

AUDIT & GOVERNANCE COMMITTEE
5 December 2016

Internal Audit Half Yearly Report 2016/17

SUMMARY AND PURPOSE:

This interim report summarises the work of Internal Audit during the first six months of 2016/17. 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 2016 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 2016 is attached at Annex A for information.

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 2016. 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:

The Committee is recommended 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:

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. 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:

3. The audit plan for 2016/17 was approved by this Committee on 11 April 2016. 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	75	24	32%
Key Financial Systems	175	19	11%
Grants	54	14	26%
Contract reviews	135	45	33%
Service reviews (systems and projects)	845	421	50%
Follow-up Audits	45	7	16%
Client Support/ Service Liaison/Innovation Support	178	121	68%
Irregularity and Special Investigations including Fraud Prevention	340	127	37%
Internal Audit Management, Corporate Support and Organisational Learning	270	127	47%
Total days	2117	904	43%
Figures as shown in 2015/16 half year report (for comparison)	2069	959	46%

4. The above table shows that 904 days were spent delivering the audit plan in the first half of the year, this represents 43% of the total number of days planned for the year.
5. The following table shows progress as at 30 September against the annual audit plan with 2015/16 and 2014/15 half year comparative figures also shown:

	2016/17		2015/16		2014/15	
	No	%	No	%	No	%
Audits in planning stage:	32	30	35	30	36	37
Audits in progress	35	33	37	31	20	20
Audits completed	39	37	46	39	42	43

6. The Internal Audit team has had a productive first six months with some 39 audits, projects or investigations completed since April, including 24 final audit reports issued (as detailed at Annex A), 3 grant certificates produced, 1 special ad hoc review, and 11 investigations closed.
7. The following table shows the spread of audit opinions for the 24 reports issued in the period with comparative information for 2015/16 full year:

Audit Opinion	2016/17 (half year)		2015/16 (full year)	
	No of Audit Reports	%	No of Audit Reports	%
Effective	6	25	17	30
Some Improvement Needed	12	50	25	43
Significant Improvement Needed	2	8	11	19
Unsatisfactory	1	4	2	3
n/a	3	13	3	5
Total	24	100	58	100

Customer Satisfaction Survey (CSQ)

8. 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.
9. The following table shows the breakdown of CSQ scores received during the six month period to September 2016:

CSQ Overall Rating	No of CSQs	%
4 – very useful	1	17
3	5	83
2	-	-
1 – not very useful	-	-
Total	6	100

MANAGEMENT ACTION PLAN PROGRESS

10. A summary of progress made on implementing audit recommendations for all audits completed in the period January – June 2016 is attached at Annex B.

11. The status of all high priority audit recommendations, not previously reported as “Green” to this Committee is set out at Annex C.
12. 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 – 2016/17 ANNUAL PLAN

Corporate Governance Arrangements

13. 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

14. Key Financial Systems audit reports issued in 2016/17 and presented to this Committee include:
 - Procure to Pay (Accounts Payable); Capital Monitoring; Revenue Budget Control; and, Payroll.

Grants

15. 3 grant audits were completed in the period, as follows:
 - Superfast Broadband (BDUK)
 - Troubled Families (‘Payment by Results 2’)
 - Bus Subsidy

Contract Reviews

16. Contract review audit reports issued in 2016/17 and presented to this Committee include:
 - Contract Monitoring – Children’s Schools and Families
17. The following contract audits were in progress at the 30 September:
 - Highways Contract (gullies/drainage)

Service Reviews

18. Service review audit reports issued in 2016/17 to date include:
 - Adult Social Care and Public Health: Direct Payments; HIV Service; Carers; and, 0-5 Health Visitors.
 - Business Services: Suspensions and HR Case Management; Property Local Authority Trading Company; Off Contract Agency Spend; PAMS Income Module; and, Compliance with Procurement Standing Orders.
 - Children Schools and Families (CSF): Data Management in CSF; Surrey Youth Centres; and, School Improvement Strategy.
 - Environment and Infrastructure: Community Infrastructure Levy.

Follow-up Audits

19. The following follow-up audit reports were issued in the period:
- Surrey Arts
 - Adult Social Care IT Solution
 - Surrey Choices

Client Support and Service Liaison

20. 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.
21. Some examples of client support provided during the first six months of the year have included:
- advice on user acceptance testing of replacement BACS software
 - work with the concessionary travel team on how to identify potentially fraudulent applications
 - advice to the Insurance Team on a potentially fraudulent claim
 - advice to schools on cyber crime including phishing, scams and unsolicited goods, unwanted entries in 'registers' and like products, and hacking attempts on a WorldPay account
 - advice to Babcock 4S in respect of questions about the use of eBay and purchasing from an online discount retailer
 - advice to Property Services on disposal of surplus assets (specialist beds from care homes that are closing)
 - assisting with financial scrutiny and due diligence of applications for the Leader's Community Improvement Fund
 - supporting the Community Partnerships team by checking a sample of Community Improvement Fund grant recipients for evidence of use

Irregularity and Special investigations

22. 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 2016.
23. 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

24. During the six month period to 30 September 2016 Internal Audit has 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 Scrutiny Boards and sub-groups
 - attendance at various Leadership meetings including regular participation in the Statutory Responsibilities Network and Extended Leadership Team

- attendance at meetings of the Governance Panel; Strategic Risk Forum; Investment Panel; and, Information Risk Governance Board
 - attendance at Information Access Officers' meetings and dealing with Freedom of Information requests on behalf of the wider Strategy and Performance Service
25. Internal Audit has also been actively involved in the development of Orbis, the business services partnership across East Sussex County Council, Brighton and Hove City Council and Surrey County Council.
26. An Orbis Internal Audit workstream has been established and achievements in the six months to 30 September 2016 include:
- agreed a team name – orbisIA
 - agreed a vision for orbisIA to be: *A leading public sector provider of high quality audit and counter fraud services*
 - agreed orbisIA 2016/17 priorities and objectives
 - held two all staff workshops

TRAINING AND DEVELOPMENT:

27. 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.
28. Development/training may take many forms. Examples undertaken in the period include:
- Attendance at events organised by:
 - The London Audit Group
 - Counties Chief Auditors Network
 - Home Counties Chief Internal Auditors Network (HCCIAG)
 - CIPFA and the Institute of Internal Auditors
29. Professional examination successes included:
- A Lead Auditor attaining CMIIA accreditation (Chartered Internal Auditor through the Institute of Internal Auditors).
 - Senior Auditor success in an number of ACCA professional examinations
 - Senior Auditor success in a IIA Certified Internal Auditor examination

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 2016/17 will be presented to this Committee at the meeting planned for June 2017.

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Sources/background papers: 2016/17 Internal Audit plan

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