



AUDIT & GOVERNANCE COMMITTEE
6 December 2012

Internal Audit Half Yearly Report 2012/13

SUMMARY AND PURPOSE:

1. This interim report summarises the work of Internal Audit during the first six months of 2012/13. 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 2012 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 2012 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 2012. 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 2012/13 was approved by this Committee on 5 April 2012. The table below shows actual performance against the original plan for the first half year.

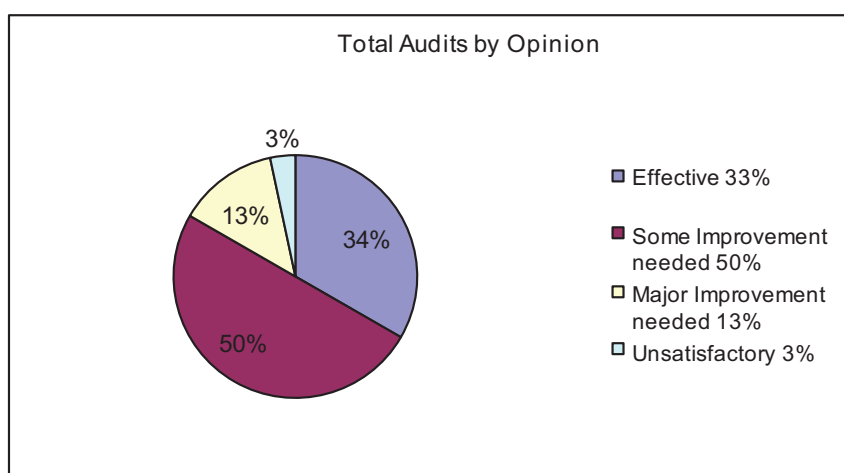
Audit Area	Plan Days (whole year)	Actual Days (half year)	% Actual to planned
Corporate Governance Arrangements	40	5	13%
Key Financial Systems	200	32	16%
Grants	30	33	110%
Contract reviews	110	59	54%
Service reviews (systems and projects)	990	496	50%
Follow-up Audits	50	13	26%
Client Support and Service liaison	136	74	54%
PVR Recommendations follow-up	50	0	0%
Special reviews not included in the original audit plan. NFI and other fraud prevention Irregularity investigations	301	145	48%
Audit planning and management, corporate and member support	294	138	47%
Total days	2201	995	45%
Figures as shown in 2011/12 half year report (for comparison)	2401	933	39%

7. The above table shows that 995 days were spent delivering the audit plan in the first half of the year, this represents 45% 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. This figure (45%) is significantly better that was reported at the half year point in 2011/12 when, due to vacancies only 39% of planned staff days had been spent delivering the plan.

8. The following table shows progress as at 30 September against the annual audit plan with 2010/11 and 2009/10 half year comparative figures also shown:

	2012/13		2011/12		2010/11	
	No	%	No	%	No	%
Audits in planning stage:	43	33	53	40	56	36
Audits in progress	39	30	32	24	44	28
Audits completed	47	37	47	36	55	26

9. Internal Audit team have had a productive first six months with some 47 audits, projects or investigations completed since April, including 30 final audit reports issued (as detailed at Annex A), 4 grant certificates produced and 13 investigations closed.
10. The following chart shows the spread of audit opinions for the 30 reports issued in the period:



Note: Comparative information for last year (30/09/2011) as follows:
 Effective 18%; Some Improvement Needed 73%; Major Improvement Needed 6%; Unsatisfactory 0%

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 2012:

CSQ Overall Rating	No of CSQs	%
4 – very useful	5	63
3	2	25
2	1	12
1 – not very useful	0	0
Total	8	100

MANAGEMENT ACTION PLAN PROGRESS

13. In May 2012 a report was presented to this Committee that assessed progress made for all audits reports issued in the period September 2011– January 2012. This information is summarised at Annex B 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 2012 is attached at Annex C.
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 – 2012/13 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 2012/13 and presented to this Committee include:
Treasury Management; General Ledger; Accounts Payable; Accounts Receivable; Capital Monitoring 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. In previous years this work has included tests specified by the External Auditor. The Chief Internal Auditor has been advised that the new External Auditor (Grant Thornton UK LLP) do not require Internal Audit to undertake any specific testing on their behalf.

Grants

18. Four grant audits were completed in the period, as follows:
Local Transportation Capital Block Grant; Roma Routes (EU) Grant; Walton Bridge; and, Sport England Grant.

Contract Reviews

19. Contract review audit reports issued in 2012/13 and presented to this Committee include:
Agency Staff Contract; Waste Contract Management; Surrey Highways Contract Management; and, Babcock 4S Contract.
20. Audits of the Residential Care Block Contract and Streetlighting (illuminated street furniture) Contract were in progress at the 30 September.

Service Reviews

21. Service review audit reports issued in 2012/13 and presented to this Committee to date include:

Adult Social Care: Direct Payments; Telecare; and, Residential Care Homes- Managing Residents' Monies

Change and Efficiency: Fuel Cards; Data Protection Compliance; Health and Safety Compliance; and, Recruitment Procedures

Customers and Communities: SFRS PVR; and, SFRS Firestations

Children Schools and Families: Academies; Honoraria Payments in Schools; Retiring Head Teachers' Pay; LAC Health and Dental Checks (Data Quality); Integrated Children's System; 16-19 Education; and Special Residential Schools –Teachers' Additional Payments

Chief Executive's Office: VCSF Framework;

Environment and Infrastructure: Carbon Reduction Scheme

Follow-up Audits

22. No specific follow-up audits have been completed in the first six months of the year. Time spent by the Internal Audit team on Management Action Plan Progress updates as reported at Annex B is also recorded under this heading.

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.

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

- Supported ASC by providing advice as part of a safeguarding review in ASC and developing an action plan for all Sourcing and Locality teams to ensure their safes are being properly managed.
- Meeting with the Banking Team regarding a new system for school meals income management
- Responding to queries from Services for information regarding the audit of grants (eg Euro related grant enquiries and Troubled Families grant)
- Provided advice on reclaiming Direct Payment (DP) funds from Service Users and briefing the new AR Manager on debt relating to DPs
- Supported Finance by reviewing policy guidance before final issue e.g. Imprest guidance and personal account procedures
- Developed a workforce planning tool to enable ASC management to identify recruitment needs through analysis of agency/bank/overtime staffing
- Vendor creation and maintenance upload form - supported the Data management team in the risk and vulnerability assessment of a proposed replacement for the e-suite form.
- Met with ASC regarding a new system for paying crisis payments to residents (following abolition of Social Fund)
- SPACE - Used the spreadsheet analysis tool SPACE to provide comments on the Financial Model that was going to be used in the final stage of the

procurement of UNICORN replacing Cable and Wireless and the SWAN network.

- Advised on the control environment for Wisepay online payment system in Schools
- Provided advice to establishments in ASC and CSF following theft of monies from safes

PVR Support/Recommendations follow-up

24. No time was recorded against this specific heading during the half year. A follow-up of the Transport Coordination Centre (TCC) PVR is planned for later in the year and certain service review audits (eg Recruitment Procedures) completed in the period have included follow-up on PVR outcomes.

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 2012.
26. Special investigations usually take place as a result of concerns being raised directly with Internal Audit by members or officers. One audit report - Surrey Educational Trust - has been issued in the first six months of the year as a result of a special investigation.
27. The report on Fighting Fraud Locally presented to Audit and Governance Committee in October 2012 set out the work that Internal Audit has carried out during 2012/13 in response to the strategy launched by the National Fraud Authority in April 2012.

Corporate Support and Internal Management

28. 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 Council Overview and Scrutiny 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:

29. The Cipfa Code of Practice for Internal Audit in Local Government places 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.
30. Development/training may take many forms. Examples undertaken in the period include:
- A day work shadowing an Assistant Director in ASC
 - Attendance at events organised by:
 - The London Audit Group
 - Counties Chief Auditors Network
 - Home Counties Chief Internal Auditors Network (HCCIAG)

- SAP Specialist Interest Groups
- Formal technical training/updates such as:
 - Social Media – Challenges and Risks for Internal Audit
 - Audit report writing
 - Internet Investigations
 - Infosec Sessions (eg Incident Response and Mobile Applications)

31. In December 2012, five members of the Internal Audit team will attend training arranged through the HCCIAG on IT Applications Audit.

CONCLUSION:

32. 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:

33. 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.

34. 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:

35. A report will be presented on completed audits at future meetings of this Committee and the Annual Report for 2012/13 will be presented to this Committee at the meeting planned for May 2013.

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Sources/background papers: 2012/13 Internal audit plan

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