

AUDIT & GOVERNANCE COMMITTEE
26 May 2016

INTERNAL AUDIT ANNUAL REPORT 2015/16

SUMMARY:

This report summarises the work of Internal Audit for the period 1 April 2015 to 31 March 2016, 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.

RECOMMENDATION:

Members are asked to note the work undertaken and performance of Internal Audit in 2015/16 and the resultant annual audit opinion; 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 Strategy 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 2015 to 31 March 2016. This report informs the 2015/16 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 2015/16

- 4 Internal Audit is one of four teams, the others being Performance and Change; Economic Growth; and, Policy and Strategic Partnerships; within the Strategy 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.
- 6 As part of the council's network leadership approach, the statutory responsibilities network was formed in the summer of 2014. The Chief Internal Auditor is a member of this network which has met fortnightly throughout 2015/16. In addition the Chief Internal Auditor has continued to meet regularly throughout the year on a one to one basis with the Chief Executive and the S151 Officer to brief them on governance matters.
- 7 During 2015/16 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 2015/16 with the Audit and Governance Committee and Scrutiny Boards 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 2015/16 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 2015/16 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 and are considered to be sound. It is noted however that despite the controls in place, there is a high risk as highlighted in the Leadership Risk register of failure to achieve the Medium Term Financial Plan (MTFP) going forward as a result of:

- not achieving savings
- additional service demand and/or
- over optimistic funding levels

- 12 More generally however in wider service reviews some specific weaknesses were identified by Internal Audit that 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 58 standard audit reports issued in the period 2015/16 with comparative information for 2014/15.

Audit Opinion	2014/15		2015/16	
	No of Audit Reports	%	No of Audit Reports	%
Effective	16	26	17	29
Some Improvement Needed	33	53	25	43
Significant Improvement Needed	5	8	11	19
Unsatisfactory	1	2	2	4
n/a	7	11	3	5
Total	62	100	58	100

- 13 A complete list of audit reports issued in the period is set out in Annex A. The key issues arising from audit work completed during 2015/16 are set out in the Key Audit Findings section of this report.

MANAGEMENT ACTION PLAN (MAP) PROGRESS UPDATE

- 14 A summary of Management Action Plan (MAP) progress in implementing audit recommendations for audit reports issued in the period July – December 2015 can be found at Annex B
- 15 Annex C contains details of all audit reports issued prior to July 2015 where implementation of High Priority recommendations has not previously been reported to this Committee as “Green”.

PERFORMANCE SUMMARY

- 16 The audit plan for 2015/16 was approved by this Committee on 9 April 2015. This plan was based on a budget of £639,791. Actual outturn at the year-end was £635,004. The table below shows actual performance against the original plan for the year.

Audit Area	Plan Days (whole year)	Actual Days	% Actual to planned
Corporate Governance Arrangements	85	43	51%
Key Financial Systems	185	210	113%
Grants	61	24	39%
Contract reviews	125	89	71%
Service reviews (systems and projects)	845	799	95%
Follow-up Audits	50	36	72%
Innovation & Client Support and Service liaison	153	119	78%
Special reviews not included in the original audit plan. NFI and other fraud prevention Irregularity investigations	280	329	118%
Audit planning and management, corporate and member support	285	287	101%
Total days	2069	1937	94%
Figures as shown in 2014/15 report (for comparison)	2180	1744	80%

17 The Internal Audit team establishment for 2015/16 comprised 12 full time equivalent (FTE) staff. The team had three vacancies for much of the year and so agency resource was used throughout the year to cover vacancies and help ensure satisfactory delivery of the annual audit plan.

18 2015/16 Annual Audit Plan Completion

Annex D provides an analysis of completion of the 2015/16 Internal Audit programme of work. Further information is set out below.

Deferred/Cancelled Audits - the following audits, which were included in the 2015/16 annual audit plan, were cancelled/deferred for the following reasons:

- SAP Application Controls – audit deferred to 2016/17 as the 2014/15 audit report issued in December 2014 had an “Effective” audit opinion and there were minimal changes to the SAP environment in 2015/16.
- Financial Assessments and Benefits - audit deferred to 2016/17 as this area was reviewed in some depth in 2014/15, with audit reports issued on both Financial Assessments and Benefits and Social Care Debt.
- Care Act – audit cancelled due to changes in implementation timescales.
- SAP Interfaces – audit deferred to 2016/17 due to delays in securing the technical resource to complete this review.
- Network Security - audit deferred to 2016/17 due to delays in securing the technical resource to complete this review.
- Student Fare Care – audit cancelled due to reassessment of risk priority

- Special Schools – deferred to 2016/17 to complement other SEND work
- Short Stay Schools – audit cancelled as short day schools were considered as part of a wider schools compliance audit.
- Works Management System - audit deferred to 2016/17 due to a delay in the implementation of this new system

In addition, as shown in Annex D, a small number of audits relating to 2015/16 are still in progress.

19 Grants

Six grant audits were completed in the period, as follows:

- Active Sports (Sport England)
- Bus Subsidy
- RESTORE project final claim (EU funded)
- Repair & Renew Grant
- Teacher Training (SCiTT)
- Troubled Families 2 (Payment By Results)

20 Fraud and Irregularity and Special Reviews

The 2015/16 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 (107 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.

A separate report has been produced for this Committee which provides more information on the irregularity investigations undertaken by Internal Audit during 2015/16.

Also included in this is time spent on fraud awareness work, including delivering Fighting Fraud presentations to teams across the council and circulating fraud alerts received from such audit networks as the National Anti-Fraud Network and the County Chief Auditor's Network.

21 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 2015/16 (previous year figures in brackets for comparative purposes):

CSQ Overall Rating	No of CSQs	%
4 – very useful	8 (12)	44 (42)
3	7 (11)	39 (38)
2	3 (5)	17 (17)
1 – not very useful	0 (1)	0 (3)
Total	18 (29)	100

EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

- 22 A report on the findings of the 2015/16 review of the effectiveness of the system of Internal Audit was presented to this Committee on 11 April. This review concluded that Internal Audit in Surrey County Council is independent of undue influences and has a high profile within the organisation. The Internal Audit team is sufficiently well resourced with highly skilled and experienced auditors and resource is properly focussed on key areas of risk. Appropriate controls are in place to ensure Internal Audit work is of high quality. Management action in response to audit recommendations is generally both effective and timely and the council's overview and scrutiny boards are effective in ensuring this.
- 23 No matters of non compliance with the Public Sector Internal Audit Standards were identified that would require mention in the 2015/16 Annual Governance Statement.

KEY AUDIT FINDINGS

- 24 The key audit findings arising from completion of the 2015/16 Internal Audit plan are categorised under the 7 themes as set out below:

1. Adult Social Care (ASC)

An audit review of AIS care assessments gave an audit opinion of **Significant Improvement Needed** and noted numerous data quality issues and omissions eg one third of cases reviewed by the auditor showed no recorded progress against desired outcomes. Data quality issues are further exacerbated within the AIS system by the automated default to “no” or “unknown” for a significant proportion of data entry fields. A replacement for the AIS system is planned for implementation during 2016/17 and in agreeing the specification/configuration for this new system, the service has sought to address the weaknesses identified by the audit.

An audit review of Telecare gave an audit opinion of **Some Improvement Needed** and noted that performance monitoring information focuses on numbers of referrals and types of service provision. While this information is useful in assessing one of the key commissioning objectives (*enabling access of residents to the telecare market*) it does not, on its own, allow a satisfactory assessment of the second key objective (*improving outcomes for vulnerable adults*). The audit recommended the introduction of metrics that support a more qualitative assessment of outcomes.

An audit of Surrey Choices completed in August 2015 gave an audit opinion of **Significant Improvement Needed** and concluded that the management information being provided by Surrey Choices did not allow the quality of services to be effectively

monitored. The audit also noted that although the Personalisation Team were expected to complete 270 care plan reviews a year, only 56 had been completed. Subsequently, the Personalisation Team was brought back in-house from January 2016. The 2014/15 external audit report for Surrey Choices identified serious concerns regarding the financial governance of Surrey Choices Ltd – which is wholly owned by Surrey County Council – and at the February 2016 meeting of the Audit and Governance Committee, the Leader and Chief Executive reported that Surrey Choices had been asked to present a business plan to the Shareholder Board in April 2016.

An audit of Deputyships resulted in an audit opinion of **Some Improvement Needed** and noted a number of areas of good practice. It was specifically noted that social care debt relating to deputyship accounts, which had previously been highlighted as an area of concern, is now being satisfactorily addressed.

Family, Friends and Communities is a key strategic programme designed to maximise the independence of individuals with care and support needs and support them to achieve better outcomes at lower costs. An audit of Family, Friends and Communities gave an audit opinion of **Some Improvement Needed** and highlighted the difficulties in meeting the very challenging savings targets assumed within the Medium Term Financial Plan. Reassessments of care packages were resulting in 15% savings against a stretch target of 20%.

An audit of the Better Care Fund – S75 agreements concluded that the agreements met the format required by NHS England and had been suitably tailored to meet the needs of the local areas. At the time of the audit all agreements had been signed except for the one with North West Surrey Clinical Commissioning Group (CCG) which was being amended to reflect the involvement of the NHS Windsor and Maidenhead CCG. Internal Audit has subsequently been assured that this outstanding agreement was signed on 23 February 2016.

2. Children Schools and Families (CSF)

Internal Audit provided support to the Children's Improvement Plan throughout the year and issued a Position Statement in March 2016. This concluded that there is close monitoring of the improvement plan by the Improvement Board which is representative of key officers and members. While it was possible to identify improvement plan actions being completed it was less easy to assess the impact of those actions. It was apparent that the council has continued to struggle to recruit and retain children's social workers and the change of culture necessary to address the failings identified by the Ofsted inspection will take time to embed.

An audit of the Children's Safeguarding Quality Assurance (QA) Process completed in June 2015, attracted a **Significant Improvement Needed** audit opinion and found insufficient follow-up of action plans resulting from QA reviews. It was recommended that all QA reports and related improvement plans should be presented to the directorate leadership team to ensure managers take effective action and that a summary of findings should be presented to the Social Care Services board. At the time of writing the Children's Improvement Plan Audit Position Statement, referred to above, it was apparent that this recommendation had not been satisfactorily implemented, although subsequent assurance has been obtained that at the meeting of the Social Care Services Board in March 2016, the Strategic Director for Children, Schools and Families committed to providing the Board with both more detailed performance information and details of the findings of QA activity.

An audit of Foster Care Service Arrangements resulted in an **Unsatisfactory** audit opinion. This audit looked at the administrative and financial aspects of the service; it did not evaluate the standard of care provided to looked after children and young people. Issues identified included incomplete/inconsistent training records; inconsistencies in records of Disclosure and Barring Service (DBS) checks of foster carers and their extended families; a lack of evidence of completion of unannounced visits; and, instances of allowance payments being made with no independent authorisation.

An audit of Transport for Education completed in March 2016 resulted in an audit opinion of **Significant Improvement Needed**. The audit concluded that the work involved in updating the Special Education Needs strategy to reflect the requirements of the Children's and Families Act which came into effect on 1 September 2014 had been wholly under estimated by senior management within Schools and Learning, particularly in terms of time and resource requirements. The audit found that the strategy, policies and procedures relating to Special Educational Needs and Disabilities (SEND) had not been finalised. Up to date SEND information was not available to staff on the intranet, nor to parents on the council's external website.

Internal Audit has subsequently provided support on SEND both through participation in a Peer Challenge and through some specific audit testing. There are significant issues within this service area, relating both to the increasingly high costs of providing SEND services; and, unsatisfactory performance against operational targets (including statutory timeframes). Internal Audit resource will continue to focus on this area in 2016/17.

An audit of Nursery Education resulted in a **Significant Improvement Needed** audit opinion. The audit found several instances of misalignment of the hours of Early Years Education (EYE) on the parental declaration forms against the actual hours funded by the council. Several parental declaration forms were found to have been signed in advance (eg forms signed in autumn for both the spring and summer terms). While the service area had identified nursery education settings which were of concern to them, they had not conducted visits to those settings to investigate their concerns.

Internal Audit inspections were conducted at 20 schools over the year. Audit findings, and recommendations where appropriate, were reported back to the individual school and an overarching audit report – Schools Compliance Audit – was issued in January 2016. This report gave an opinion of **Significant Improvement Needed** in relation to procurement practices in schools. Specific issues included a lack of evidence (quotations etc) supporting the award of some contracts; procurement threshold limits not being defined; and, a lack segregation of duties for procurement (eg the same individual could raise requisitions and approve orders). This latter point is a common resourcing issue within smaller schools and remains an active risk.

An audit of School Places attracted an **Effective** audit opinion.

3. Highways

An Internal Audit review of Highways Schemes – Integrated Transport Schemes (ITS) gave an audit opinion of **Some Improvement Needed** and noted that many variation orders were not priced when they were issued, resulting in the additional costs not being known until the contractor prepares their final account. Similarly, an audit of Highways Communication found that for all the schemes reviewed by the auditor, variation orders were issued after the works were completed. The audit noted that a

communication strategy had been developed and a Communications Manager appointed. This should improve the quality and timeliness of communication required to the different stakeholders including county/borough elected members; residents and local businesses.

Audits of the Highways Contract – Safety Inspections and Streetworks Permit Scheme attracted an **Effective** audit opinion.

4. IMT Security and Information Governance

An audit of Non-Corporate Applications completed in December 2015 considered the controls in place over the various IT applications used by specific service areas to meet their particular needs. This audit gave an **Effective** audit opinion and concluded that appropriate controls are in place around the hosting, maintenance and support arrangements for Non-Corporate System Applications.

An audit of IMT Incident Response gave a **Some Improvement Needed** audit opinion and concluded that the council has a robust system in place for managing IMT incidents.

An audit of SAP application Controls did not take place during 2015/16 but Internal Audit is mindful that there have been minimal changes to the SAP environment since the 2014/15 audit which gave an **Effective** audit opinion and concluded that SCC has rigorous controls in place to ensure employees only have access to the functionality and information required for them to undertake their duties.

Throughout 2015/16 Internal Audit has been represented on the Information & Risk Governance Board and has provided support and advice on a number of key areas including breach monitoring and the refresh of the IT security policy. The rollout of Office 365 – replacing the current email system – will continue to be tracked by the Board.

An audit report on Information Governance (IG) gave a **Some Improvement Needed** audit opinion and noted that many aspects of information risk are being managed satisfactorily. In particular, policies and procedures are in place; there is a proper process for reporting potential breaches and a suitable information sharing protocol. It was noted however that the Corporate IG Manager, while recognised as the IG lead and co-ordinator for the council, has no oversight of, authority over, or responsibility for, the work of the Adults' and Children's IG teams.

5. Risk Management and Organisational Ethics

The Public Sector Internal Audit Standards specifically require Internal Audit to review the organisation's ethics related programme of activities and risk management arrangements.

An **Effective** audit opinion was given following a review of Organisational Ethics and the auditor concluded that the present arrangements provide assurance that the routine actions of members and officers, and the consequent decisions taken by the council, are based upon strong ethical principles. Following the Committee on Standards in Public Life's report on Ethical Standards for Providers of Public Services (published in December 2015), it is recognised that the Council has an opportunity to

be more explicit about its ethical commitments around procurement and delivery of public services through third parties.

Initial findings from the 2015/16 audit of Risk Management Arrangements suggest that there are sound governance arrangements for monitoring and reporting risks.

The risk management strategy was refreshed in 2015 and a new risk management plan was put in place as part of this refresh.

Some areas of improvement were identified but generally, systems, procedures and controls evaluated were found to be adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives achieved.

6. Procurement and Contract Management

An audit of Procurement Standing Orders (PSO) - Waivers found that the Council has clear rules over tendering; the requirements for quotations; and, the very limited circumstances when a waiver of PSOs may be permitted. The number of waivers recorded is low in relation to annual procurement spend (1.8% in 2014/15) and the waivers log was considered by the auditor to be an accurate record of waivers granted.

An audit of Public Health Contracts concluded that a proportionate performance monitoring approach is adopted but noted that several contracts (valued > £100k) had not been uploaded to CMS, the Council's contract management system.

An audit of ASC Contract Management attracted an audit opinion of **Some Improvement Needed** and concluded that contract management arrangements for home based care were satisfactory. It was noted however that the new contract framework still leaves commissioners with 121 suppliers and that limited use was being made of CMS to manage documents/data related to these contracts. Contract management arrangements for the Surrey Independent Living Council contract had improved following corrections to the key performance indicator reporting arrangements that had erroneously raised concerns about SCC's commitment to the concept of direct payments compared to directly provided care packages.

An audit of HIV Services has highlighted the difficulties around procurement of a new service to replace the existing contract which officially ended on 31 March 2016, where key partners are unwilling to commit to future funding for this service.

An audit of the Babcock 4S Contract attracted an audit opinion of **Some Improvement Needed** and recommended improvements to key performance indicators so that they better measure outcomes.

A Highways Contract (Lot1) audit highlighted the need for Highways Service; Procurement and Commissioning; and Highways Service Management to work more closely together to strengthen contract and supply chain management for Highways maintenance. In particular the auditor highlighted the need for contract documentation, including agreed schedules, to be held on CMS.

A previous audit of the Highways contract completed in May 2014 had noted that the 12% discount on Kier MG invoices was not being recovered on a monthly basis as required by the contract and it was recommended that this should be implemented with the outstanding balance recovered immediately from Kier MG. In the course of conducting the audit of Highways Contract (Lot1) – referred to above – it was apparent that there continued to be delays in receiving the discounts due to the council from the

supplier. Highways officers attended Audit and Governance Committee in December 2015, and reported that an interim payment of £1m had been received in respect of 2014/15 discounts due to the council, with the outstanding balance (£150k) expected to be received before the year end.

A follow-up audit of the Agency Staffing Contract completed in July 2015 gave an audit opinion of **Some Improvement Needed** and noted the regional conversations which were taking place as part of a move towards a memorandum of cooperation for managing the demand and supply of Children's Social Workers. During 2015/16 this contract was retendered and awarded to a new supplier – Adecco. An audit of the new contract is included within the 2016/17 Internal Audit Plan.

7. Cultural Services

A follow-up audit of Surrey Arts completed in September 2015 gave an opinion of **Significant Improvement Needed** and made recommendations to improve controls around decommissioning of instruments and maintenance of a central inventory of all musical instruments.

An audit of Community Learning and Skills highlighted a fraud and error risk due to the lack of a reconciliation of income received from different sources and the SCC bank account. Recommendations were made to introduce monthly bank reconciliation procedures and proper cash handling practices. The audit also highlighted an opportunity to improve efficiency through the implementation of an online enrolment facility.

The Henrietta Parker Trust fund is available to serve any adults (i.e. persons over the compulsory school age) who wish to learn from a curriculum defined as "Home and Family Studies" in the Molesey area. An audit of this trust fund attracted an audit opinion of **Unsatisfactory** as it was apparent that SCC was not managing the trust fund in accordance with the requirements of the Charity Commission. Little progress had been made on an earlier Internal Audit recommendation to review options for the future use of the trust fund. Over the past five years £62k was spent on items such as kitchen equipment, whilst income from investments totalled £162k. The fund balance has continued to grow over the past 20 years and the fund balance at March 2015 was £1.3m. A subsequent audit of the wider governance across the council's Trust Funds found similar issues, with most funds not being properly managed.

An audit of Community Partnership Libraries attracted an **Effective** audit opinion.

IMPLICATIONS:

- 25 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.
- 26 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:

27 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