

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 27 July 2015 at Committee Room B - County Hall.

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

Elected Members:

Mr Stuart Selleck (Chairman)
Mr Denis Fuller (Vice-Chairman)
Mr W D Barker OBE
Mr Will Forster
Mr Tim Hall
Mr Saj Hussain

In Attendance

Cath Edwards, Risk & Governance Manager
Cheryl Hardman, Regulatory Committee Manager
Kevin Kilburn, Deputy Chief Finance Officer (Section 151 Officer representative)
Sue Lewry-Jones, Chief Internal Auditor

Denise Le Gal, Cabinet Member for Business Services and Resident Experience

50/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were no apologies for absence, although Tim Hall and Saj Hussain were late to the meeting.

51/15 MINUTES OF THE PREVIOUS MEETING: 28 MAY 2015 [Item 2]

The Minutes were APPROVED as an accurate record of the meeting.

52/15 DECLARATIONS OF INTEREST [Item 3]

There were none.

53/15 QUESTIONS AND PETITIONS [Item 4]

There were none.

54/15 RECOMMENDATIONS TRACKER [Item 5]

Declarations of interest:

None

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer

Sue Lewry-Jones, Chief Internal Officer

Saj Hussain joined the meeting at 10.01am.

Key points raised during the discussion:

1. In relation to A49/14 (Teacher's Pension Return), the Deputy Chief Finance Officer informed the committee that he had received a response from the Teachers' Pensions Agency, which queried which year was affected. He had written to request clarification as the issue affected all years. The committee requested that the Deputy Chief Finance Officer write again during the current week.
2. In relation to A12/15 (SE Business Services), the committee agreed to consider the issue of appointing a finance officer as director of SE Business Services at the September or December meeting of the committee.

Tim Hall joined the meeting at 10.05am.

3. In relation to A18/15 (SEND strategy), the Chairman informed the committee that an officer had been seconded to lead on the development of the SEND Strategy. The redrafted Strategy would be shared with the Education and Skills Board on 17 September 2015. A member of Audit & Governance Committee also sits on that Board and can report back to the committee's meeting on 28 September 2015.
4. In relation to A20/15 (Adult Social Care record keeping), a letter from the Cabinet Member for Adult Social Care, Wellbeing and Independence was tabled and is attached as Annex A to the Minutes. The committee queried the comments about data protection as Business Services has experience of dealing with personal data. Members were also unsure whether the Cabinet Member agreed in principle with the recommended move of record keeping to Business

Services. The Chairman agreed to discuss the matter further with the Cabinet Member and report back to the committee.

5. In relation to A21/15 (foster care audit), the Chief Internal Auditor informed the committee that the audit was underway and the findings may be ready for the September meeting of the committee.
6. In relation to A22/15 (Kier MG discounts), the Chief Internal Auditor clarified that Maximo was the IT system used to record jobs run by Kier. It had an interface with SAP. The Chairman asked for an update on whether the final balance for 2014/15 was settled in the July batch payment to Kier and what the final figures were. Members considered whether other contracts with discounts built in or performance-related contracts are adequately monitored. The Chief Internal Auditor reminded Members that services should be monitoring their contracts and be aware of what provisions are written in.

Action/Further information to note:

None.

RESOLVED:

That the committee NOTES the report.

Committee next steps:

None.

55/15 SURREY COUNTY COUNCIL: STATEMENT OF ACCOUNTS 2014/15 AND GRANT THORNTON AUDIT FINDINGS REPORT [Item 6]

Declarations of interest:

None

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer
Jonathan Evans, Principal Accountant – Financial Accounting

Andy Mack, Engagement Lead (Grant Thornton)
Kathryn Sharp, Senior Manager (Grant Thornton)
Thomas Ball, Manager (Grant Thornton)
Matt Dean, Audit Manager (Grant Thornton)

Key points raised during the discussion:

1. The Principal Accountant introduced the report and highlighted the amendments made to the Accounts since the draft accounts were produced and presented to external audit in May 2015. These related to a collection fund adjustment and schools accounting.
2. It was confirmed that delays to collection fund figures being provided to the county council were due to just three borough/district councils: Mole Valley District Council, Reigate and Banstead Borough Council, and Surrey Heath Borough Council. Officers confirmed that they had informed accounting staff in the borough and district councils of the relevant deadlines and had agreed a later deadline in response to requests by the councils. The issue of deadlines was also raised at the Surrey Treasurers meeting. It was suggested and agreed that the Chairman should write to the Leader and Chief Executive, copying in the Audit Committee Chairman, of each of the three local authorities,

stressing the importance of meeting the deadlines on provision collection fund figures (**Recommendations tracker ref: A28/15**).

3. The committee was informed that officers were seeking legal advice with regard to accounting for foundation schools. Grant Thornton representatives confirmed that they were comfortable with how the Council had dealt with this issue. They would be surprised if the legal advice went against the Council's interpretation. Resolution was being pursued as high priority as there could be implications for budget planning and the council tax precept for 2016/17.
4. Regarding the Value for Money opinion, the Chairman queried the meaning of the qualification on an 'except for' basis. The Engagement Lead for Grant Thornton explained that the audit had to pay regard to the Ofsted review. The opinion is likely to be that the council has put in place proper arrangements for securing economy, efficiency and effectiveness 'except for' this one area. However, the findings were now being dealt with. Members queried why audit processes hadn't picked up the issues in Children's Service. The Chief Internal Auditor highlighted that the Children's Safeguarding Quality Assurance Process audit had found that significant improvement was needed. She also informed the committee that Internal Audit was involved in quality assurance during the improvement programme for Children's Service.
5. The Principal Accountant introduced a schedule of changes, addressing amendments requested by external audit. This is attached as Annex B to the Minutes.
6. The Engagement Lead for Grant Thornton expressed thanks to the officer team from Finance for their support during the audit of the council's accounts. He highlighted the short timescale within which the accounts have been completed and pointed out that, as in two years the statutory deadline for publication of the audited accounts would be July, the council may wish to consider how it can further shorten the timescales to stay ahead of the competition. The Chairman responded that speed should not compromise the information included in the accounts.

Action/Further information to note:

The Chairman to write to the Leader and Chief Executive, copying in the Audit Committee Chairman, of each of the three local authorities, stressing the importance of meeting the deadlines on provision of collection fund figures.

RESOLVED:

That the Committee:

- i. APPROVES the 2014/15 Statement of Accounts for publication on the council's website and in a limited number of hard copies;
- ii. NOTES the contents of the 2014/15 Audit Findings Report;
- iii. AGREES the officer response to recommendations of the external auditor;
- iv. NOTES the Director of Finance's letter of representation; and
- v. Agrees not to refer any issues in the Audit Findings Report to Cabinet.

Committee next steps:

None.

**56/15 SURREY PENSION FUND: LOCAL GOVERNMENT PENSION SCHEME
ACCOUNTS 2014/15 AND GRANT THORNTON AUDIT FINDINGS
REPORT [Item 7]**

Declarations of interest:

None

Witnesses:

Phil Triggs, Strategic Manager – Pension Fund and Treasury

Andy Mack, Engagement Lead (Grant Thornton)
Kathryn Sharp, Senior Manager (Grant Thornton)
Thomas Ball, Manager (Grant Thornton)
Matt Dean, Audit Manager (Grant Thornton)

Key points raised during the discussion:

1. The Strategic Manager – Pension Fund and Treasury introduced the report, taking responsibility for the late and incomplete submission of parts of the draft Pension Fund Financial Statements. He clarified that the negative figures regarding foreign exchange contracts on the Net Asset Statement was not an indication of poor performance.
2. Responding to a question about likely trend for collapsing corporate bonds, the Strategic Manager – Pension Fund and Treasury informed the committee that the Surrey Pension Fund Committee had agreed to replace investment grade investment credits with a multi-asset credit portfolio and had appointed an investment manager for this mandate. He assured the committee that officers actively monitor trends and interest rates.
3. The Strategic Manager – Pension Fund and Treasury informed the committee that the Surrey Pension Fund Committee had commissioned a deep dive review of the cost of running the pension fund and would be reporting back to that committee in September.
4. The Strategic Manager – Pension Fund and Treasury explained that the issue with the Magistrates Court Service was still subject to receipt of various sum instalments, with actuaries appointed for both the Pension Fund and the Magistrates Court Services.
5. The Grant Thornton Audit Manager informed the committee that while there had initially been a few issues with the audit process, this improved as the audit progressed. An additional fee had been proposed because of the delays in submission of information. Once the Pension Fund Annual Report was submitted, the audit could be signed off. The Strategic Manager – Pension Fund and Treasury confirmed that this was being worked on and would be published soon.

Action/Further information to note:

None.

RESOLVED:

That the Committee:

- i. APPROVES the 2014/15 Pension Fund Financial Statements;
- ii. NOTES the amendments made to the Pension Fund financial statements;
- iii. NOTES the contents of the Audit Findings for Surrey Pension Fund Report;

- iv. Agrees not to refer any issues in relation to the auditor's conclusions and recommendations to Cabinet;
- v. NOTES the content of the draft representation letter and AUTHORISES the Director of Finance to sign it on the authority's behalf.

Committee next steps:

None.

57/15 2015/16 EXTERNAL AUDIT FEE LETTER [Item 8]

Declarations of interest:

None

Witnesses:

Andy Mack, Engagement Lead (Grant Thornton)
Kathryn Sharp, Senior Manager (Grant Thornton)
Thomas Ball, Manager (Grant Thornton)
Matt Dean, Audit Manager (Grant Thornton)

Key points raised during the discussion:

1. The Engagement Lead for Grant Thornton introduced the planned fee for the 2015/16 external audit of the Council. The reduction in the fees was highlighted

Action/Further information to note:

None

RESOLVED:

That the Committee NOTES the contents of the 2015/16 External Audit Fee Letter.

Committee next steps:

None.

58/15 TREASURY MANAGEMENT OUTTURN REPORT 2014/15 [Item 9]

Declarations of interest:

None

Witnesses:

Phil Triggs, Strategic Manager – Pension Fund and Treasury

Key points raised during the discussion:

1. The Strategic Manager – Pension Fund and Treasury introduced the report, explaining the treatment of funds held on behalf of schools and the Office of the Police and Crime Commissioner for Surrey.
2. In response to a question about the long term borrowing maturity profile, the Strategic Manager – Pension Fund and Treasury confirmed that there was the discretion to reschedule debt with the Public Works Loan Board. The Chairman supported the approach, stating that forward borrowing is a key tool in the treasury toolbox.

3. The committee was informed that a tendering process was underway for the Treasury Management Advisor. The company that wins the tender will provide training to the committee later in the year.
4. The committee discussed the risk that the treasury management strategy is too conservative. The Strategic Manager – Pension Fund and Treasury informed the committee that over the past twelve months there has been a change in the appetite for risk among treasury managers. This would be considered when drafting the Treasury Management Strategy for 2016/17.
5. It confirmed that borrowing cannot be used to cover any shortfall from cuts to budgets. Local authorities can only borrow for long-term capital financing and to cover short-term cash-flow requirements.

Action/Further information to note:

None.

RESOLVED:

That the Committee:

- i. NOTES the content of the Treasury Management Annual Report for 2014/15; and
- ii. ADOPTS the revised Treasury Management Risk Register.

Committee next steps:

None.

The committee adjourned from 11.35am to 11.50am for a short break.

59/15 ANNUAL REPORT OF SURREY COUNTY COUNCIL [Item 10]

Declarations of interest:

None

Witnesses:

David Hodge, Leader of the Council

David McNulty, Chief Executive

Verity Royle, Senior Principal Accountant

Key points raised during the discussion:

1. The Leader of the Council and the Chief Executive introduced the report. The Senior Principal Accountant was thanked for her work on developing the Annual Report to make it more engaging to customers.
2. In response to a query about the comparison with Luxembourg, the Chief Executive informed the committee that it was broadly comparable and useful for indicating the size of the county. He also clarified that local businesses were those with their head quarters in Surrey.
3. The Leader informed the committee that the Annual report was a useful document to share with businesses. It also available in libraries and the Tax Payers Alliance had taken a close interest.

4. The committee asked why the secondary school bulge was only mentioned in passing in the report. The Chief Executive explained that work on the secondary school bulge would start to increase over the next year and would be featured more strongly in next year's Annual Report.
5. Members queried whether the figures of families involved in the Family Support Programme add up. The Chief Executive explained that in practice more families need to be engaged with through targeted whole family intervention to achieve the target numbers of families "turned around".
6. Members highlighted issues such as: children being transported long distances to schools because they haven't got into the local school; highways concerns; and people being moved out of hospitals before they are ready. The Chief Executive responded that: additional school places had been provided but oversubscription to certain schools affect the number of first preferences which can be met; there had been improvements in the highways service but the service was vulnerable to external factors such as poor weather; and the council was working better with health partners. It is often in the interests of the patient to leave the hospital quickly with support from adult social care to ensure that they retain their independence.
7. In response to a query about Blue Badges, the Leader explained that new badges may continue to take six weeks to be produced as documentation needed to be collected and reviewed. However, replacement Blue Badges would take less time.
8. A Member expressed the view that the Children's Service's Ofsted finding should have been more explicitly addressed. This could have been used to highlight social care as a key priority with the public. The Chief Executive responded that Children's Service was addressed in the Annual Report.
9. The Chairman highlighted the discussions that had taken place on airport expansion and queried why this wasn't included in the Annual Report. The Leader confirmed that Council had a clear policy on airport expansion, welcoming it so long as infrastructure improvements are made. However, the Government had only recently made its announcement on airport expansion and so next year's Annual Report would set out what the Council had done in response.

Action/Further information to note:

An updated page on the Corporate Environment Sustainability Headlines would be circulated to the committees when the figures were finalised (**Recommendation tracker ref: A29/15**).

RESOLVED:

That the Committee NOTE and ENDORSE the Annual Report for the authority.

Committee next steps:

None.

60/15 DATE OF NEXT MEETING [Item 11]

The date of the next meeting was noted.

Meeting ended at: 12.25 pm

Chairman

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Cllr Stuart Selleck
Chairman of Audit & Governance Committee
Surrey County Council
c/o Room 122
County Hall

CABINET MEMBER

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14 July 2015

Dear Cllr Selleck

Thank you for your letter on the issue of credit balances in the Adult Social Care Debt. As you rightly note there is an issue in clearing the credit balances made a little more complicated by the division in processes of two separate functions within the Council.

Dealing with the Adults perspective, capturing data at an early stage is an essential first step in obtaining details of next of kin etc, the current AIS system is complicated and this initial step is not always obvious to the care practitioner when first entering the clients information. It is expected that the new system provided by Liquid Logic will assist with this issue.

As to your comment of moving the record keeping to the Business Service is problematic due to data protection issues as the AIS system contains significant personal information.

I will assure you however, that this item is under review.

Yours sincerely

Melville Few

Cabinet Member for Adult Social Care, Wellbeing and Independence
County Councillor for
Virginia Water, Lyne, Longcross, Thorpe and Ottershaw

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Addendum to Item 6

Schedule of changes

Note	Page no	Change
Note 1 – Summary of significant accounting policies	24	Update page reference in first paragraph to 'page 153'
Note 3 – Critical judgements in applying accounting policies	33	Remove reference to 'Audit Commission guidance' in second paragraph and insert the following sentence 'More information on the justification for this change in accounting policy is provided in section 6 of the explanatory foreword on page 8 or in Note 14 on page 46 for schools accounting In the final sentence of paragraph 5 remove the phrase 'within the spirit' and replace with 'consistent with'.
Note 5 – Material items of income and expenditure	35	Update academy write off figure from £33.9m to £55.6m
Note 12 – Property, plant and equipment	45	In the revaluations section insert the sentence 'except a small proportion of the portfolio for Surrey Arts and school's tied accommodation'
Note 21 – Usable reserves	58	Insert '£000' to each column heading
Note 23 – Amounts reported for resource allocation decisions	63	Remove minus sign from 'Total Comprehensive Income & Expenditure' line so it is positive £101.5m
Note 36 – Other short-term and long-term liabilities	79	Insert '£000' to each column heading
Group Accounts: Group movement in reserve statement	94 & 95	Insert '£000' into column headings for 'profit and loss reserve' and 'pension reserve of subsidiary'
Group Accounts: Note 1 – General	99	Insert page references '19 to 92'
Group Accounts: Note 2 – Group Boundary	99	Insert the word 'the', so the opening to the final paragraph reads 'None of the other entities'
Annex 1: Accounting policies	163	In the section xiv 'Interests in other entities' insert the sentence, 'The council has determined that it exerts significant control over both S.E. Business Services and Surrey Choices as they are both Local Authority Trading Companies wholly owned by the council.'

Annex C: Letter of representation

On page 2 of the letter remove the seventh paragraph starting 'We have considered the unadjusted misstatement schedule...'

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