



**AUDIT & GOVERNANCE COMMITTEE**  
4 December 2017

**Internal Audit Half Yearly Report 2017/18**

**SUMMARY AND PURPOSE:**

1. This interim report summarises the work of Internal Audit during the first six months of 2017/18. 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 2017 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 1 April – 30 September 2017 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 outstanding high priority actions from past audits.
3. In addition to these two standard annexes, three more annexes are appended to this report for the Committee to consider:
  - Annex C is a summary of performance against the Orbis-Internal Audit Key Performance Indicators;
  - Annex D provides a summary of the proposal to undertake the assessment of the Internal Audit function against Public Sector Internal Audit Standards (PSIAS) through the South West Audit Partnership (SWAP); and
  - Annex E is a draft Reporting and Escalation policy for audit reports.

**RECOMMENDATIONS:**

4. Members are asked to consider the contents of this report and determine whether they:
  - a. Identify any matters that they wish to draw to the attention of the Cabinet and/or the County Council;
  - b. Identify any new or emerging risks for consideration for inclusion in the Internal Audit plan;
  - c. Require additional information or assurance about overdue actions due by services - Annex B
  - d. Note the revised Orbis-Internal Audit Key Performance Indicators - Annex C;

- e. Support the proposal to use the South West Audit Partnership (SWAP) to complete an external assessment of Orbis Internal Audit in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) – Annex D; and
- f. Approve the draft Reporting and Escalation Policy - Annex E.

<b>BACKGROUND:</b>
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- 5. 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 Finance, carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.
- 6. 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.

<b>PERFORMANCE SUMMARY:</b>
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- 7. The audit plan for 2017/18 was approved by this Committee on 27 March 2017. 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	55	14	25%
Key Financial Systems	180	129	71%
Grants	40	4	11%
Contract reviews	150	47	31%
Service reviews (systems and projects)	855	364	43%
Follow-up Audits	45	38	85%
Client Support/ Service Liaison/Innovation Support	120	68	57%
Irregularity and Special Investigations including Fraud Prevention	340	246	72%
Internal Audit Management, Corporate Support and Organisational Learning	204	130	64%
<b>Total days</b>	<b>1989</b>	<b>1039</b>	<b>52%</b>
Figures from the 2016/17 half year report (for comparison)	2117	905	43%

8. The above table shows that 1,039 days were spent delivering the audit plan in the first half of the year, this represents 52% of the total number of days planned for the year.
9. The Internal Audit team has had a productive first six months with 18 final audit reports issued (as detailed at Annex A), 2 grant certificates produced, 4 special ad hoc reviews, and 11 irregularity investigations closed out of 13 investigated.
10. The following table shows the spread of audit opinions for the 18 reports issued in the period with comparative information for 2016/17 full year:

Audit Opinion	2017/18 (half year) <sup>1</sup>		2016/17 (full year) <sup>1</sup>	
	No of Audit Reports	%	No of Audit Reports	%
Substantial Assurance	1	6	10	18
Reasonable Assurance	15	83	31	57
Partial Assurance	2	11	9	16
Minimal Assurance	0	0	1	2
n/a	0	0	4	7
<b>Total</b>	<b>18</b>	<b>100</b>	<b>55</b>	<b>100</b>

<sup>1</sup> Opinions changed in June 2017 with the inception of Orbis-IA. The 2016/17 opinions shown in this table have been remapped into the new 'assurance' opinion categories.

11. In terms of performance against our KPI's (Annex C) we have 6 ranked as Green and 2 ranked as Amber. The two Amber KPI's are:
- Completion of audits to draft report stage - 37% by the end of Q2 (against a mid-year target of completing 45% of the annual plan)
  - Implementation of management actions agreed in response to audit findings - 79% of High priority actions (target 95%)
12. As reported at paragraph 9, the first six months of the year has seen a higher than usual number of irregularity investigations undertaken. This has impacted on available resources, with 72% of the annual planned contingency time for this activity having already being used in the six-month period April-September. As a consequence, fewer audits from the agreed annual plan have started than anticipated. We are confident that if the by prioritising resource against the higher risk audits remaining in the plan we will be able to deliver near to or at the target performance level even if irregularity work continues at this higher than expected rate.
13. In terms of the implementation of High priority actions, the performance of 79% is largely driven by two audits having a number of as-yet unimplemented actions: the Highways Contract (Lot 5) and Pensions Administration (Annex B). Based on liaison with both service areas we are assured that management are in progress of addressing the identified issues, albeit in a slower timeframe than originally envisaged. As a consequence, and with both areas under close scrutiny by audit, we anticipate an improvement in this metric by the date of the next committee update.

### Customer Satisfaction

14. The Internal Audit team is continually aiming to improve the service it provides. In conformance with the Public Sector Internal Audit Standards and Quality Assurance arrangements, on completion of each review the client is asked to complete a Customer Satisfaction Questionnaire to provide feedback on a number of aspects of the audit – from planning through to reporting.

15. An electronic survey system using the software 'Survey Monkey' has replaced the traditional paper return to capture data in this area. During the six month period from April to September 2017 the Internal Audit team has had a 100% success rate in meeting the required level of customer satisfaction.

#### **HIGH PRIORITY ACTIONS BEYOND AGREED IMPLEMENTATION DATE**

16. A summary of high priority actions that had not been implemented within the expected deadline arising from previous audit reports up to June 2017 is attached at Annex B.
17. This summary identifies where past actions deemed to be of high priority have not yet been fully implemented as expected by management. A RAG-rating system is used to identify either ongoing or partially completed actions (Amber) or actions that have not yet been addressed at all (Red). High priority actions previously on this list but now RAG-rated as complete (Green) have been removed. Internal Audit will closely monitor these outstanding areas as part of routine action-tracking.
18. Of the areas with outstanding actions, there are none where we believe that appropriate action will not be taken in light of the original findings. Some changes in timescales have occurred following the agreement of the original actions, for reasons such as services going through restructuring (Nursery Education, and Pension Administration). Three of these areas currently have a follow-up audit underway: Nursery Education; Gifts and Hospitality; and Highways Contract Management (Lot 5) and past agreed actions will be revisited during this work.

#### **AUDIT ACTIVITY – 2017/18 ANNUAL PLAN**

##### **Corporate Governance Arrangements**

19. This element of the annual audit plan includes activities that directly support the Annual Governance Statement. As such, audit involvement in this is mostly concentrated in the latter part of the audit year.

##### **Key Financial Systems**

20. Key Financial Systems audit reports issued in 2017/18 and presented to this Committee include:
- Accounts Payable (2016/17);
  - Revenue Budget Monitoring;
  - Order to Cash

##### **Grants**

21. Two grant audits were completed in the period, as follows:
- Bus Subsidy Grant
  - Active Sport ('Sport England')

##### **Contract Reviews**

22. Contract review audit reports issued in 2017/18 and presented to this Committee included:
- Stop Smoking

23. The following contract audits were in progress at 30 September 2017:

- Pavement Horizon;
- Highways Contract (Lot 5) follow-up;
- Grass Cutting;
- Contract Management (ASC & CSF)

### **Service Reviews**

24. Service review audit reports issued in 2017/18 to date include:

#### Adult Social Care and Public Health:

- Better Care Fund (Commissioning & Delivery);
- ASC Quality Assurance

#### Deputy Chief Executives Office:

- Overseas Pensioners Life Certification;
- Members' Allowances and Expenses;
- Social Media;
- Blue Badges

#### Children Schools and Families (CSF):

- CSF Improvement Plan;
- SEND expenditure within schools;
- SEND 2020;
- Unaccompanied Asylum Seeking Children

#### Environment and Infrastructure:

- Highways (Commissioning & Delivery Model)

#### Communities:

- Public Consultations

### **Follow-up Audits**

25. The following follow-up audit reports were issued in the period:

- Youth Services (Governance & Business Management Arrangements) follow-up

### **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:
- supporting CSF with its work to implement the Improvement Plan, including work in SEND 2020;
  - supporting ASC with the Direct Payment project bringing supported accounts back in-house, including reviewing the new agreement forms;
  - dealing with queries from other local authorities (outside of NFI), including those relating to pre-employment checks;
  - providing ad hoc advice to the Concessionary Transport team on 'unusual' applications;
  - giving presentations at briefings for school bursars and finance staff organised by Babcock 4S on the theme of the prevention of fraud and corruption;
  - giving advice on a complaint relating allegations of officer misconduct and dishonesty;
  - supporting the transition to new BACS arrangements;
  - giving advice on the introduction of a new system for electronic signatures; and
  - providing ad hoc advice on creditor and vendor management

### **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 2017.
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 2017 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 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
31. Internal Audit has also been actively involved in the ongoing development of Orbis and more specifically the Orbis-Internal Audit function. As well as increase in joint working between the authorities there has been the development of a joint Audit Charter, a draft Business Continuity plan and a draft Reporting and Escalation Policy, together with more strategic alignment between the three audit teams.

### **TRAINING AND DEVELOPMENT:**

32. 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.

33. 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

#### **CONCLUSION:**

34. 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:**

35. 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.
36. 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:**

37. A report will be presented on completed audits at future meetings of this Committee. The Chief Internal Auditor's Annual Report for 2017/18 will be presented to this Committee at the meeting planned for 24 May 2018.

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**Sources/background papers:** 2017/18 Internal Audit plan

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