactive data interrogation work to identify traits or patterns of behaviour consistent with fraud. Testing in the last financial year includes work around payroll, personnel records, expenses, and vendor data;
- Providing advice to Libraries Service about robust processes to dispose of surplus library book stock;
- Providing advice and support to Rapid Improvement Events throughout the period (for example, to the S106/Community Infrastructure Levy and the Members Allocations events);
- Supporting Public Value Reviews, including that of Registration Services;

- Assisting Procurement in the roll-out of their Contract Management Toolkit, including the assessment of contract maturity to feed into the corporate database;
- Providing advice to services engaged in activities linked to the innovation agenda (for example, advice given to Information Officers on social media usage, and working with the Change team in respect of developing Project Management);
- Working with services to develop fraud risk awareness, including sessions with HR, Procurement, Shared Services (Accounts Payable) and revising the fraud awareness eLearning package with IMT;
- Developing a staffing analysis toolkit for establishments to show total staffing costs, including normal hours worked, overtime, casual staff and agency staff;
- Benchmarking energy costs in schools, leading to a saving of £8k at one establishment;
- Assisting Accounts Payable with analysis of duplicate payments ahead of an external scrutiny by external consultants, which helped to tighten controls and save the council money;
- Liaising with Trading Standards to share knowledge about current scams and fraudulent practices to report corporately;
- Reviewing draft HR policies for completeness and robustness;
- Reviewing policy and recommending good practice in respect of safe control across SCC establishments (for example, libraries and residential care homes);
- Recouping £4k in annual costs linked to unnecessary gypsy site greenhouse gas returns;
- Providing advice and guidance to services in areas of new service delivery (for example, in gathering and assessing evidence to support the Troubled Families agenda);
- Attending and contributing to corporate meetings and groups, including the County Risk & Resiliency Forum, Investment Panel, Schools Budget Group and attendance at select committees

Irregularity and Special investigations

25. A separate report will be presented to this Committee providing a full explanation of time spent on irregularity investigations in the six months to 30 September 2013.
26. Special investigations usually take place as a result of concerns being raised directly with Internal Audit by members or officers.

Corporate Support and Internal Management

27. During the six month period to 30 September Internal Audit have participated in a number of activities which are categorised for planning purposes as corporate support and internal management. This activity has included:
 - member support including attendance at meetings of this Committee.
 - attendance by the Chief Internal Auditor at regular governance meetings with the Chief Executive Officer and S151 and Monitoring Officers.
 - Attendance at meetings of the Governance Panel and Investment Panel

TRAINING AND DEVELOPMENT:

28. The Public Sector Internal Audit Standards place a personal responsibility on each Internal Auditor to undertake a programme of continuing professional development. In practice training/development plans are discussed on an on-going basis as part of 1-2-1s with management and will be formally discussed/reviewed as part of mid year and year end appraisals.
29. Development/training may take many forms. Examples undertaken in the period include:
- Whole team training on Risk Based Internal Auditing
 - A day work shadowing the Chief Executive at Mole Valley District Council
 - Attending the CIPFA Audit Conference
 - Attendance at events organised by:
 - The London Audit Group
 - Counties Chief Auditors Network
 - Home Counties Chief Internal Auditors Network (HCCIAG)
 - SAP Specialist Interest Groups
 - Training run in-house on Conflict, Impact and Collaboration

CONCLUSION:

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

IMPLICATIONS:

31. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the audit work referred to in this report, would be progressed through the agreed audit reporting policy.
32. Terms of Reference for all audit reviews include the requirement to specifically consider value for money; risk management; and, equalities and diversity.

WHAT HAPPENS NEXT:

33. A report will be presented on completed audits at future meetings of this Committee and the Chief Internal Auditor's Annual Report for 2013/14 will be presented to this Committee at the meeting planned for May 2014.

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Sources/background papers: 2013/14 Internal audit plan

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