



AUDIT & GOVERNANCE COMMITTEE:
ANNUAL REPORT
(2011 – 12)

Audit & Governance Committee:**Annual Report 2011-12****CONTENTS**

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Introduction

Welcome to the first Annual Report of the Audit & Governance Committee.

The CIPFA Better Governance Forum have stated that an annual report from an authority's Audit Committee to Full Council can be a useful way to demonstrate its impact and improve accountability. The Committee hopes this annual report will help improve understanding of the County Council's Audit & Governance Committee's role and functions.

The Council's Audit & Governance Committee complies with the best practice guidance as set out in the 'CIPFA Role of Audit Committees in Local Government'. It is distinctive from executive and overview and scrutiny functions and provides effective and independent assurance about the adequacy of the Council's regulatory framework, internal audit function and financial reporting.

This first annual report covers the work of the Audit & Governance Committee during the period **September 2011 – September 2012**. In addition to a summary of work undertaken, the report includes details of committee membership, officer support to the Committee and how the Committee has engaged with the wider Council.

Nick Harrison
Chairman
Audit & Governance Committee

The role of the Audit & Governance Committee

The Audit & Governance Committee has been entrusted with the following roles and functions:

Regulatory Framework

- To monitor the effective development and operation of the risk management and corporate governance arrangements in the Council
- To monitor the effectiveness of the Council's strategy against fraud and corruption
- To monitor compliance with the council's corporate governance framework and advise or make recommendations to the Cabinet or County Council as appropriate
- To review the Annual Governance Statement and comment to the Cabinet
- To conduct an annual review of the effectiveness of the system of internal audit
- To make proposals to appropriate select committees on suggested areas of scrutiny

Audit Activity

- To consider the Chief Internal Auditor's annual report and opinion, a summary of internal activity and the adequacy of management responses to issues identified
- To approve the annual Internal Audit plan
- To consider periodic reports of the Chief Internal Auditor and internal audit activity
- To consider and comment upon the plans and reports of the external auditor, including the annual audit letter

Accounts

- To consider and approve the Annual Statement of Accounts of the Council and the Surrey Pension Fund accounts
- To review the Council's Treasury Management strategy and consider periodic reports of treasury management activity
- To undertake statutory functions as required on behalf of the local government and fire fighters' pension schemes*
- To receive and approve the Surrey Pension Fund reports on actuarial valuations and employer contributions.

*This is not a normal function of an audit committee but is the most convenient way of undertaking a function that cannot be dealt with by Cabinet.

Membership of the Committee

During 2011-12, the Audit & Governance Committee had six elected Members from across the political spectrum. The Chairman of the Audit & Governance Committee is the Leader of the Residents' Association/Independents Group and the Council's Constitution specifically sets out that the role of Chairman may be filled by a Member from one of the minority groups. CIPFA recommend that in order to promote objectivity and increase an audit committee's standing in the eyes of the public, the chairman should not be a member of the executive and the committee should be independent from the scrutiny function. In this regard, the composition of the Surrey County Council's (SCC) Audit & Governance Committee compares favourably with other county council's audit committees, of 27 Councils:

- 19 have majority group chairmen
- 5 (including SCC) have opposition group chairmen
- 2 have independent chairmen (not a member of the Council).

Members:

- Nick Harrison, the Leader of the Residents' Association/Independent Group of councillors, has been a member of the Audit & Governance Committee since 2005, and Chairman since 2009. To help maintain the Audit & Governance Committee's independence, Nick Harrison is not a member on any of the Council's scrutiny committees.
- Bill Barker, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2005. He was Vice Chairman of the Committee for 2005/06 and then reappointed as Vice Chairman of the Committee in 2009. Bill Barker is also a member of the Children & Families Select Committee.
- Stephen Cooksey, a member of the Liberal Democrat Group, has been a member of the Audit & Governance Committee since 2009. Stephen Cooksey is also a member of the Environment & Transport Select Committee and the Council Overview & Scrutiny Committee.
- Tony Elias, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2009. Tony Elias is also a member of the Investment Advisor's Group (IAG).
- Mel Few, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2009. Mel Few is also a member of the Adult Social Care Select Committee and the Chairman of the Council Overview & Scrutiny Committee. He is the Committee's representative on the Investment Advisor's Group (IAG).
- Denis Fuller, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2009. Denis Fuller is also the Vice Chairman of the Education Select Committee and a Member of the Communities Select Committee.

Officer support to the Committee

During 2011-12, the Audit & Governance Committee has received advice and support from the Section 151 Officer (the Chief Finance Officer & Deputy Director for Change & Efficiency, Sheila Little), the Chief Internal Auditor (Sue Lewry-Jones), the Risk & Governance Manager (Cath Edwards) and the Pension Fund & Treasury Manager (Tracey Milner). On 1 April 2011 the Chief Executive's Office moved into a new structure. In the new structure a dedicated post within Democratic Services manages the regulatory committees, which includes the Audit & Governance Committee. The Regulatory Committee Manager provides support in terms of servicing the Committee.

The Section 151 Officer

The Section 151 Officer, Sheila Little, has provided key support to the Audit & Governance Committee. The Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs. CIPFA best practice states that a core Chief Finance Officer responsibility within an authority is supporting and advising the audit committee.

The Section 151 Officer, with the support of the Financial Reporting Team, has attended Audit & Governance Committee meetings and ensured that the Committee have received the information and advice that they need to do their job effectively.

Chief Internal Auditor

The Chief Internal Auditor, is a role defined by CIPFA as '...a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee'. At Surrey County Council, the Chief Internal Auditor, Sue Lewry-Jones has attended all Audit & Governance Committee meetings throughout 2011-12 and presented regular reports including summaries of all audit reports undertaken within the period since the last meeting. The Chief Internal Auditor sits within the Policy & Performance Directorate and reports to the Head of Policy & Performance.

Risk & Governance Manager

The Risk & Governance Manager, Cath Edwards, is the Council's lead officer for coordinating risk management arrangements and monitoring the annual review of governance. The Audit & Governance Committee have received regular reports on governance action plans and reviewed the Leadership Risk Register at each meeting.

Pension Fund & Treasury Manager

During 2011-12 the Pension Fund & Treasury Manager, Tracey Milner, lead the team responsible for monitoring and reporting on the activities of the Surrey Pension Fund. Her remit also included managing the Council's debt portfolio and cash investments. The Committee received quarterly reports on Pension Fund investments and are responsible for reviewing the Council's Treasury Management strategy on an annual basis. The Pension Fund & Treasury Manager left the Council in May 2012. A new post (Strategic Manager – Pension Fund and Treasury Services) has been created and the new appointee is due to start in October 2012. It will be important to ensure the appointee is engaged with the Committee to aid smooth transition.

Summary of work carried out by the Committee

A summary of the work undertaken by the Committee during 2011/12 is highlighted in the table below. The Committee have considered a number of items on a standing basis as well as some ad hoc special items.

Pension Fund & Treasury

Item	Dates considered	Summary
Pension Fund Investments	8 Dec 2011 5 Apr 2012 25 Jun 2012	Quarterly information reports on Pension Fund Investments.
Treasury Management Annual Report and half year report	8 Dec 2011 25 Jun 2012	A summary of the council's treasury management activity during 2010/11, as required to ensure compliance with CIPFA's Code of Practice for Treasury Management. The report also covered the council's Prudential Indicators for 2010/11, in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities.
Treasury Management Strategy	9 Feb 2012	Confirmation of the treasury strategy and treasury prudential indicators for 2012/13.

Finance

Item	Dates considered	Summary
Finance Update Reports	8 Dec 2011	Updates on the process for producing the statement of accounts, including: <ul style="list-style-type: none"> • The transition to IFRS for closing 2011/12 • Quarter 2 – hard close of accounts
Statement of Accounts for Surrey County Council and the Surrey Pension Fund LGPS	5 Sep 2011 25 Jun 2012 3 Sep 2012	In June the draft accounts were presented to the Committee for debate and approval. With Committee approval, the accounts are then published, subject to examination by the external auditors. The final accounts are presented to the Committee alongside the external auditor's annual governance review each September.
Directors' report and financial statements for Babcock 4S	9 Feb 2012	Inspection of the Babcock 4S financial statements. The Committee considered the statements and asked questions of the Babcock 4S Finance Director and the Surrey County Council representative on the 4S Board (the Strategic Director for Change & Efficiency).

Internal Audit

Item	Dates considered	Summary
Completed Internal Audit Reports	5 Oct 2011 8 Dec 2011 9 Feb 2012 5 Apr 2012 21 May 2012 25 Jun 2012 3 Sep 2012	A summary of audit reports completed in the period since the last Committee. A total of 74 reports were considered within the year.
Internal Audit Plan	5 Apr 2012	On an annual basis the Committee review and approve: <ul style="list-style-type: none"> • Internal Audit Plan • Internal Audit terms of reference • Internal Audit reporting and escalation policy • Internal Audit strategy
Internal Audit Annual Report and half year report	8 Dec 2011 21 May 2012	A summary of the work completed by Internal Audit.
Full year and half year summary of Internal Audit irregularity investigations	11 Dec 2011 21 May 2012	An update about irregularity investigations undertaken by Internal Audit on an annual basis.
Effectiveness Review of the system of Internal Audit	5 Oct 2011 5 Apr 2012	A summary of the findings of the effectiveness review of the system of Internal Audit for 2011/12, following an update in October 2011 on the outstanding actions of the previous review. As part of the review, Members of the Committee visited other County Council's to find out about their Internal Audit department and audit committee.
Internal Audit Management Action Plan updates	5 Oct 2011 5 Apr 2012	Periodic reports, updating Members on the progress made against management action plans.
Internal Audit involvement in Public Value Reviews and Rapid Improvement Events	8 Dec 2011	A paper explaining the role of internal audit in systematically reviewing how the Council operates through PVRs and RIEs.

Risk Management

Item	Dates considered	Summary
Leadership Risk Register	8 Dec 2011 9 Feb 2012 5 Apr 2012 25 Jun 2012	The Committee have oversight of the Leadership Risk Register.
Annual Risk Management Report and half year report	8 Dec 2011 21 May 2012	The annual risk management report is produced for the Committee to enable them to meet their responsibilities for monitoring the effective development and operation of the Council's risk management arrangements.

Governance

Item	Dates considered	Summary
Governance update report	11 Dec 2011	Update on progress against governance action plan, which included actions from: <ul style="list-style-type: none"> • Annual Governance Statement • External Audit 2009/10 Annual Audit Letter
Annual Governance Statement	21 May 2012	To review the contents of the draft AGS.
Code of Corporate Governance	25 Jun 2012	To approve changes to the Council's Code of Corporate Governance and recommend it to County Council for inclusion in the Constitution.

External Audit

Item	Dates considered	Summary
External Audit: Audit Plan Surrey County Council	5 Apr 2012	The external auditors plan including the risk assessment and approach being adopted for the audit of the financial statements.
External Audit: Audit Opinion Plan – Surrey Pension Fund	21 May 2012	The external auditors plan including the risk assessment and approach being adopted for the audit of the pension fund.
External Audit: Annual Audit Letter	8 Dec 2011	The key issues that arose during the annual audit of the County Council for the financial year 2010/11.
External audit: Certification of claims and returns – Annual Report	9 Feb 2012	The work undertaken by the Council's external auditors on the certification of claims and returns and the findings and recommendations relating to that work.

Other items

Item	Dates considered	Summary
Whistle-Blowing Annual Report and half year report	<ul style="list-style-type: none"> • 25 Jun 2012 • 9 Feb 2012 	Bi-Annual report on Council's whistle-blowing arrangements.
Change Programme Update	<ul style="list-style-type: none"> • 5 Oct 2011 	A summary of the in-year achievements made by the Council's 'Fit for the Future' Change Programme.

Engagement with Leadership/the Council

The Chairman of the Audit & Governance Committee has had regular meetings with senior managers across the Council during 2011-12. This included 6-monthly meetings with the Head of Communications and '3 Way Governance' meetings with the Section 151 Officer and Head of Policy & Performance before each Audit & Governance Committee meeting. The Chairman has also met with the Chief Executive on a regular basis and Leader as and when the need has arisen.

The Leader of the Council (Deputy Leader until October 2011) is engaged in the work of the Audit & Governance Committee and attended 4 meetings of the Committee during 2010-11 and 2011-12. He has made recommendations to the Committee which have informed their work programme, for example:

- At the meeting on 7 April 2011, during discussion of the Pension Fund Investments for Quarter 3, the [then Deputy] Leader recommended that the Committee call in the Babcock 4S accounts for inspection, once they were in the public domain. On 9 February 2012, the Committee reviewed the Babcock 4S Directors' report and financial statements for the year ended 31 March 2011. The Strategic Director for Change & Efficiency (Council representative on the Babcock 4S Board), and the Babcock 4S Finance Director and Finance Manager attended the meeting. It has since been agreed that it would be beneficial for Babcock 4S to attend the Audit & Governance Committee on a 6-monthly basis.
- The Leader was also invited by the Chairman of the Committee to sit on a working group who considered the Council's response to the external auditor's review of governance arrangements.

The Cabinet Member for Change & Efficiency, whose portfolio includes corporate governance, audit and risk assurance, has attended the majority of Audit & Governance Committee meetings during 2011-12. The Cabinet Member has provided the Committee with updates and assurance on a number of matters including records management, fire risk assessments and premises security. The Cabinet Member for Change & Efficiency has played an active and engaged role in the work of the Audit & Governance Committee; sitting on a working group to consider the Council's response to the external auditor's review of governance arrangements and attending meetings of the Treasury Management Task Group. The Member occupying the role of Cabinet Member for Change & Efficiency has changed twice during 2011-12, however, the relationship has remained strong throughout the transition and lead officers have continued to have regular meetings with the Cabinet Member about business within the Committee's remit.

The Council's Chief Executive attended the Audit & Governance Committee to present the Annual Governance Statement and a review of entries to the online gifts and hospitalities register. The Annual Governance Statement is the Council's comprehensive assessment of the governance arrangements and the internal control environment across all Council activities for the financial year ending 31 May 2012. It is signed and jointly owned by both the Chief Executive and Leader. On 21 May 2012 the Leader and the Chief Executive presented the 2011/12 Annual Governance Statement to the Committee. This compares favourably to other County Councils; only one other County Council's Annual Governance Statement was presented to an audit committee by their chief executive during 2011.

During 2011-12, the Committee made formal recommendations to Cabinet and Select Committees. These recommendations are highlighted below

Committee Date	Recommendation/Referral	Response
5 October 2011	To Adult Social Care Select Committee: The 'accounts receivable' audit report be referred to the Committee for scrutiny (with a particular focus on the finding that debts had arisen as a result of recipients of direct payments within Adult Social Care, using the money for purposes other than to meet their care needs and improvements in the dunning process).	Audit reports of Social Care Debt and Direct Payments were both completed during 2011/12. The audits were reported and followed up in accordance with the agreed reporting and escalation policy.
8 December 2011	To Cabinet: The Committee commended the external auditor's Annual Audit Letter to Cabinet, capturing comments made by the Committee about income generation.	The District Auditor presented the Annual Audit Letter to Cabinet on 20 December 2011. The Chairman of the Audit & Governance Committee attended and explained the Committee's view on income generation. It was agreed that progress would continue to be reported to the Committee through regular Finance Update Reports.

The Committee also drew attention to matters of concern, without a formal recommendation. These are highlighted below:

Committee Date	Issue raised	Response/Action
From 7 Apr 2011	The findings of an audit report of records management at SCC.	Throughout 2011/12 the Cabinet Member for Change & Efficiency liaised with the Corporate Governance & Information Manager to provide updates. Members of the Committee also accompanied the auditor on a tour of the County Hall basement to review the level of paper records still requiring removal.
5 Oct 2011	Outstanding actions on the management action plan of an audit of data protection.	The Chairman wrote to the Assistant to the Strategic Director (Adult Social Care) to raise concerns. Officers in Adult Social Care updated the MAP and it was circulated to the Committee in January 2012, showing progress against all outstanding actions.

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8 Dec 2011	The delayed production of the Babcock 4S accounts and financial statements. reference to Babcock 4S).	The Chairman drew the Cabinet Member's attention to the apparent delay and stressed the importance of accounts being produced whilst still relevant.
8 Dec 2011	Outstanding actions regarding an audit of Health & Safety Compliance.	The Committee drew the Cabinet Member for Change & Efficiency's attention to their concerns, who agreed that it was a matter that the Council Overview & Scrutiny Committee should monitor.
9 Feb 2012	NHS Reorganisation risk was downgraded from a 'residual red risk' to an 'amber risk' on the Leadership Risk Register.	The Portfolio Holder explained that close and improved working relationship with the PCT over the last 2 years increased the Council's confidence in the NHS reorganisation.
9 Feb 2012	The findings of the Transport Coordination Centre PVR audit report.	The Chairman wrote to the Portfolio Holder, which prompted a response from the Travel and Transport Group Manager showing progress against the MAP as at May 2012.
21 May 2012	Low recovery rates in cases of damage to county property.	The Group Manager for Projects & Contracts (Surrey Highways) has confirmed that a project is underway to achieve a 100% recovery rate for damage to county property. The project is due to be signed off in August and an update will be provided to Members in September.
21 May 2012	Scrutiny of the Strategic Director for Adult Social Care Risk Register required.	The Chairman of the Council Overview & Scrutiny Committee agreed to discuss with the select committee chairman.
21 May 2012	Apparent silos in the Environment & Transport Directorate.	Officers were invited to attend Committee in June 2012, where Members had the opportunity to ask questions.

Wider Council engagement

Since 2009, an Audit & Governance Committee Bulletin has been produced. The Bulletin was originally introduced to help keep Members up-to-date with issues relevant to the Committee's remit between meetings. Over time the Bulletin has evolved to include more information such as updates from the Council's Finance, Policy & Performance and Adult Social Care services, as well as linking to useful websites. To help raise the profile of the Committee's work, the Bulletin is now published alongside agendas on the public website and is available on notice boards in County Hall.

Public Engagement

The Committee received three questions from the public during 2011/12. The questions were on the topics of social care debt, follow-up of internal audit report actions and reconciliation of the Council's bank accounts. In each case the question and answer was published with the Committee papers.

Training

Training and informal briefing sessions are offered to Members of the Committee to help develop them in their role. Throughout 2010/11 the following training or briefing sessions were held:

- **Risk management**
This session covered points including resilience building, enterprise risk management and an introduction to the Council's virtual risk network
- **Partnership governance**
An overview of partnership governance in Surrey
- **Introduction to Cabinet Business Reports**
- **International Financial Reporting Standards (IFRS)**
This training gave Members the opportunity to go through the IFRS based statement of accounts informally with officers before the agenda was published
- **Pension Fund Briefing**
A confidential briefing about a matter raised by the external auditors in relation to the Surrey Pension Fund.
- **Financial Management Public Value Review (PVR)**
Surrey County Council has been undertaking a programme of 'Public Value Reviews', a process for delivering improved outcomes and value for money for the residents of Surrey, since 2009. In May 2011, the Audit & Governance Committee received an update on the scope and progress of the Financial Management PVR. The Committee have continued to receive updates through their Committee Bulletin and at formal Committee meetings
- **Future of public audit consultation**
A briefing session which explained the consultation and Members feedback was collated and incorporated into the Council's response to the consultation.
- **Statement of Accounts 2011/12**
Officers took Members through the accounts step-by-step and specifically focussed on reconciling the Comprehensive Income and Expenditure Statement to the General Fund Balance, through the Movement in Reserves Statement.

Next year's focus

The Audit & Governance Committee will continue to focus on reviewing and challenging the Council's arrangements with regards to risk management, corporate governance, internal and external audit and treasury management into 2012/13. Meetings have been set for the Committee up to May 2013. In July 2012, the County Council agreed a change of terms of reference for the Committee, in response to the abolition of the 'Standards Board regime' introduced through the Localism Act 2011.

County Council determined that a Standards Committee should not continue under the new arrangements and the following elements of the Standards Committees terms of reference have been incorporated into the Audit & Governance Committee remit:

- Monitoring the operation of the Members' Code of Conduct
- Promoting advice, guidance and training for Members and co-opted members on matters relating to the Code of Conduct
- Ensuring that the Council's complaints procedures operate effectively and receiving reports upon them, and upon any findings of maladministration by the Local Government Ombudsman, and including the power to make payments
- Granting dispensations to Members (including co-opted members) from requirements relating to interests set out in the Members' Code of Conduct.

It is intended that the Committee receive an annual report with an overview of the issues raised in the first 3 bullet points above. A new process for granting dispensations has been being drafted and the Committee will be asked to approve it for inclusion in the Constitution in late 2012.

Governance of the Surrey Pension Scheme

In 2012 Hymans Robertson conducted a review of the governance arrangements of the Surrey Pension Fund. One of the key recommendations of their report centred around changes to the committee and decision making structure. Hymans Robertson recommends that there be one single committee with ultimate responsibility for carrying out Fund business. At present responsibility for Fund business is split between the Investment Advisor's Group, Audit & Governance Committee and People, Performance & Development Committee. It is anticipated that changes to the Committee structure will be implemented after the May 2013 elections.

Background papers

- The role of the chief financial officer (CIPFA)
- CIPFA statement on the role of the Head of IA in Local Gov
- Audit Committees: Practical Guidance for Local Authorities (CIPFA)
- A toolkit for local authority audit committees (CIPFA)