

**MINUTES** of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 21 February 2013 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its meeting on 18 March 2013.

**Elected Members:**

Mr Nick Harrison (Chairman)  
Mr W D Barker OBE (Vice-Chairman)  
Mr Stephen Cooksey  
Mr Tony Elias  
Mr Mel Few  
Denis Fuller

**In Attendance**

Cath Edwards, Risk & Governance Manager  
Kevin Kilburn, Deputy Chief Finance Officer (Section 151 Representative)  
Sue Lewry-Jones, Chief Internal Auditor  
Helen Rankin, Committee Manager

**6/13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

There were none.

**7/13 MINUTES OF THE PREVIOUS MEETINGS - 6 DECEMBER 2012 AND 12 FEBRUARY 2013 [Item 2]**

The minutes of the 6 December 2012 were agreed as a true and correct record.

The minutes of the 12 February 2013 were agreed as a true and correct record, subject to amendments circulated ahead of the meeting. The amendments drew attention to follow up action required by the Committee, following recommendations from the Council Overview & Scrutiny Committee on Business Planning for 2013/14.

The minute relating to Item 5 (Dispensation for Members to enable them to participate in the Council budget meeting) was also amended to clarify that the Council had decided to proceed with the recommendation as government advice had not specifically covered the issue of a Member being a freeholder or lease holder of a property in Surrey.

**8/13 DECLARATIONS OF INTEREST [Item 3]**

There were none.

**9/13 QUESTIONS AND PETITIONS [Item 4]**

There were none.

**10/13 RECOMMENDATIONS TRACKER [Item 5]**

*Tony Elias joined the meeting.*

**Declarations of interest:**

None.

**Officers:**

Cath Edwards, Risk & Governance Manager  
Kevin Kilburn, Deputy Chief Finance Officer  
Sue Lewry-Jones, Chief Internal Auditor  
Helen Rankin, Regulatory Committee Manager

**Key points raised during the discussion:**

1. In relation to A14/12 (internal audit reports on the SNet), the Regulatory Committee Manager advised that all Internal Audit reports published in the period May 2012 – present had been uploaded into an intranet library. The Chief Internal Auditor would send out a link to all Members after the meeting.
2. In relation to A20/12 (damage to county property recovery rates), the Chairman advised that he would ask the Projects and Contracts Group Manager to attend the next meeting.
3. In relation to A38/12 (Creditor balance), the Deputy Chief Finance Officer provided an update. He reported that the action related to an uncorrected non-material error identified by the external auditor. The

Finance service had been investigating this since September 2012 and found that £1.7m (of the reported £9.3m balance) had subsequently been paid. The investigation had been broken down into vendor balances of over £50k, those worth £25k-50k, and under £25k. The higher balances had been the focus of the initial stages of the investigation, and good progress had been made so far. The problem had occurred because of a difference between amounts recorded on purchase orders and actual goods received. It was noted that there had also been cases where invoices had not been received or where use of an alternative payment method had not been advised to Accounts Payable. The Deputy Chief Finance Officer explained that the whole end-to-end purchasing-to-pay process was being reviewed. He clarified that no balances (which were favourable) had been written back yet, as the investigation was not complete and officers were keen to avoid writing back any balances that could be a proper liability. In terms of timescales, it was reported that some of the work, particularly on the smaller balances, was likely to continue after the end of this financial year. It was reported that when the total amount was confirmed, it would be written back centrally so that Cabinet could decide what to do with it. The Deputy Chief Finance Officer advised that he would speak to the external auditor about the next steps, but did not anticipate that reallocating the expenditure by expense category to services in the financial accounts would be a time consuming task.

4. Members expressed concern that items were being marked as goods receipted, without the Council ever receiving the goods. The Deputy Chief Finance Officer explained that necessary controls were in place through budget monitoring. The Chief Internal Auditor confirmed that audits of budgetary control, accounts payable and the General Ledger were currently underway
5. In relation to A45/12 (schools early closure of accounts), the Deputy Chief Finance Officer reported that major problems were not anticipated this year as Easter fell earlier than previous years. In addition, Babcock 4S were sending out additional information to schools, a new SAP module had been implemented for capital and quarterly closing was helping to ensure that there should not be any issues with early close because of schools. The Audit Manager (Grant Thornton) reported that the Finance Manager (Assets and Accounting) had been present at a recent Grant Thornton session on account closing where Oldham Council had shared information about successful accounts closing with relation to schools.
6. In relation to A53/12 (select committee review of Internal Audit reports), the Committee agreed the proposed wording of a recommendation to select committee chairmen setting out the process for handling Internal Audit reports.
7. In relation to A58/12 (Environment and Infrastructure risk register), the Risk & Governance Manager advised that she had not yet received an updated version of the register. The Chairman agreed to write to the relevant Portfolio Holder again.
8. In relation to A59/12 (energy purchasing contract), the Chairman confirmed that a letter had been drafted, signed by the Leader and sent to the Leader of the local authority in question.
9. It was noted that A1/13 would be updated to reflect the amended minutes, agreed at Item 2.

10. Before concluding the item, Members agreed that it would be helpful to ensure that the recommendations tracker was fully up-to-date, ahead of the forthcoming elections, which could see a change in Committee membership.

**Actions/Further information to be provided:**

The recommendations tracker to be updated to reflect the discussion, as noted above.

**RESOLVED:**

The recommendations tracker was noted and the Committee agreed to remove pages 37 – 39 of the tracker, as the actions were completed.

**Committee Next Steps:**

The Chairman agreed to write to:

- The Portfolio Holder for Environment & Transport about the Environment & Infrastructure Strategic Risk Register
- Select Committee chairmen, with reference to the select committee process for handling Internal Audit reports
- The Highways Department, with regard to A20/12

**11/13 EXTERNAL AUDIT - CERTIFICATION OF CLAIMS AND RETURNS [Item 6]**

**Declarations of interest:**

None.

**Officers:**

Kevin Kilburn, Deputy Chief Finance Officer

Sue Lewry-Jones, Chief Internal Auditor

Andy Mack, Engagement Lead (Grant Thornton)

Kathryn Sharp, Audit Manager (Grant Thornton)

**Key points raised during the discussion:**

1. The Audit Manager (Grant Thornton) introduced the report, and advised that it summarised the work undertaken on 3 grants during 2011/12. 2 claims had been submitted on time, with the third slightly delayed due to further clarification being required. It had been noted that the processes had improved on previous years, and recommendations from the previous year's audit had been addressed, particularly around information relating to external payroll providers.
2. The Teacher's Pensions Return had been qualified due to identification by Internal Audit of payments coded as honorarium being made to teachers. The Deputy Chief Finance Officer explained that he was working on resolving this issue.
3. In the previous year, the external auditor had reported problems with obtaining information from external payroll providers, and it was noted that this issue had now been resolved. The Chairman thanked the Section 151 Officer and her team for addressing and resolving this problem.
4. It was noted that the total fee for certification of claims and returns for the previous year was £9,630 in total, against the budget of £11,858.

5. The Audit Manager (Grant Thornton) clarified that the grant claim for Walton Bridge had been completed by the Audit Commission, before duties were transferred to Grant Thornton.
6. Members queried why the external auditor was intending on placing less reliance on Internal Audit. The Audit Manager (Grant Thornton) advised that this approach meant that Internal Audit were less bound by what the external auditor required of them, and therefore they had more freedom in their approach to auditing the key financial systems. The Chief Internal Auditor commented that different external auditors often took different approaches and that this approach would give her team more freedom with regards to their testing.
7. Members asked whether there was any further information on the coded as honorarium payments made to teachers. The Deputy Chief Finance Officer explained that he had been in touch with the Teacher's Pension Agency (TPA) and submitted all relevant information. At this stage officers were responding to queries from the TPA on the information submitted.
8. Members queried whether Internal Audit's involvement in the certification of grants and returns work in previous years had been resource intensive. The Chief Internal Auditor explained that when she presented her audit plan for 2013/14, at a future committee, Members would see that days set aside for grant work had reduced further, meaning there was more capacity within the plan for other audit work.

**Actions/Further information to be provided:**

None.

**RESOLVED:**

The Committee noted the report.

**Committee Next Steps:**

None.

**12/13 EXTERNAL AUDIT PROGRESS REPORT [Item 7]**

**Declarations of interest:**

None.

**Officers:**

Kevin Kilburn, Deputy Chief Finance Officer  
Andy Mack, Engagement Lead (Grant Thornton)  
Kathryn Sharp, Audit Manager (Grant Thornton)

**Key points raised during the discussion:**

1. The Engagement Lead (Grant Thornton) advised that initial planning for the year's audit had been completed, and the proposed audit plan would be presented at the Committee's next meeting. He reported that initial conversations with officers had been successful and time had been spent discussing the relationship between the Council and the external auditor moving forward.
2. The report also brought to the attention of Members national publications on the challenges that local government was facing.
3. Members queried whether the external auditor could audit balances at an earlier date than year-end, to help the Council bring its account

closing forward by a month. The Engagement Lead (Grant Thornton) explained that he was currently engaged in discussions with Finance about bringing timescales forward.

4. The Chairman confirmed that even though it was not a statutory duty, the Committee would be reviewing and signing off unaudited accounts on 24 June. The audited accounts would be presented to the Committee in early September 2013, but it was hoped that this could be brought forward by a month in future years. The Deputy Chief Finance Officer explained that a faster close was anticipated this year, with the target for draft account completion set for the end of May, although the external audit would not start until the end of June
5. Members asked the external auditor how reserves should be shown on the balance sheet. The Engagement Lead (Grant Thornton) explained that for long term planning decisions the holding of reserves was beneficial. He agreed to include consideration of this in the interim work undertaken by the external auditor before the final findings were reported. **(Recommendations tracker ref: A2/13)**
6. It was noted a report would be brought to the Committee at their next meeting with a self assessment of the Council against the recommendations made in Grant Thornton's 'Toward a Tipping Point' and the National Audit Office's 'Financial Sustainability of Local Authorities'.

**Actions/Further Information to be provided:**

The recommendations tracker to be updated to reflect the actions identified during the discussion.

**RESOLVED:**

The Committee noted the update.

**Committee next steps:**

None.

**13/13 REVIEW OF THE PAMS SYSTEM [Item 8]**

**Declarations of interest:**

None.

**Officers:**

Nigel Jones, Performance Manager

John Stebbings, Chief Property Officer

**Key points raised during the discussion:**

1. The Performance Manager introduced the report and explained that the Property Asset Management System (PAMS), was a joint procurement exercise between Surrey County Council (SCC) and Hampshire County Council (HCC). PAMS would enable the Council to have all its information relating to property assets in one system, including information at the point of purchase right through to disposal.
2. The first phase of the PAMS launch was scheduled for April 2013 and would include all maintenance projects. Rental accounting information was expected to be live in the system by the end of the first quarter of the 2013/14 financial year. There would then be an incremental implementation of the rest of the features of PAMS, through to November 2013.

3. Members asked whether officers could guarantee that the system would include information on all buildings owned by the Council. The Chief Property Officer explained that PAMS would ensure a clearer and more transparent record.
4. The Committee asked what the overall cost of procuring the system would be and when the implementation was likely to be complete. The Performance Manager advised that it was aimed for the system to be fully functional by November 2013. It was noted that costs would be shared with HCC. The cost of implementation for SCC was £52,025 and thereafter a licence fee of £7,500 would be payable per annum.
5. The Chief Property Officer explained that once the system was up and running it would continue to be developed so that South East Seven authorities could invest in it.
6. Members noted that PAMS had been purchased through the 'Invest to Save' budget and queried what the actual savings had been. The Performance Manager explained a number of savings had been factored in, including looking at how money could be saved by having better information about properties and analysing assets. Further benefits of PAMS included increased levels of customer service and better transparency.
7. The Committee asked for assurance that the company providing the software was resilient in the current economic climate. The Performance Manager advised that the procurement process had included checks on the company. In addition, SCC would still have access to the system, even in the event of the provider no longer being active.
8. The Performance Manager explained that the system would require very little customisation. He went on to advise that expressions of interest had been received from 3 other local authorities about using PAMS.
9. The Chief Property Officer reported that his department had recently been through a restructure and around 15 roles were still being actively recruited too. However, he reassured the Committee that there was adequate cover available to keep the service running.
10. It was noted that the system would be hosted on an external server, and Members asked what assurance there was that data would be secure. The Performance Manager explained that he had been working closely with SCC and HCC's IMT departments to ensure that the system would be secure. Once implemented, the security of the system would continue to be reviewed.
11. Members asked whether consideration had been given to hosting the software at the Council's Data Centre. The Performance Manager explained that this had been considered, although at the time of procurement the SCC Data Centre was not live. HCC had also considered hosting the system, but had concluded that the work involved would significantly delay the project. However, moving the system across to a Council server was an option for the future.

**Actions/further information to be provided:**

None.

**RESOLVED:**

The Committee:

- a) Noted the progress made against the implementation plan so far and recognised the achievements to date.

- b) Agreed to receive further updates on progress against planned activities at future Committee meetings, as required.

**Committee next steps:**

The Committee to receive a further update and demonstration of the system once it is implemented. **(Recommendations tracker ref: A3/13 )**

**14/13 COMPLETED INTERNAL AUDIT REPORTS [Item 9]**

**Declarations of interest:**

None.

**Officers:**

Sue Lewry-Jones, Chief Internal Auditor

**Key points raised during the discussion:**

1. The Chief Internal Auditor drew the Committee's attention to the Records Management audit report, which had attracted an 'Effective' audit opinion. However, it was noted that the Direct Payments follow up audit and the Corporate Purchasing Cards audit had received 'Major Improvement Needed' opinions. The review of Special Schools (funding of residential provision) was the only report to receive an 'unsatisfactory' audit opinion.
2. It was noted that the Direct Payments follow up audit had been discussed in detail at the Adult Social Care Select Committee in November 2012. Most of the other reports, including the Corporate Purchasing Cards report, had been discussed at the last meeting of the Council Overview & Scrutiny Committee (COSC).
3. Members were concerned that staff other than the designated card holder might be using purchasing cards. The Chief Internal Auditor explained that when issued with a card, the terms of issue stated that only the cardholder must use it. Discussions were taking place to ensure that adequate controls were in place to ensure that others were not able to use purchasing cards that had not been assigned to them. It was reported that managers were issued with guidance when a member of staff received the card; however, this guidance may not be passed on to any subsequent manager taking on that role. Therefore, it was important that awareness of guidance and rules continued to be promoted on an ongoing basis.
4. The Committee asked whether inappropriate expenditure had been recovered. The Chief Internal Auditor advised that appropriate action was taken on individual cases such as repayment of money and removing the card from an individual. Members felt that if the responsibility lay with the manager not making the required checks on a team's purchasing card use, the use of cards should be withdrawn from that department. It was agreed that the Committee would make this recommendation to the Head of Corporate Purchasing.  
**(Recommendations tracker ref: A4/13).**
5. The Chief Internal Auditor explained that as a result of the Corporate Purchasing Cards audit attracting an opinion of 'major improvement needed', a follow up audit would be planned. Members agreed that the Chief Internal Auditor should report on progress against actions at the next meeting, along with the Head of Corporate Purchasing.  
**(Recommendations tracker: A4/13).**



6. One Member of the Committee commented, during the debate, that the content of the Schools Basic Needs Programme audit report was being considered very closely by the Education Select Committee.
7. Members commended the work of the Superfast Broadband team and the work undertaken so far.
8. During the debate, one Member queried whether Internal Audit would be reviewing the end-to-end process for accounts receivables in Adult Social Care. The Chief Internal Auditor confirmed that an audit of financial assessments and benefits was underway.

**Actions/Further Information to be provided:**

The recommendations tracker to be updated to reflect the actions identified during the discussion.

**RESOLVED:**

The Committee noted the content of the report.

**Committee next steps:**

The Committee to receive a further update on the Corporate Purchasing Cards audit report at their next meeting.

**15/13 PUBLIC SECTOR INTERNAL AUDIT STANDARDS [Item 10]**

**Declarations of interest:**

None.

**Officers:**

Sue Lewry-Jones, Chief Internal Auditor

**Key points raised during the discussion:**

1. The Chief Internal Auditor introduced the item and explained that in recent years, Surrey County Council had adopted the CIPFA Code of Best Practice. The annual effectiveness review of the system of internal audit had been used to assess compliance with the Code in the past years. It was reported that the Institute of Internal Auditors and CIPFA had collaborated and produced the Public Sector Internal Audit Standards (PSIAS), which would come into effect in April 2013, replacing the CIPFA code.
2. The Chief Internal Auditor explained that if it were found that the Council's Internal Audit department did not comply with the PSIAS in any significant way, it should form part of the findings of the Annual Governance Statement.
3. It was noted that the terms of reference for this year's effectiveness review of the system of internal audit had included an assessment of the readiness of the Council to adopt the new standards.
4. It was agreed that the terms of reference for the Committee would need to be changed to reflect the adoption of the new standards **(recommendations tracker: A5/13)**.
5. The Chief Internal Auditor confirmed that there were no fundamental differences between the CIPFA Code of Best Practice and the PSIAS. There were some small changes which would be reflected in Internal Audit's work, such as the requirement to link the Internal Audit plan to level of resource within the team.

**Actions/Further information to be provided:**

The recommendations tracker to be updated to reflect the actions determined during the discussion.

**RESOLVED:**

The Committee agreed to adopt the Public Sector Internal Audit Standards as best practice for the delivery of a quality Internal Audit Service at Surrey County Council, for the benefit of both the Council as a whole and the residents of Surrey.

**Committee next steps:**

Terms of reference to be amended to reflect the changes identified in the report.

**16/13 LEADERSHIP RISK REGISTER [Item 11]**

**Declarations of interest:**

None.

**Officers:**

Cath Edwards, Risk & Governance Manager

**Key points raised during the discussion:**

1. The Risk & Governance Manager introduced the report and advised that there had been no changes to the register since the Committee last reviewed it. However, it was noted that proposed changes would be considered at the next meeting of the Corporate Board.
2. In relation to L1 (Medium Term Financial Plan), Members were concerned that in some departments underspend was being transferred to other departments. It was clarified that there was a virement process which needed to be followed if budgets were transferred between departments.
3. Members repeated concern about the Strategic Director risk register for Environment & Infrastructure, which had not recently been updated. It was noted that this would be followed up through the item on the recommendations tracker.

**Actions/further information to be provided:**

None.

**RESOLVED:**

The Leadership Risk Register was noted.

**Committee next steps:**

The Committee to review the updated risk register at their next meeting.

Before closing the Committee, it was noted that it was the Committee Manager's last meeting in her current role. Members thanked Helen for the support she had provided to the Committee over the last 2 years.

Meeting ended at: 11.42am

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**Chairman**