



AUDIT & GOVERNANCE COMMITTEE  
29 May 2014

**INTERNAL AUDIT ANNUAL REPORT 2013/14**

**Purpose of the report:**

This report summarises the work of Internal Audit for the period 1 April 2013 to 31 March 2014, identifying the main themes arising from the audit reviews and the implications for the County Council. The Chief Internal Auditor reports key findings and recommendations arising from audits undertaken as part of regular reporting to this Committee on completed audits.

A list of all Internal Audit reports issued in the period is attached at Annex A for information. In response to member interest in management action taken to implement Internal Audit recommendations this report also provides, at Annexes B and C, details of progress made to date for those audit reports previously presented to this Committee.

This report also provides an update at Annex D, on progress made to date on implementing the recommendations arising from the 2013/14 review of the effectiveness of the system of Internal Audit which was presented to this Committee in March 2014.

**Recommendation:**

Members are asked to note the work undertaken and performance of Internal Audit in 2013/14 and determine whether there are any matters that the Committee wishes to draw to the attention of the Cabinet or the County Council.

**Introduction**

- 1 The Accounts and Audit Regulations require every local authority to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. Within Surrey County Council the Internal Audit function, which sits within the 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.

- 2 Best practice requires the Chief Internal Auditor to produce an annual report that:
- (a) provides an opinion on the overall adequacy and effectiveness of the organisation's control environment
  - (b) discloses any qualifications to that opinion, together with reasons for the qualification
  - (c) presents a summary of the audit work from which the opinion is derived
  - (d) draws attention to any issues of particular relevance
  - (e) compares the work actually undertaken against the work that was planned
- 3 This report fulfils the requirements above and represents the Internal Audit Report for the period 1 April 2013 to 31 March 2014. This report informs the 2013/14 Annual Governance Statement and provides an overview of the key findings arising from the audit reviews and the implications for the County Council. Taking account of the issues described the Committee will need to consider whether any matters should be referred to the Cabinet or the County Council.

#### **Background to the Year 2013/14**

- 4 Internal Audit is one of four teams, the others being Performance and Change; Economic Growth; and, Policy and Partnerships; within the Policy and Performance service. As such Internal Audit is well placed to respond to new policy initiatives and help drive innovation and improvement across the council.
- 5 New Public Sector Internal Audit Standards (PSIAS), developed through collaboration between CIPFA and the Institute of Internal Auditors (IIA) came into effective on 1 April 2013 and the 2013/14 review of the Effectiveness of Internal Audit assessed the council's conformance with the PSIAS local government application note which was published in April 2013.
- 6 Throughout the year the Chief Internal Auditor has attended the regular Statutory Officers meeting with the Monitoring Officer, the S151 Officer and the Chief Executive; and has continued to meet regularly on a one to one basis with the Chief Executive to brief him on governance issues.
- 7 During 2013/14 the Chief Internal Auditor has continued to undertake the following responsibilities:
- member of the Investment Panel which reviews business cases in advance of them being presented to Cabinet for approval
  - member of the Governance Panel
  - member of the Strategic Risk Forum
  - the council's Money Laundering Regulatory Officer
- All the aforementioned roles complement the work of Internal Audit.
- 8 The high profile of Internal Audit reports has been maintained throughout 2013/14 with the Audit and Governance Committee and Council Overview and Scrutiny Committee in particular showing a strong interest in what action officers have taken in response to Internal Audit recommendations. The on-line library means all elected members can access reports as they wish.

## Internal Audit Opinion

- 9 The overall audit opinion, based on the reviews completed during the period, on the governance and internal control environment during 2013/14 is **Some Improvement Needed**. A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
- 10 In forming this opinion, the Chief Internal Auditor can confirm that Internal Audit activity throughout 2013/14 has been independent of the rest of the organisation and has not been subject to interference in the level or scope of audit work completed. There are no qualifications to this overall opinion.
- 11 This overall audit opinion is largely a reflection of the system and procedural controls around the County's key financial systems that are subject to annual review by Internal Audit. However a number of areas were identified in which specific weaknesses meant that control in those particular areas did not provide reasonable assurance that risks are being managed so that objectives would be met. The following table shows the spread of audit opinions for the 63 standard audit reports issued in the period 2013/14 with comparative information for 2012/13.

Audit Opinion	2012/13		2013/14	
	No of Audit Reports	%	No of Audit Reports	%
Effective	14	22	21	33
Some Improvement Needed	39	61	34	54
Major Improvement Needed	8	12	2	3
Unsatisfactory	2	3	0	0
n/a	1	2	6	10
Total	64	100	63	100

- 12 The key issues arising from audit work completed during 2013/14 are set out in the Key Audit Findings section of this report.

## Management Action Plan (MAP) Progress Update

- 13 A summary of Management Action Plan (MAP) progress in implementing audit recommendations for audit reports issued in the period June – December 2013 can be found at Annex B
- 14 Annex C contains details of all audit reports issued prior to June 2013 where implementation of High Priority recommendations has not previously been reported to this Committee as "Green".

## Performance Summary

- 15 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 year.

<b>Audit Area</b>	<b>Plan Days (whole year)</b>	<b>Actual Days</b>	<b>% Actual to planned</b>
Corporate Governance Arrangements	40	46	115%
Key Financial Systems	200	240	120%
Grants	20	32	160%
Contract reviews	120	110	92%
Service reviews (systems and projects)	1023	910	89%
Follow-up Audits	50	59	118%
Client Support and Service liaison	136	131	96%
Special reviews not included in the original audit plan. NFI and other fraud prevention Irregularity investigations	345	283	82%
Audit planning and management, corporate and member support	294	319	108%
<b>Total days</b>	<b>2228</b>	<b>2130</b>	<b>96%</b>
Figures as shown in 2012/13 report (for comparison)	2201	1983	90%

- 16 The Internal Audit team establishment for 2013/14 comprised 12 full time equivalent (FTE) staff. One auditor retired at the end of December 2013 and an agency auditor was engaged during quarter 4 to cover the resultant vacancy and help ensure satisfactory delivery of the annual audit plan.
- 17 The Internal Audit team have had another productive year with 63 audits reports issued (as detailed at Annex A). This compares with 64 reports issued in 2012/13.
- 18 2013/14 Annual Audit Plan Completion

Annex E provides an analysis of completion of the 2013/14 Internal Audit programme of work. Further information is set out below.

Deferred/Cancelled Audits - the following audits, which were included in the 2013/14 annual audit plan, were cancelled/deferred for the following reasons:

- Walton Bridge Contract – this audit was deferred to 2014/15 as the final account will not be available to audit until then.
- Property Asset Management - implementation of the Property Asset Management system was delayed and as a result this audit has been deferred to 2014/15 to allow time for the new processes to bed in.
- Management of CITRIX Systems - having undergone a significant restructure the service asked for this audit to be undertaken in Quarter 4. In practice this proved difficult to schedule and so is planned for 2014/15 Quarter 1.

- People Strategy – at the time of planning this audit it was apparent that the People Strategy was to be refreshed and that the timing was not right for an audit. The 2014/15 Internal Audit plan includes two audits – Apprenticeship Scheme and Absence Management – that should support the refreshed strategy.

In addition, as shown in Annex E, a small number of audits relating to 2013/14 are still in progress.

19 Grants

Six grant audits were completed in the year as follows:

Local Transportation Block Grant; Troubled Families (1<sup>st</sup> claim); School Centred Initial Teacher Training Grant; Community Capital Grant; EU Restore Grant (claims 1 & 2)

20 Fraud and Irregularity and Special Reviews

The 2013/14 audit plan included specific time for Irregularity and Special Investigations (audits which, although not in the annual plan, take place as a result of concerns being raised directly with Internal Audit by Members or officers). Some of this time (87.4 days) was spent on investigating alleged irregularities. The Council's Financial Regulations require all matters involving, or thought to involve, corruption or financial irregularity in the exercise of the functions of the County Council to be notified to the Chief Internal Auditor who will decide whether an audit investigation is appropriate.

21 A separate report has been produced for this Committee which provides more information on the irregularity investigations undertaken by Internal Audit during 2013/14.

22 Also included in this is time spent on fraud awareness work (including promoting use of the fraud awareness e-learning package and circulating fraud alerts received from such audit networks as the National Anti-Fraud Network and the County Chief Auditor's Network).

23 Customer Satisfaction Survey (CSQ)

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.

The following table shows the breakdown of CSQ scores received during the period 2013/14 (previous year figures in brackets for comparative purposes):

CSQ Overall Rating	No of CSQs	%
4 – very useful	12 (12)	42 (40)
3	11 (16)	38 (54)
2	5 (1)	17 (3)
1 – not very useful	1 (1)	3 (3)
<b>Total</b>	<b>29 (30)</b>	<b>100</b>

## Effectiveness of the System of Internal Audit

- 24 An external assessment of the effectiveness of the system of Internal Audit was completed in March 2014 and presented to this Committee on 24 March. In line with best practice, this annual report includes an update on progress made in implementing the recommendations arising from that review.
- 25 Detail of progress against each recommendation, including a Red/Amber/Green (RAG) assessment can be found at Annex D. This shows that the majority of recommendations have now been implemented.

## Key Audit Findings

- 26 The key audit findings arising from completion of the 2013/14 Internal Audit plan are categorised under the ten themes as set out below:

### 1. Highways

- 27 Four audits were conducted in this area in 2013/14.
- 28 A follow-up of the 2012/13 Internal Audit review of Highway Contract Management showed the majority of audit recommendations had been implemented although some recommendations (including two High Priority recommendations) were assessed as “Amber” as a result of two recurrent themes:
- where proposed improvements to software to address the original recommendation was either not feasible in practice or had generated further problems requiring resolution; or,
  - the scale of the task in hand was greater than initially anticipated by management
- 29 Notwithstanding this, Internal Audit was sufficiently satisfied that management were proactively addressing the issues and that the agreed interim arrangements have ensured that there had been no financial control implications arising as a result of the delayed implementation of these corrective measures.
- 30 An audit of the Highways Contract Lot 3 – Highway Construction and Surface Works concluded that many of the problems encountered in the first year of the contract had been resolved. The audit identified an instance where a particular rate was continually being charged by the Supplier at £1.80 per unit instead of the £1.42 as set out in the agreed “Schedule of Rates”. Internal Audit recommended that the contractor should check the rates held on their system to ensure they are in line with those agreed.
- 31 An audit of the Highways Contract Lot 5 – Highway Flood Prevention noted that the sub-contractor was being replaced due to performance issues. The audit highlighted the need to strengthen the process of weekly inspection by Maintenance Engineers which had identified some poor or delayed performance by the sub-contractor. Three High Priority audit recommendations were made to ensure the new sub-contractor provides an improved service.
- 32 An audit of the Streetworks function which oversees utility works on the public highway in line with the New Roads and Street Works Act (1991) made a number of recommendations related to the planned introduction of a Permit Scheme, and the need to strengthen debt recovery arrangements in respect of works carried out on behalf of the utility companies.

## 2. Information Governance

- 33 Information Governance is identified on the Leadership risk register as a High Risk and a recent audit of Information Governance suggests that further work is required to raise awareness of the risks across the organisation. Key to this is not only the need to ensure policies and procedures are clear and up to date and easily accessible to staff but to ensure local controls are in place to ensure compliance with them. This audit also noted the expansion of the Bring Your Own Device pilot which has taken place without reference to the Corporate Information Governance Manager and is likely to increase the risks around information security.
- 34 Internal Audit has been involved in investigating the reasons behind data breaches that have occurred in both Adults and Children's Directorates and the findings suggest both a lack of appreciation by officers of their responsibilities for data security as well as some practical issues in complying with the requirements of the Data Protection Act. In addition there is some evidence to suggest malicious intent behind two of the data breaches investigated by Internal Audit.
- 35 The Control Risk Self Assessment of Governance Policies coordinated by Internal Audit as part of annual review of governance to inform the Annual Governance Statement included both the IT Security Policy and the Data Protection Policy. The IT Security Policy was found to be more than 90 pages long with much of its content of relevance to just a small number of IMT specialist staff and many of its requirements clearly aspirational rather than realistically practical. The policy is currently being sub-divided into sections that relate to all staff and IMT staff only, with the section applicable to all staff being separately available on the S:Net.
- 36 An audit of Information Governance in Schools found that the majority of schools had data protection policies in place and associated documents. The audit found some instances where operational practices posed information security risks. Following completion of this audit review a number of seminars on information security have been provided for schools and these should have led to increased awareness of information governance requirements.

## 3. Adult Social Care (ASC)

- 37 Direct Payments (DP) for Adult Social Care was highlighted as an area for concern within the 2012/13 Annual Governance Statement with recommendations that:
- social care reviews should be conducted at least annually in accordance with stated policy; and,
  - DP account reconciliations should be completed in a timely manner and refer to the associated support plan that details the purpose the DP has been agreed for.
- 38 A Direct Payments Follow-up Audit was completed in October 2013 and found significant improvements had been made – notably the number of overdue social care reviews had fallen from 32% to 17% at a time when nationally councils' performance in this area is getting worse. It was noted however that reconciliations of DPs were still not being completed in a timely manner and this remains an area of concern.

- 39 Effective Audit Opinions were given following Internal Audit reviews of Reablement; Serious Case Review – Recommendation Tracking; and, Care Homes – Managing Residents’ Monies. Furthermore there were no High Priority recommendations made following Internal Audit reviews of ASC Transport; and, ASC Commissioning and Domiciliary Care.
- 40 An audit of the ASC Safeguarding Assurance Process found that corrective action had been taken in only 29.5% of the sample of 44 issues identified in audits undertaken by Safeguarding Advisors. The auditor made two High Priority recommendations aimed at ensuring corrective action is taken in response to issues identified as part of the Safeguarding Assurance Process.

#### **4. Social Care Debt**

- 41 An audit of Social Care Debt Credit Balances, found that social care debt reported to the ASC Select Committee was shown as net of credit balances and as a result actual debt was understated by approximately £550k. The audit found that there had been little investigation into the largest 10 balances on deceased client accounts and it was noted that the oldest balance dated back to 2002. The audit opinion following this review was Major Improvement Needed.
- 42 A further audit of Social Care Debt is currently underway and a report is expected to be issued during May 2014.

#### **5. Children in Care Health and Dental Checks**

- 43 An audit of Health and Dental Checks – Children in Care gave an audit opinion of Major Improvement Needed. Health checks for 24 of the 86 files (28%) tested could not be validated and it was clear there were significant delays between the time Children’s Services were notified of a completed health check and the corresponding paperwork being received. An earlier audit of this area in 2012 had found 20% of health checks could not be validated, so it would appear that this process is now working less effectively than before.

#### **6. Capital Monitoring**

- 44 Capital Monitoring was highlighted in the 2012/13 Annual Governance Statement as an area for continued focus given the council’s aim to borrow to invest significantly over the next 3-4 years in property for service provision, investment and regeneration purposes.
- 45 An audit of Capital Monitoring is currently underway and the findings from this will be included in the Chief Internal Auditor’s Annual Report to Audit and a report is expected to be issued during May 2014.

#### **7. Health and Safety**

- 46 An audit of Health and Safety in Schools highlighted the arrangements in place whereby the Strategic Risk Team in Children’s Schools and Families provides schools with advice, guidance and training. It was noted that Property services inspect community and voluntary controlled schools and Environment and Infrastructure provide support to schools around road safety. The audit concluded that the support provided by Surrey County Council mitigates the risk of harm to individuals and breaches of legislation. Two Medium Priority recommendations were made to encourage more joined up working between the Schools Health and Safety Team and Property Services.
- 47 The Control Risk Self Assessment (CRSA) of Governance Policies coordinated by Internal Audit as part of annual review of governance to inform the Annual



Governance Statement included the Health and Safety Policy. Feedback from the CRSA surveys suggested that although some staff found the policy hard to locate there was a good level of understanding of the policy and the role of OSHENS incident recording and reporting system. Although a good number of staff appeared to be benefitting from individual wellbeing plans, there is an opportunity to encourage wider implementation of team wellbeing plans.

## **8. Contract Management**

- 48 An audit of the Contract Management Framework found that the framework that has been developed by Procurement – which includes assessment tools, IT Solutions (In-tend) and training – has substantially enhanced the previous arrangements in place. The new arrangements are being rolled-out service by service across the authority and Internal Audit recommended that a formal project plan should be developed that would see rollout to all Directorates by March 2015.
- 49 The Council's Medium Term Financial Plan anticipates significant procurement savings will need to be made over the next few years and effective procurement and contract management will be key to this.

## **9. Project Management**

- 49 An audit of the ICS Controcc system which went live in November 2012 highlighted concerns over the project management and emphasised the need to ensure that future projects are properly planned and supported by robust business cases. Representation from Childrens, Schools and Families senior management at Project Board meetings suggested a lack of full engagement.
- 50 An audit of the Transfer of Public Health found that the transfer of public health functions had been effective in terms of continuity of service and mitigation of risk. An example of good practice within the overall governance of the transition was the establishment of a shadow Health & Wellbeing Board well ahead of the required date for such a body to exist.
- 51 The Council does not have a central programme office and it is unclear what corporate mechanism exists for identifying the key strategic programmes or projects that are underway and reporting on whether they are on track to deliver anticipated benefits. An audit of this area is currently underway.

## **10. Risk Management**

- 52 An audit of Risk Management concluded that SCC's Risk Management Strategy, Policy and Framework are logical, concise and well written documents and that good progress had been made on the implementation of the recommendations arising from the previous year's audit. It was noted however that some of the service risk registers held on S:Net had not been updated for several months.
- 53 Internal Audit conducted a small survey of senior managers on risk management in December 2013. The survey results confirmed the key role of Directorate Leadership Teams and Senior Management Teams in focusing on risk issues and confirmed that identifying opportunities and stimulating innovation were also seen as part of risk management. The same survey highlighted some positive messages about SCC's risk culture and work via the Strategic Risk Forum to further enhance this is currently in hand.

**Implications:**

- 54 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.
- 55 Terms of Reference for all audit reviews include the requirement to specifically consider value for money; risk management; and, equalities and diversity.

**Next Steps:**

- 56 The Chief Internal Auditor will continue to update Members on the progress of issues within this report that have not been fully concluded.

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**Sources/background papers:** Internal Audit reports