



AUDIT & GOVERNANCE COMMITTEE  
1 December 2014

**Internal Audit Half Yearly Report 2014/15**

**SUMMARY AND PURPOSE:**

1. This interim report summarises the work of Internal Audit during the first six months of 2014/15. 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 2014 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 2014 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 January 2014. In addition, at Annex C is an update on earlier audit reports where management action plan progress for High Priority audit recommendations had not previously been rated as “Green”.

**RECOMMENDATIONS:**

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 2014/15 was approved by this Committee on 24 March 2014. The table below shows actual performance against the original plan for the first half year.

<b>Audit Area</b>	<b>Plan Days (whole year)</b>	<b>Actual Days (half year)</b>	<b>% Actual to planned</b>
Corporate Governance Arrangements	75	1	1%
Key Financial Systems	200	54	27%
Grants	30	13	43%
Contract reviews	135	92	68%
Service reviews (systems and projects)	865	283	33%
Follow-up Audits	60	4	7%
Client Support/ Service Liaison/Innovation Support	186	54	29%
Irregularity and Special Investigations including Fraud Prevention	335	121	36%
Internal Audit Management, Corporate Support and Organisational Learning	294	146	50%
<b>Total days</b>	<b>2180</b>	<b>768</b>	<b>35%</b>
Figures as shown in 2013/14 half year report (for comparison)	2228	1034	46.4%

7. The above table shows that 768 days were spent delivering the audit plan in the first half of the year, this represents just 35% of the total number of days planned for the year. There are a number of factors underlying the relatively low number of audit days delivered in the first half of the year, viz:

- **Secondment to Surrey Fire & Rescue Service (SFRS)** – one member of the Internal Audit team was on secondment to SFRS for the period May – September 2014
- **Vacancies** – the team had two vacant positions during the period and while there was timely recruitment to these posts some days have inevitably been lost.
- **Sickness Absence** – one member of the team was on long-term sickness absence from the end of May 2014
- **Annual leave/bank holidays** – disproportionately more bank holidays fall in the first six months of the audit year and more annual leave is typically taken in this period

8. The Chief Internal Auditor is confident that much of the lost time should be made up in the latter part of the year, though a combination of measures including:
  - a six-month secondment into the team of an officer from Adult Social Care who has relevant Internal Audit experience
  - use of agency staffing
9. It is unlikely however that all the planned audit days will be delivered by the year end as there is no budget to compensate days lost to sickness, and while some budget is available to cover vacancies (and secondment out of the team), agency resource is typically more expensive than directly employed resource.
10. 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:

	2014/15		2013/14		2012/13	
	No	%	No	%	No	%
Audits in planning stage:	<b>36</b>	<b>37</b>	41	33	43	33
Audits in progress	<b>20</b>	<b>20</b>	39	31	39	30
Audits completed	<b>42</b>	<b>43</b>	44	36	47	37

11. The Internal Audit team has worked hard during the first six months with some 42 audits, projects or investigations completed since April, including 29 final audit reports issued (as detailed at Annex A), seven grant certificates produced and six investigations closed.
12. The following table shows the spread of audit opinions for the 29 reports issued in the period with comparative information for 2013/14 full year:

Audit Opinion	2014/15 (half year)		2013/14 (full year)	
	No of Audit Reports	%	No of Audit Reports	%
Effective	6	21	21	33
Some Improvement Needed	12	41	34	54
Significant* Improvement Needed	4	14	2	3
Unsatisfactory	1	3	0	0
n/a	6	21	6	10
<b>Total</b>	<b>29</b>	<b>100</b>	<b>63</b>	<b>100</b>

\* Described as "Major Improvement Needed" in 2013/14

The following table shows those audits rated "Significant Improvement Needed" and "Unsatisfactory" in 2013/14 and in the first six months of 2014/15.

2014/15 (half year)		2013/14 (full year)	
Significant Improvement Needed	Unsatisfactory	Significant Improvement Needed	Unsatisfactory
Information Governance	LAC Finances	LAC Health & Dental Checks	
Appraisals		Social Care Debt – Credit Balances	
Surrey Arts			
Agency Staff Contract			

## Customer Satisfaction Survey (CSQ)

13. 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.
14. The following table shows the breakdown of CSQ scores received during the six month period to September 2014:

<b>CSQ Overall Rating</b>	<b>No of CSQs</b>	<b>%</b>
4 – very useful	6	55
3	3	27
2	1	9
1 – not very useful	1	9
<b>Total</b>	<b>11</b>	<b>100</b>

## **MANAGEMENT ACTION PLAN PROGRESS**

15. A summary of progress made on implementing audit recommendations for all audits completed in the period January – June 2014 is attached at Annex B.
16. The status of all high priority audit recommendation, not previously reported as “Green” to this Committee is set out at Annex C.
17. These progress updates show evidence of improvements being made across the council. There are some areas however which have been (or continue to be) assessed as Red/Amber and Internal Audit will closely monitor these management action plans going forward.

## **AUDIT ACTIVITY – 2014/15 ANNUAL PLAN**

### **Corporate Governance Arrangements**

18. 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**

19. Key Financial Systems audit reports issued in 2014/15 and presented to this Committee include:
  - Revenue Budget Control; Accounts Payable; Accounts Receivable; Capital Monitoring; Pensions Administration; and, Payroll.
20. 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**

21. Seven grant audits were completed in the period, as follows:
- Adoption Reform
  - Bus Subsidy
  - Care Bill Implementation
  - RESTORE Grant (Interreg IIIC)
  - Local Pinch Point Fund
  - Local Sustainable Transport Fund Capital Grant
  - Local Authority Capital Block Funding (Integrated Transport and Highway Maintenance) Specific Grant

## **Contract Reviews**

22. Contract review audit reports issued in 2014/15 and presented to this Committee include:
- Agency Staff Contract
  - Superfast Broadband
23. The following contract audits were in progress at the 30 September:
- Bus Operating Contracts
  - Procurement Savings

## **Service Reviews**

24. Service review audit reports issued in 2014/15 to date include:

Adult Social Care: AIS Assessment Process.

Business Services: Appraisals; Finance Dashboard; Risk Management; Social Care Debt; Project Management; UNICORN; Energy Management; Grants to Voluntary Bodies; LA Trading Company Governance Arrangements; and, Management of Citrix.

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

Children Schools and Families: Short Stay Schools; Community Homes and Short Break Respite Care; Youth Service Commissions; and, Looked After Children's Finances.

Chief Executive's Office: Surrey Arts; and, Information Governance.

Environment and Infrastructure: Integrated Waste Data System; Highway Asset Management and Property; and, Operation Horizon.

## **Follow-up Audits**

25. The following follow-up audit reports were issued in the period:
- Commercial Services
  - Special Schools – Funding for Residential Provision

### **Client Support and Service Liaison**

26. 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.
27. Some examples of client support provided during the first six months of the year have included:
  - Advice/assistance to services involved in disciplinary investigation;
  - Advice to Finance/IMT on the invoice payment mechanism for the corporate mobile phone contract;
  - Supporting the extract of Purchase Card/Fuel Card data in response to a Freedom of Information Request.
  - Presentation of audit findings to a Highways Member Task Group
  - Validating the new appraisal recording/reporting process
  - Providing advice to services on document retention
  - Working with Sustainability and Energy staff to help draft the new SCC Energy and Carbon Policy 2014-18
  - Follow-up of member concerns around speeds delivered through the Superfast Broadband project in one part of the County.
  - Assisting with Flood Response Grant applications, advising on evaluation criteria and investigating suspicious looking applications
  - Helping develop a risk assessment process for community groups seeking funding

### **Irregularity and Special investigations**

28. 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 2014.
29. 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**

30. 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 and various Select Committees.
  - attendance at various Leadership meetings including regular participation in the Statutory Responsibilities Network and Continuous Improvement and Productivity Network
  - Attendance at meetings of the Governance Panel; Investment Panel; and, Information Risk Governance Board.
  - Participation in the Better Place to Work Event
  - Attendance at Information Access Officers' meetings and dealing with Freedom of Information requests on behalf of the wider Policy and Performance Service

## **TRAINING AND DEVELOPMENT:**

31. 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.
32. Development/training may take many forms. Examples undertaken in the period include:
- Procurement and Contract Audit Training
  - Accredited Counter Fraud Specialist Training
  - An introduction to the Highways team at Merrow
  - Attending the ACCA 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
  - People Fuel Training run in-house
  - Equality and Inclusion Matters training
  - Dementia Awareness Training

## **CONCLUSION:**

33. 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:**

34. 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.
35. 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:**

36. A report will be presented on completed audits at future meetings of this Committee and the Chief Internal Auditor's Annual Report for 2014/15 will be presented to this Committee at the meeting planned for May 2015.

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**Sources/background papers:** 2014/15 Internal audit plan

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