

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 29 May 2014 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:

Mr Nick Harrison (Chairman)
Mr W D Barker OBE (Vice-Chairman)
Mr Tim Evans
Mr Tim Hall

Apologies:

Mr Denis Fuller
Mr Will Forster

In Attendance

Denise Le Gal, Cabinet Member for Business Services

Cath Edwards, Risk and Governance Manager
Cheryl Hardman, Regulatory Committee Manager
Sue Lewry-Jones, Chief Internal Auditor
Sheila Little, Director of Finance (Section 151 Officer)

91/14 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Denis Fuller and Will Forster. Richard Wilson substituted for Denis Fuller.

92/14 MINUTES OF THE PREVIOUS MEETING: 24 MARCH 2014 [Item 2]

The Minutes were agreed as an accurate record of the meeting, subject to one minor correction.

93/14 DECLARATIONS OF INTEREST [Item 3]

There were none.

94/14 QUESTIONS AND PETITIONS [Item 4]

There were none.

95/14 RECOMMENDATIONS TRACKER [Item 5]

Declarations of Interest:

None.

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor
Sheila Little, Director of Finance

Key Points Raised During the Discussion:

1. In relation to R3/12 (Social Care: Direct Payments), the Chairman informed the committee that a full report on social care debt, along with the findings of an audit of social care debt, is on the agenda for 31 July 2014.
2. In relation to A35/13 (Council Tax collection rates), the Director of Finance assured the committee that the issue was on the agenda at every monthly meeting of the Surrey Treasurer's Association. The Chairman suggested that the Audit & Governance Committee would continue to monitor the situation.
3. In relation to A6/14 (briefing Cabinet Members), the Chief Internal Auditor informed the committee that she had discussed the issue with the Chief Executive who would raise it with the Leader of the Council.
4. In relation to A33/13 (ethical standards), the Chairman highlighted the reminder which the Monitoring Officer had sent to Members about registering interests.
5. The committee agreed that the information bulletin was useful and kept the Members up-to-date on relevant issues.

Actions/Further information to be provided:

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

RESOLVED:

That the recommendations tracker was noted and the committee agreed to remove the completed actions.

Committee Next Steps:

None.

96/14 EXTERNAL AUDIT - AUDIT PLAN SURREY PENSION FUND [Item 6]

Declarations of Interest:

None.

Witnesses:

Kathryn Sharp, Audit Manager (Grant Thornton)

Alex Moylan, Senior Accountant

Phil Triggs, Strategic Manager – Pension Fund & Treasury

Key Points Raised During the Discussion:

1. The Audit Manager introduced the report and explained that it was a standard audit plan. The significant risks identified were applicable to all audits.

Richard Wilson joined the meeting at 10.10am.

2. The Chairman welcomed the fee having fallen from the previous arrangements.

Actions/Further information to be provided:

None.

RESOLVED:

That the work that Grant Thornton plans to undertake to deliver the audit be **NOTED**.

Committee Next Steps:

To receive the findings of the audit in July 2014.

97/14 COMPLETED INTERNAL AUDIT REPORTS [Item 7]

Declarations of Interest:

None.

Witnesses:

Rachel Crossley, Democratic Services Lead Manager

Sue Lewry-Jones, Chief Internal Auditor

Sheila Little, Director of Finance

Nicola O'Connor, Finance Manager – Assets & Accounting

Grisilda Ponniah, Corporate Information Governance Manager

Key Points Raised During the Discussion:

1. The Chief Internal Auditor introduced the report and highlighted that Council Overview and Scrutiny Committee had considered the Appraisals Internal Audit report. The Cabinet Member for Business Services informed the committee that on 27 May 2014 Cabinet had tabled a response to the recommendations by Council Overview and Scrutiny Committee. While she shared the concerns of the Committee with regard to appraisal completion, she assured Members that

completion levels were variable and that some departments were doing well. Some departments require a culture change to ensure that appraisal completion levels increase. The Director of Finance pointed out that the process of recording appraisals had been simplified and suggested that this would lead to increased recording. The Chief Internal Auditor stated that there would be a follow-up audit on appraisals.

2. The Vice-Chairman queried which senior officers had been identified as having outside interests. The Chief Internal Auditor stated that a large number of officers have outside interests but that this was acceptable if they are properly disclosed and there are appropriate procedures in place to ensure that there is no conflict of interests. The audit found that procedures were effective. She also stressed that outside interests as identified from Companies House data may relate to companies set up to manage their own living accommodation (eg in a block of flats) etc. The Vice-Chairman went on to express concern about how and when officers are required to make declarations of interests. He agreed to go through the audit papers to assure himself on procedures and report back to the committee (**Recommendations tracker ref: A9/14**).
3. The Chairman commended Internal Audit on its report on Data Mining for Fraud.
4. The Democratic Services Lead Manager and the Corporate Information Governance Manager were in attendance to discuss the audit of Information Governance. The Chairman queried what contact the Information Governance team has with the Information Commissioner's Office (ICO). The Corporate Information Governance Manager explained that there had been no decision notice against the Council for breach of information rights for many years. The Council has a positive relationship with the ICO and if a complaint is received by the ICO, they will not process it until the council has had an opportunity to do an internal review. A few perceived breaches have been reported to the ICO but the Office has decided not to take further action on them.
5. In response to a query, the Democratic Services Lead Manager assured the committee that the misuse of group email accounts which include outside bodies had been addressed. Indications were that this had led to a reduction in the number of data breaches occurring.
6. There was some concern amongst Members about the level of security on electronic devices and the potential to be locked out of programs. The Democratic Services Lead Manager stressed that the Modern Worker project was looking at how people work now and that it was seeking to balance flexibility with information security. The Good app was being replaced with a more secure system. She offered to feedback to IMT the need to consider the Modern Councillor in this work. In response to queries about printing from iPads, the Democratic Services Lead Manager informed the committee that options had been looked at and that she would chase IMT to find out what progress has been made (**Recommendations tracker ref: A10/14**).

7. The Chairman suggested that the Audit & Governance Committee should consider the audit of the General Ledger in detail as it was important the Committee had assurance about the effectiveness of this process before receiving the Council's Statement of Accounts in July 2014. The Finance Manager – Assets & Accounting, informed the committee that the audit had been more thorough than previous years but that she had welcomed this. The findings were not a surprise but would support the Finance Team in addressing issues that they had already been working on. The Finance Manager – Assets & Accounting agreed that every suspense code had an identified owner. In the past 12 months, the Finance Team had done a lot of work to make sure that the names are up-to-date.
8. The Finance Manager – Assets & Accounting explained that external audit had originally identified an 'aged' GR/IR balance. This relates to a balance which is a commitment on budget codes until the goods are received and the balance paid to the creditor. An investigation showed that there has been an over-accrual against budget codes as services are actually paying less than has been committed against their budget code. This may happen for reasons such as the supplier giving a discount. Numerous small amounts can build up into a substantial balance. An e-learning package would provide advice on handling the final invoice processed in a block procurement order. Finance would also start to produce a list comparing goods receipting with final invoices and send it to budget holders to query. On 31 March 2014, there was a £21.1m GR/IR balance. The end of March is the peak time for the balance as there is a push to record receipt of all goods by the end of the financial year. It was stressed that there would always be a timing difference between receiving goods and services and then paying for them. This means that there would always be a GR/IR balance. Balances which have been written off in the past have been put into the budget equalisation reserve. Of the £21.1m GR/IR balance on 31 March 2014, £2.5m relates to an 'aged' balance of over 12 months old. This is still under investigation. The Director of Finance confirmed that she supported the process undertaken. The Finance Manager – Assets & Accounting agreed to do a briefing on the GR/IR balance for the Committee's next information bulletin (**Recommendations tracker ref: A11/14**).

Actions/Further information to be provided:

- i. The Vice-Chairman to review the background papers to the audit of Officer Interests and report back to the committee.
- ii. The Democratic Services Lead Manager to discuss with IMT the need to consider the Modern Councillor as part of the Modern Worker project and to chase to establish what progress has been made with being able to print from iPads.
- iii. The Finance Manager – Assets & Accounting to prepare a briefing on the GR/IR balance for the Committee's next information bulletin.

RESOLVED:

That the committee notes the report.

Committee Next Steps:

None.

98/14 INTERNAL AUDIT ANNUAL REPORT 2013/14 [Item 8]

Declarations of Interest:

None.

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor

Key Points Raised During the Discussion:

1. The Chief Internal Auditor introduced her Annual Report and highlighted that the overall audit opinion for the governance and internal control environment was Some Improvement Needed as a few specific control weaknesses had been noted.
2. The Vice-Chairman stressed the importance of audit for any organisation and stated that Internal Audit does a good job. He suggested that Highways continued to be a weak link and asked how Internal Audit can respond to this. The Chief Internal Auditor reminded the committee that her team had lost two experienced auditors with extensive knowledge of Highways issues during the past year. The impact of this needed to be considered and addressed. She informed the committee that she had met with the Assistant Director for Highways who had been very complimentary of how Internal Audit worked with Highways. The areas identified in the Audit Plan for 2014/15 were areas which the Highways service has identified issues with.
3. A Member queried whether recovery rates following damage to Council property had been audited. The Chairman confirmed that this had been audited in the past and that the recovery rate had also been looked at by Environment & Transport Select Committee. The Chief Internal Auditor suggested that as this had not been looked at in a few years, she could look into whether there is a need for an audit in the near future (**Recommendations tracker ref: A12/14**).
4. With regard to the Customer Satisfaction Survey, Members queried who the people were who found little or no value in an audit and why. The Chief Internal Auditor explained that, if an audit finds that a service/process is effective, staff may believe the audit was not worthwhile. The questions in the Customer Satisfaction Survey were being reviewed with the aim of also asking auditees if they get assurance from the completion of an audit.
5. The Chief Internal Auditor explained that there is a very large audit universe and that this is risk assessed to produce the annual Audit Plan.
6. The Chairman suggested raising the Direct Payments Follow-up Audit and the ASC Safeguarding Assurance process with the Chief Executive and Leader of the Council when they arrive for item 12: Annual Governance Statement.

Actions/Further information to be provided:

The Chief Internal Auditor to consider the need for an audit of recovery rates following damage to Council property.

RESOLVED:

To **NOTE** the work undertaken and performance of Internal Audit in 2013/14.

Committee Next Steps:

None.

99/14 FULL-YEAR SUMMARY OF INTERNAL AUDIT IRREGULARITY INVESTIGATIONS AND ANTI-FRAUD MEASURES (APRIL 2013 - MARCH 2014) [Item 9]

Declarations of Interest:

None.

Witnesses:

Reem Burton, Lead Auditor

Key Points Raised During the Discussion:

1. The Lead Auditor introduced the report and stressed the increased focus on proactive fraud prevention.
2. The Lead Auditor informed the committee that Borough and District Councils had taken different approaches to the Single Person Discount exercise. Some were happy to cancel the discount where responses were not forthcoming but others wished to review each individual case. This would be resolved over time. The Chairman informed the committee that he had discussed this exercise with the Leader of the Council and that he was raising it at the Surrey Leaders' Group.
3. The Lead Auditor confirmed that Internal Audit had a good working relationship with Surrey Police although they may sometimes have different priorities. Some cases would be investigated by Internal Audit but potential fraud with a high material value will be investigated by the police.
4. The Lead Auditor confirmed that alleged corruption can be difficult to prove. However, whistleblowing is a valuable source of information, in particular with regards to planning applications. The Annual Audit Plan includes contract audits, which may include tests to identify irregular supplier practices.
5. The Lead Auditor confirmed that cash thefts are usually small but there are a few examples of fraud cases relating to larger material figures.
6. The Lead Auditor confirmed that the Strategy had only been amended slightly, updating it in relation to new legislation and the renaming of the Change & Efficiency Directorate as Business Services.

Actions/Further information to be provided:

None.

RESOLVED:

- a. To **NOTE** the report;
- b. To **APPROVE** the updated Strategy against Fraud & Corruption.

Committee Next Steps:

None.

100/14 RISK MANAGEMENT ANNUAL REPORT [Item 10]

Declarations of Interest:

None.

Witnesses:

Cath Edwards, Risk and Governance Manager

Sheila Little, Director of Finance

Key Points Raised During the Discussion:

1. The Risk and Governance Manager introduced the report and highlighted the minor changes to the Risk Management Policy Statement and Strategy and updates to the Leadership Risk Register.

Tim Hall left the meeting at 11.40am.

2. The Risk and Governance Manager explained that Procurement did not understand the importance of risk management but needed support to start conversations with suppliers. Some suppliers, eg small taxi firms, would need more support to improve risk management arrangements than others.
3. The Risk and Governance Manager informed the committee that there needed to be greater clarity on who would be attending the Council Risk and Resilience Forum meetings and what services they were representing. If a service is Priority 1 for the Forum, they will be encouraged to send their own representative and not to share with other services.
4. A Member queried what was meant by 'rewarding appropriate risk taking'. The Risk and Governance Manager explained that this was focussed on performance management.

Tim Hall rejoined the meeting at 11.47am.

The Director of Finance explained that the risk culture leadership guidance produced by the Institute of Risk Management uses private sector language throughout. In the private sector, staff are rewarded for risk-taking. In the public sector there is a need to celebrate where risk-taking has made a positive outcome. It needs to be recognised that taking a risk is not always a negative action.

5. With regard to the Leadership Risk Register, Members suggested that the implications of the Care Act were so fundamental that it should be separated out as a risk in itself. The Director of Finance accepted the significance of the Care Act but stressed that everything on the Leadership Risk Register was a major risk. It was important not to have too many individual risks on the register. The Chairman suggested that Risk L15 (Central Government policy development) needed to be developed to have a greater focus on the Care Act (Recommendations tracker re: A13/14).
6. The Risk and Governance Manager informed the committee that flood relief work was ongoing and lessons on risk management were being learnt.

Actions/Further information to be provided:

Risk L15 (Central Government policy development) to be developed to have a greater focus on the Care Act.

RESOLVED:

- a. That the committee is satisfied with the risk management arrangements;
- b. To **APPROVE** the Risk Management Policy Statement and Strategy for inclusion in the Constitution; and
- c. To **NOTE** the Leadership Risk Register.

Committee Next Steps:

None.

101/14 CODE OF CORPORATE GOVERNANCE [Item 11]

Declarations of Interest:

None.

Witnesses:

Cath Edwards, Risk and Governance Manager

Key Points Raised During the Discussion:

1. The Risk and Governance Manager introduced the report and highlighted the minor changes.

Actions/Further information to be provided:

None.

RESOLVED:

To **APPROVE** the updated Code of Corporate Governance and recommend it to the County Council for inclusion into the Constitution.

Committee Next Steps:

None.

102/14 BRIEFING ON CIPFA'S 2013 EDITION OF AUDIT COMMITTEES: PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES AND POLICE [Item 14]

As witnesses for Item 12 had not yet arrived, it was agreed to consider Item 14 next.

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Chairman introduced the report and suggested that the task group undertaking the committee self-assessment should consist of the Chairman, Vice-Chairman and one other member of the committee. Tim Hall volunteered to participate and this was agreed.

Actions/Further information to be provided:

None.

RESOLVED:

- a. To **NOTE** the publication of CIPFA's revised and updated 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police*.
- b. To undertake a self-assessment and review of the committee's training needs.

Committee Next Steps:

To complete the Knowledge and Skills Survey and return it to the Regulatory Committee Manager.

103/14 2013/14 ANNUAL GOVERNANCE STATEMENT [Item 12]

Declarations of Interest:

None.

Witnesses:

David Hodge, Leader of the Council

Sue Lewry-Jones, Chief Internal Auditor

David McNulty, Chief Executive

Key Points Raised During the Discussion:

1. The Chairman asked whether it would be possible to include an update on the comments made about the internal control environment in the previous year's Annual Governance Statement. The Chief Internal Auditor suggested that this was not necessary as either there were no more concerns in a particular area or they had been addressed in the Internal Audit Annual Report.
2. The Chief Executive responded to the comment that the Council does not have a central programme office any longer as there had been a need to make savings in the back office. The previous central programme office had done interesting work but had been an additional layer of bureaucracy. Departments had worked hard to ensure that a common methodology is applied to programmes and that the right skills and tools are available. He stated that he wasn't convinced that there was sufficient merit in having a central programme office to offset the cost involved. The Chairman agreed that sometimes central programme offices can take over the running of projects and reduce responsibility within the service.
3. The Vice-Chairman queried if the leadership felt that Select Committees were challenging enough. The Leader of the Council informed the committee of work with South East employers on improving the effectiveness of Select Committees. Over the past few months the standard of chairmanship of Select Committees had improved. Member coaching was also available to support committees to be challenging in a positive manner. He pointed out that as Leader of the Council he had no control over the overview and scrutiny process but that he did want to see strong Select Committees. The Chief Executive stressed that Select Committees were well-informed and had intellectual integrity. The Cabinet does take feedback from Select Committees seriously and feels sufficiently challenged. The Vice-Chairman suggested that some Select Committees do have issues, for example not taking audit findings seriously. The Chief Executive assured the committee that he is

aware of the issues as perceived by Audit & Governance Committee and that the Chairman of the Committee raises issues with him, which is very helpful.

4. It was suggested that the Statement be more explicit about the work ongoing as part of the flood recovery exercise. The Chief Executive stated that he did not want it to appear that the Council was being self-congratulatory when residents were continuing to suffer from the implications of the flooding. He also felt that a more explicit statement was not necessary in the Annual Governance Statement but suggested that there would be a stronger reference to the flooding in the Council's Annual Report.
5. Concerns were raised about the schools place programme not running effectively. Two Planning and Regulatory Committee meetings in a row had not considered school expansion planning applications when it was known that there are a number in the pipeline. The Chief Executive agreed that the schools place programme is a key objective for the council and of significant scale. However, he wasn't aware of specific governance issues. The committee agreed that it wished the schools place programme to be addressed within the Annual Governance Statement (**Recommendations tracker ref: A14/14**).
6. It was suggested that an emphasis on making physical assets work harder could be set out more strongly under Transparency and Stewardship. The Chief Executive agreed that this could be brought out more strongly (**Recommendations tracker ref: A15/14**).
7. The Chairman stated that he was not convinced that the problems with the Children in Care Health and Dental Checks were only about the timeliness of the paperwork trail but were also due to checks not being undertaken on a timely basis. The Chief Executive confirmed that the Corporate Parenting Board had received an update on Health and Dental Checks. This had shown that CCGs and the private provider Virgin Care had made significant progress on this issue. Increased capacity had been made available and there was improved confidence that checks would be delivered on time. The Corporate Parenting Board would keep a relentless focus on this. The Leader of the Council also informed the committee that he addresses this issue in his accountability meetings with the relevant Cabinet Members. The Chairman requested that the committee be sent the Minutes of the Corporate Parenting Board so that it could reassure itself on these improvements (**Recommendations tracker ref: A16/14**).
8. The Chairman suggested that under 'Focus for 2014/15' or the 'Engagement and Collaboration', reference should be made to the challenges of the Care Act. The Leader of the Council informed the committee that, due to the lack of certainty about what would happen after May 2015, it was preferable for the Council to concentrate on being resilient enough to handle anything that may be required.
9. The Chief Executive asked that the committee acknowledge the tremendous work of the Risk and Governance Manager on the Annual Governance Statement.

Actions/Further information to be provided:

- i. The schools place programme to be addressed within the Annual Governance Statement.
- ii. An emphasis on making physical assets work harder to be set out more strongly under Transparency and Stewardship.

- iii. The Minute of the Corporate Parenting Board relating to improvements to the Children in Care Health and Dental Checks to be circulated to the Committee.

RESOLVED:

- a. To COMMEND the draft Annual Governance Statement, subject to the amendments outlined above, to the Cabinet for publication with the council's Statement of Accounts.

Committee Next Steps:

None.

**104/14 PROPERTY ASSET MANAGEMENT SYSTEM IMPLEMENTATION
UPDATE [Item 13]**

Declarations of Interest:

None.

Witnesses:

Nigel Jones, Performance Manager, Property Services

Key Points Raised During the Discussion:

1. The Performance Manager introduced the report and informed the committee that over time more services would get access to the Property portal. He stressed that the System was very user-friendly. He went on to inform the committee that a review of the benefits was scheduled but that each area would be given 6-12 months from go-live before being reviewed. The Chairman suggested that the review should consider whether staff still felt it necessary to maintain separate spreadsheets outside of the main PAM system. He requested that the committee be made aware of the results of the reviews through the committee's information bulletin (**Recommendation tracker ref: A17/14**).
2. The Performance Manager informed the committee that it had been estimated that the new system would achieve savings of £100,000 per annum across all areas. Some of the savings would come from staff time saving and some from contract efficiency. The return against investment would be far exceeded over five years.
3. The Performance Manager confirmed that there would need to be a culture shift to get the most benefit out of the new system. However, if people see what the new system can provide, he believed that they would use it.
4. The Performance Manager confirmed that Borough and District Councils could buy into the Framework Contract.

Actions/Further information to be provided:

The committee to be made aware of the results of any evaluation of the delivery of expected benefits through the information bulletin.

RESOLVED:

That the committee now recognises this project and the further development of the PAM System as part of Property Service's business as usual delivery, therefore this will be the final report to come to this committee.

Committee Next Steps:

None.

Meeting ended at: 12.50 pm

Chairman