

Completed Audit Reports (November – December 2012)

Annex A

| Audit | Background to review | Key findings | Audit opinion (1) | Recommendations for improvement (Priority) (2) |
|------------------------------|--|--|-------------------------|---|
| Materials Testing Laboratory | <p>The Materials Testing Laboratory (MTL) forms part of Asset Planning Group and currently holds national accreditation to perform over 70 materials tests. Work is concentrated on testing, auditing and reporting on compliance standards for the major highway maintenance contracts in Surrey. With expenditure of approximately £1.323m per annum the MTL also offers its services to around 70 external users.</p> | <p>The MTL is a valuable resource to SCC undertaking a critical role in ensuring that management receives accurate and knowledge based information on the condition and maintenance of its highway assets. It ensures that assets are maintained or repaired to the required standards in order that the maximum benefit may be derived from budgets.</p> <p>The MTL offers its services to external clients in both the private and public sectors and the income this generates helps to reduce the overall cost of the service. In the course of this work the MTL has built up a reputation for high quality work which reflects well not only on the service but Surrey County Council as a whole.</p> <p>The audit identified a need to improve the level of detail of time recording and the basis for recharges.</p> | Some Improvement Needed | <p>Management should consider a revision to the coding arrangements within the ETCi time recording system in order that a more detailed breakdown is available for billing purposes. In addition, regular checks should be undertaken to ensure that the recharged hours are broadly in line with those expected for the work completed in the period. Where significant variations arise then explanations for these should be sought. (H)</p> <p>Management should revisit the calculations of recharge rates in order to ensure that the constituent parts are fully identified and costed to enable better informed decisions on applicable rates. As far as possible staff hours should be recharged at a consistent rate which ensures the recovery of actual costs incurred. (H)</p> |

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| Follow Up Review of Direct Payments: Controls Mitigating Fraud | <p>A review of Direct Payments (DPs) was included in the 2011/12 Annual Audit Plan. This report follows up the recommendations of that review agreed in a management action plan.</p> <p>The April 2012 Audit looked specifically at the controls in place to mitigate fraud in DPs and did not assess the efficacy of the care provided or the capacity of self directed support to transform lives.</p> | <p>Adult Social Care Management have substantially improved the DP framework and made significant progress in reducing the number of overdue Social Care Reviews (SCRs).</p> <p>Testing indicated that progress has been made in reducing the number of overdue SCRs (732 reduced to 292) and that the impact of amendments to the reconciliation procedure have not yet been felt (40-50% of service users failing to provide reconciliations in a timely manner in both reviews).</p> <p>Due to the results of the testing, particularly the remaining outstanding SCRs, the Auditor is as yet unable to provide reasonable assurance that the controls to prevent fraud in DPs are now adequate. However, it should be noted that in the Auditor's opinion the appropriate measures are in place but there will be a time lag before they impact the results of audit testing. The Auditor would expect to see further improvement in a future review.</p> | Major Improvement Needed | No new recommendations |

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| <p>LASER Contract Governance</p> | <p>The LASER (Local Authorities in South East Region) Framework is managed through Kent County Council (KCC) Commercial Services and allows for the provision of gas and electricity. Surrey County Council (SCC) has been using LASER since 2000.</p> <p>In March 2012 the former LASER Head of Energy procurement was convicted on charges related to a £2m fraud.</p> | <p>The Energy Manager was appointed in April 2012 as one of two County Council representatives on the LASER Governance Panel. This appointment is for a one year period only – as maternity cover - however it does provide an opportunity to influence governance arrangements.</p> <p>The audit noted there was no formal opportunity for member scrutiny of LASER contract performance.</p> | <p>Some Improvement Needed</p> | <p>As a member of the LASER Governance Panel the Energy Manager should look to ensure that:</p> <ul style="list-style-type: none"> • a progress update on reimbursement of overpayments related to the fraud is given at each meeting of the Governance Panel until the matter is resolved. • the Governance Panel request immediate reimbursement to members by LASER, of a proportion of the overpaid monies • performance of LASER is reviewed by the Governance Panel – at least biannually - against available industry benchmarking information • the Governance Panel is updated on the findings, and resultant actions, of the recent KCC Internal Audit report • The Governance Panel gives consideration to the periodic replacement of the Independent Industry Consultant and has the opportunity to influence their terms of reference • Consideration is given to reviewing the Terms of Reference of the Governance Panel to extend its remit to include wider governance matters such as those referred to above. <p style="text-align: right;">(H)</p> |
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| Unofficial School Funds | Schools are required to have their unofficial funds audited. This is the money obtained locally for anything as opposed to the delegated money for educational purposes supplied through the authority. A check of audit certificates; approval of governors; and, independence of auditors, took place across a large sample of schools | <p>Of the 112 schools reviewed:</p> <ul style="list-style-type: none"> • 77 were found to be fully compliant; • 23 were partially compliant eg there may have been delays in the accounts being submitted for independent audit or approval by governors, or a deficiency in the independence of the person examining the accounts; • 12 either did not provide the required information to the Internal Auditor within the time frame requested or have agreed they have not been compliant with the procedures. For the former, the auditor has agreed revised submission dates for schools to supply the relevant information. | Some Improvement Needed | Chairmen of Governors at schools identified as non compliant will be informed of the requirements to adhere to the Surrey Scheme for Financing Schools for School Unofficial Funds. (H) |

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| Corporate Purchasing Cards | There are 400 plus card holders spending £1.9million per annum using the card. The compliance with purchasing card rules was checked. This was to provide assurance that risks to loss of finance to the council was low | In the vast majority of cases card usage was found to be correct and the guidance complied with. However, the testing had identified a number of failures to comply with the Rules and Guidance including some inappropriate expenditure. This was exacerbated by the failure of some managers to monitor purchasing card expenditure. | Major Improvement Needed | <p>Ensure all card holders and line managers are aware of their responsibilities relating to purchase cards. (H)</p> <p>There should be a clear escalation process to deal with possible breaches of rules identified by the Card Compliance Team. (H)</p> <p>Guidance regarding use of the card when existing contracts are in place should be clarified. (H)</p> <p>The guidance should make it clear that eligible expenses relating to refreshments and travel should be claimed via the Portal, rather than paid for using a purchasing card. (H)</p> <p>Senior management should be reminded that cards should only be used by the named user. (H)</p> <p>Card holders and their line managers should be made aware of changes to guidance for card use. (H)</p> |

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| Special Schools – Funding of Residential Places | <p>Currently, funding of residential special schools is based on Surrey County Council (SCC) purchasing a level of capacity at each institution on a planned number of placements. For the 2011/12 school year, Surrey's maintained special schools received £4.1 million of funding from the Council for residential placements. From 2013, central government will change funding arrangements for schools, with levels being calculated based on actual, rather than planned, usage.</p> | <p>Most schools visited for this audit were not offering to pupils the full number of residential places for which they had been given funding in the 2011/12 academic year. Occupancy rates for existing places varied considerably, though the clear trend was a shortfall on the uptake of residential services, with half the schools filling less than 50% of funded places.</p> <p>The current practice of not including a residential requirement on a pupil's statement of SEN is not consistent with published SCC SEN strategic objectives. The Auditor could not identify an agreed SCC definition of 'residential accommodation'. In the absence of guidance from the Schools and Learning Service or a requirement on a pupil's SEN statement, schools offered different residential services linked to individual pupil development with insufficient reference to wider SCC strategic objectives.</p> <p>The Auditor is not satisfied that the Schools and Learning Service currently have sufficient management information on residential provision at special schools in order to effectively commission services, conduct robust business planning, or monitor progress against SEN objectives.</p> | Unsatisfactory | <p>The Head of Schools and Learning should consider engaging with the Heads of Surrey's special schools to agree new arrangements for funding residential places which takes into account the number of beds at each school and establishes a defined occupancy rate. (H)</p> <p>The Head of Schools and Learning should consider a review which encompasses both strategic planning and current operational practice, and make revisions to ensure they are consistent with one another. (H)</p> <p>The Head of Schools and Learning should consider devising and implementing a precise definition of 'residential accommodation' which precisely defines the service that is being commissioned. (H)</p> <p>The Head of Schools and Learning should consider requiring schools, as part of the commissioning process, to report at agreed regular intervals on nightly planned and actual occupancy rates. (H)</p> |

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| Illuminated Street Furniture (ISF) | <p>In March 2010 the Council commenced a 25 year PFI contract for the replacement and maintenance of street lighting assets. In parallel with this is a second contract covering maintenance of 'illuminated street furniture', that is signs, bollards etc. Whilst this work is also undertaken by the PFI contractor (Skanska) the contract operates independently from the PFI contract and has its own operational arrangements and performance measures.</p> | <p>Overall our testing indicated that the contract was running smoothly with the contractor achieving the targets set within the contract. Client side management has also been successful in negotiating a reduction in the contractor's rates following a benchmarking exercise with other authorities.</p> <p>It was noted, however, that the contract Schedule of Rates (SoR) had been incorrectly updated in relation to one particular area which had led to overcharging which should now be recovered from the contractor.</p> | Some Improvement Needed | <p>Management should raise the matter with the contractor and re-examine the SoR to confirm that the appropriate updates have taken effect. Going forward the SoR should be test checked post annual updating to minimise any risk of recurrence. Finally, management should review the contractor's monthly accounts and recover any overcharges they identify. (H)</p> |

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| Asset Management ICT | <p>Since 2010/11 the council has been engaged in a large scale improvement of its IT infrastructure. This is intended to drive efficiencies in the workplace and replace equipment and software that has reached the end of its life cycle. The value of this investment is in excess of £4 million and thus the management of these assets is crucial to achieve value for money from this investment.</p> | <p>As part of the move to a centralised server based architecture, applications are for the most part stored and deployed to end users from remote Application servers. However, a search (using the Applications Manager tool) for local installations of software (i.e. on the user's harddrive) identified 35 "unknown" installations.</p> <p>The audit concluded that the new physical devices installed as a result of this project are actively managed and locatable.</p> | Some Improvement Needed | IMT to investigate the "unknown" installations and manage appropriately. (H) |
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¹ **Audit Opinions**

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| Effective | Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. |
| 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. |
| Major Improvement Needed | Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met. |
| Unsatisfactory | Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met. |

² **Audit Recommendations**

Priority High (H) - major control weakness requiring immediate implementation of recommendation

Priority Medium (M) - existing procedures have a negative impact on internal control or the efficient use of resources

Priority Low (L) - recommendation represents good practice but its implementation is not fundamental to internal control

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