

**MINUTES** of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.30 am on 16 February 2015 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 Denis Fuller  
Mr Tim Evans  
Mr Tim Hall

**Apologies:**

Mr Will Forster

**In Attendance**

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

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

Apologies for absence were received from Will Forster and from the Cabinet Member for Business Services, Denise Le Gal.

Tim Evans and Bill Barker had said that they would be late to the meeting.

**2/15 MINUTES OF THE PREVIOUS MEETING: 1 DECEMBER 2014 [Item 2]**

Subject to amending the title of Sue Lewry-Jones to Chief Internal Auditor, the Minutes were approved as an accurate record of the meeting.

**3/15 DECLARATIONS OF INTEREST [Item 3]**

There were none.

**4/15 QUESTIONS AND PETITIONS [Item 4]**

There were none.

**5/15 RECOMMENDATIONS TRACKER [Item 5]**

**Declarations of interest:**

None.

**Witnesses:**

Sheila Little, Director of Finance

**Key points raised during the discussion:**

1. In relation to A22/14 (capital programme), the Director of Finance updated the committee. She had spoken to the Chief Property Officer who was monitoring the capital programme regularly. On the basis of a report from him, it would be decided whether to hold a workshop in March 2015.
2. In relation to A23/14 (SEN Strategy), the committee noted the letter from the Cabinet Member for Schools and Learning.

Bill Barker joined the meeting at 10.40pm.

3. In relation to A49/14 (Teachers' Pension Return), the Director of Finance informed the committee that although numerous letters had been sent to Teachers' Pensions, no response had been forthcoming.
4. In relation to A41/14 (Adult Social Care savings), the Chairman confirmed that discussions were ongoing with regard to the Adult Social Care budget. Members discussed the need to have the right expertise to develop a more co-ordinated approach with other organisations. The Director of Finance informed the committee that she had been working with the Chief Executive to provide supportive budget challenges to services. This had recently been done with Adult Social Care and had in particular focused on Families, Friends and Communities initiative. The Strategic Director had taken them through a detailed plan which she and the Chief Executive had been reassured by. A Member highlighted networking lunches that were being held in his local area. This was aiming to ensure that the council knew what organisations were in each local area. A Member expressed concern

about the numerous pots of money allotted to Adult Social Care as he felt this obscured the true picture. The Director of Finance offered to circulate the current monitoring position for Adult Social Care to members of the committee (**Recommendations tracker ref: A1/15**). It was suggested and agreed that the Chairman should write to the Leader of the Council about the difficulties and seriousness of the Adult Social Care budget situation (**Recommendations tracker ref: A2/15**).

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

- i. The Director of Finance to circulate the current monitoring position for Adult Social Care to members of the committee.
- ii. The Chairman to write to the Leader of the Council about the difficulties and seriousness of the Adult Social Care budget situation.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

**6/15 GRANT THORNTON: AUDIT & GOVERNANCE COMMITTEE UPDATE  
[Item 6]**

**Declarations of interest:**

None.

**Witnesses:**

Andy Mack, Engagement Lead – Grant Thornton  
Kathryn Sharp, Senior Manager – Grant Thornton

Jonathan Evans, Principal Accountant – Financial Accounting  
Sheila Little, Director of Finance

**Key points raised during the discussion:**

1. The Engagement Lead introduced the update report. The headlines regarding the audit approach were outlined on pages 47 and 48 of the report pack.
2. Members expressed concern about the accounting for schools issue. The Senior Manager agreed that there continued to be a lively debate on this issue. The current position is that all Foundation schools will be shown in the balance sheet and that Voluntary Aided and Voluntary Controlled Schools would be determined on a case by case basis, dependent on the right of any other authority to those assets. The Principal Accountant – Financial Accounting informed the committee that for the previous year's accounts, all Foundation Schools and Voluntary Aided Schools were off the balance sheet while all Voluntary Controlled Schools were on the balance sheet. Property is in discussion with the valuation office on Foundation Schools. An estimated value would have to be included in the accounts this year, with a full valuation conducted for next year. A review was also underway on who owns property at Voluntary Aided and Voluntary Controlled schools. A high level estimated valuation would again be included in this year's accounts with a full valuation conducted for next year. Members queried if there was a clear pathway for where

schools which had been removed from the council's balance sheet would go. The Senior Manager explained that the situation was not that clear cut and that the schools may not appear in another set of accounts. However, overall the position would see more schools come onto the council's balance sheet than be taken off. Members were concerned with the suggestion that an asset may not be listed on any accounts as this would introduce a lack of clarity to issues such as ownership and insurance. The Director of Finance agreed to look into the process and legal issues which follow schools being removed from the council's accounts (**Recommendations Tracker ref: A3/15**). The committee went on to consider the situation whereby a number of schools are off the council's balance sheet but their playing fields are on the balance sheet.

3. The Chairman queried what the year-end was for SE Business Services Ltd. The Senior Manager clarified that it is the same as for the Council. However, the Audit Findings Report for the 2013/14 financial year had been delayed to the April 2015 meeting of the committee as the Directors had wanted to see it first.
4. The Chairman queried how Grant Thornton was looking at the Better Care Fund in Surrey. The Engagement Lead stated that auditing the Better Care Fund arrangements in Surrey was high on Grant Thornton's agenda. Training sessions would be arranged for the Council and the Clinical Commissioning Groups (CCGs) on the accounting arrangements.

*Tim Evans joined the meeting at 11.05am.*

5. The Director of Finance informed the committee that the finance governance framework had been agreed as part of the Surrey Local Plan. The Local Plan had also been agreed by the Department of Health. Section 75 agreements were being developed for each CCG. The CCGs were appointing a single solicitor to work with the County Council's solicitor on the Section 75 agreements. Discussions were being held with the Chief Finance Officers for the CCGs to establish a consensus on financial reporting. All were happy for the County Council to host the Fund and work was being undertaken to establish what the resource implications are.
6. Grant Thornton have accepted self-certification of the CCG accounts for 2013/14 and 2014/15. It is unclear at present what the accounting arrangements for 2015/16 would be.
7. The Engagement Lead agreed with the committee that the risks identified were unlikely to apply in local government because of the checks and balances in place. The audit findings report would identify the risk and likely rebut the risk.
8. A Member asked how the findings of the national report '2020 Vision' were being addressed within Surrey County Council. The Director of Finance remarked that, as Section 151 officer, she sat on the Society of County Treasurers. She also has regular one to ones with Chief Finance Officers within the Department of Communities and Local Government. She sought to enlighten government about the complexity of local government funding through these routes.

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

- i. The Director of Finance to look into the process and legal issues which follow schools being removed from the council's accounts and report back.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

To receive detailed audit plans for the Council and Surrey Pension Fund in April 2015.

**7/15 LEADERSHIP RISK REGISTER [Item 10]**

*As the Director of Finance would need to leave the meeting shortly, it was agreed to bring forward item 10 on the agenda.*

**Declarations of interest:**

None.

**Witnesses:**

Cath Edwards, Risk & Governance Manager  
Sheila Little, Director of Finance

**Key points raised during the discussion:**

1. The Risk & Governance Manager introduced the report and highlighted the changes since the previous meeting.
2. The Chairman queried if the residual risk for Risk L7 (Future Funding) was high enough. The Director of Finance explained that the controls were key in bringing down the residual risk level to medium. The Risk was more focused now on council tax and the control shows confidence that Members will make the right decisions. Many discussions had been held on this risk.
3. A Member suggested that L6 (Safeguarding – Children's Services) and L13 (Safeguarding – Adult Social Care) should spell out recruitment and retention problems. The Director of Finance warned about complicating the risks and pointed out that avoidable failure could include lack of resource.
4. It was highlighted that L11 (Information Governance) does not specify hacking as a risk to the council.
5. Members complimented the Risk & Governance Manager on the chart on page 122 for clearly illustrating inherent and residual risk levels.
6. The Director of Finance clarified that while officers are named as lead risk owner, this does not mean that they are individually responsible for managing all that risk. They have responsibility for driving the establishment of controls.

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

None.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

*The Director of Finance left the meeting at 11.35am.*

**8/15 RISING TO THE CHALLENGE: THE EVOLUTION OF LOCAL GOVERNMENT [Item 7]****Declarations of interest:**

None.

**Witnesses:**

Andy Mack, Engagement Lead – Grant Thornton

Kathryn Sharp, Senior Manager – Grant Thornton

**Key points raised during the discussion:**

1. The Senior Manager introduced the report and highlighted the inclusion of Surrey County Council as a good practice case study.
2. Members stressed that the unexpected (the unknown unknown) is the likeliest doomsday scenario.
3. The Grant Thornton officers stated that they used the good practice checklist in essence each year when looking at the council's financial resilience. They would be happy to share this assessment with officers.
4. Grant Thornton explained that they would check if the council has a good understand of its risk areas and if it has plans to mitigate them. Whether the plans have achieved their aim won't be known until the year end.

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

None.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

**9/15 ASSURANCE MAPPING [Item 8]****Declarations of interest:**

None.

**Witnesses:**

Sue Lewry-Jones, Chief Internal Auditor

Simon White, Audit Performance Manager

**Key points raised during the discussion:**

1. The Audit Performance Manager introduced the report, explaining the background to assurance mapping.

2. In response to a query, the Chief Internal Auditor explained that the self-assessment column is unlikely to be completed at the Leadership Risk Register level but would more likely be at Directorate or Service Risk Register level. The Audit Performance Manager explained that assurance framework dashboards would be completed for the Leadership Risk Register, the Directorate Risk Registers and the service-level risk registers. In total there would be about 25 assurance framework dashboards.

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

To receive updates on assurance mapping on a six-monthly basis  
(**Recommendations Tracker ref: A4/15**).

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

**10/15 COMPLETED INTERNAL AUDIT REPORTS [Item 9]**

**Declarations of interest:**

None.

**Witnesses:**

Sue Lewry-Jones, Chief Internal Auditor

Siva Sanmugarajah, Leader Auditor

Phil Triggs, Strategic Finance Manager – Pensions and Treasury

**Key points raised during the discussion:**

1. The Chief Internal Auditor introduced the report and the nine internal audit reports that had been completed since the previous meeting of the committee. She highlighted the effective opinion given for SAP application controls. This provided reassurance that vigorous and effective controls were in place.
2. **Bus Operating Contracts:** Members expressed surprise that an obsolete access database was still being used for bus operating contracts given that IMT had a programme to review IT systems being used. It was also queried how the current review of local transport could go forward without an effective contracts system. The Lead Auditor explained that the system had not been seen as a priority. Work was now underway to transfer the database into the new Mobisoft database. The deadline for this is 1 April 2015. There are three types of bus operating contracts: minimum subsidy contracts and minimum cost contracts which are dealt with through normal procurement processes; and de minimis contracts (under the £3,000 threshold) which do not go through normal procurement processes. It is the latter which have not been reviewed. Also, where a single contract becomes unviable, new routes have been added under the old contract reference which has caused confusion and has made some contracts which were originally de minimis much larger.

3. **Pension Fund Investments:** The Strategic Finance Manager – Pensions and Treasury explained that reconciliations did take place on a timely basis but that in this instance SAP had not been updated quickly enough.
4. **SAP Application Controls:** In response to a question, the Chief Internal Auditor offered to circulate information on who provides SAP support (**Recommendations Tracker ref: A5/15**).
5. **Financial Assessments and Benefits:** The Chief Internal Auditor confirmed that Internal Audit was supportive of the changes identified through the Rapid Improvement Event on Financial Assessments and Benefits. However, benefits were yet to materialise. She also pointed out the link between this process and social care debt. The Chairman offered to bring the findings of the audit of Financial Assessments and Benefits to the attention of the Cabinet Member for Adult Social Care (**Recommendations Tracker ref: A6/15**).
6. **Property Asset Management System:** There was some concern that PAMS continued to be an issue. The Chief Internal Auditor and Lead Auditor reminded the committee of the phased approach being taken to implementing PAMS. In response to a query from the Chairman, the Lead Auditor explained why resolution of the process for filing paid invoices had been determined to be of high priority. The Chairman requested that a briefing on progress and the updated MAP be brought to a future meeting of the committee (**Recommendations Tracker ref: A7/15**). He also agreed to write to the Cabinet Member for Business Services and the Cabinet Associate for Assets and Regeneration Programmes about the continuing issues identified by Internal Audit regarding PAMS (**Recommendations Tracker ref: A8/15**).

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

- i. Chief Internal Auditor to circulate information on who provides SAP support.
- ii. The Chairman to bring the findings of the audit of Financial Assessments and Benefits to the attention of the Cabinet Member for Adult Social Care.
- iii. A briefing on the implementation of PAMS and the updated MAP to be brought to a future meeting of the committee.
- iv. The Chairman to write to the Cabinet Member for Business Services and the Cabinet Associate for Assets and Regeneration Programmes about the continuing issues identified by Internal Audit regarding PAMS.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

**11/15 TREASURY MANAGEMENT 2015/16: BRIEFING [Item 11]**

**Declarations of interest:**

None.



**Witnesses:**

Phil Triggs, Strategic Finance Manager – Pensions & Treasury

**Key points raised during the discussion:**

1. The Strategic Finance Manager – Pensions & Treasury introduced the report and updated the committee that in the past week £30m had been added to borrowing at 3.23% interest.
2. A Member asked if the recent announcement about grant aid would require the strategy to be updated. The Strategic Finance Manager clarified that the strategy gave the general approach to management.

*The Director of Finance rejoined the meeting at 12.35pm.*

3. The Strategic Finance Manager – Pensions & Treasury confirmed that the remaining deposit with Icelandic banks had been auctioned off and that the monies had been received that day. This brings the Icelandic situation to a close.
4. In response to a query about the 364 day limit on investments, the Strategic Finance Manager – Pensions & Treasury explained that the limit was seen as a reasonable timescale.
5. Members asked why the US was not included as an approved country for investment. The Strategic Finance Manager – Pensions & Treasury said that neither the US nor the UK are in the sovereign AAA rated category. However, with the recovery in the US, it would not be long until its AAA rating was resumed. He reminded the Board that the use of Money Market Funds is restricted to funds with three AAA ratings, from two of the three rating agencies.
6. It was queried what the Council's exposure was if gilt yields were to go negative. The Strategic Finance Manager – Pensions & Treasury informed the Board that gilt yields translate directly into the rates on offer twice-daily. If gilt yields were to enter negative territory it would mean very low interest rates for the authority. It was felt that we had seen the lowest point for gilt yields.

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

None.

**RESOLVED:**

That the Committee NOTES the report.

**Committee next steps:**

None.

**12/15 STATUTORY RESPONSIBILITIES NETWORK [Item 13]**

*It was agreed to bring this item forward as the Chief Executive had arrived to introduce the report.*

**Declarations of interest:**

None.

**Witnesses:**

David McNulty, Chief Executive  
Sheila Little, Director of Finance

**Key points raised during the discussion:**

1. The Chief Executive introduced the report.
2. The Chairman asked the Chief Executive for the top three issues being considered by the Statutory Responsibilities Network. The Chief Executive explained that the Network takes an overview of the council's regulatory framework and also considers changing national expectations. His personal view was that safeguarding of children and vulnerable adults was the number one priority; a sustainable financial strategy linked to all regulatory responsibilities; and employee wellbeing, as council's services are provided by employees and so it was essential that they felt supported.
3. The Chairman asked how issues were being addressed. The Chairman explained that the Network met fortnightly. Members of the network provided updates, then there would be detailed conversations around planned agenda items. Officers could raise issues such as changes in the national or local security regime. However, informal connections were also crucial and conversations continued informally outside of the Network meetings.
4. Members queried how the outcomes of the meetings between the Chairman of the committee and the Chief Executive would be fed back to the committee.
5. The Chief Internal Auditor informed the committee that she felt that the Network was very effective and included the right people. The Chief Executive stressed that this group of people had not previously had these discussions in this combination. The Network also allowed for a greater focus at the corporate level on the Leadership Risk Register.
6. The Chief Executive felt that whistleblowing was important feedback and took comments from Members very seriously. He had in the past taken up issues raised with him with the Monitoring Officer and with the Chief Internal Auditor. Members informed the Chief Executive that it felt that it was now necessary to go higher up for action to be taken on an issue. The Chief Executive agreed that he was being asked to take action on issues which should have been dealt with at a lower level and that this was being addressed.

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

None.

**RESOLVED:**

- i. That the Committee receives twice yearly reports on progress (**Recommendations Tracker ref: A9/15**).
- ii. That the Audit & Governance Committee Chairman has regular meetings with the Network chairman, the Chief Executive, in order to go through minutes and keep up-to-date with network activity.

**Committee next steps:**

None.

**13/15 AUDIT & GOVERNANCE COMMITTEE: ANNUAL REPORT 2014 [Item 12]****Declarations of interest:**

None.

**Witnesses:**

Nick Harrison, Chairman

**Key points raised during the discussion:**

1. The Chairman introduced the report.

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

None.

**RESOLVED:**

- i. That the committee ENDORSES the 2014 annual report to full Council  
(Recommendations Tracker ref: A10/15).

**Committee next steps:**

None.

**14/15 DATE OF NEXT MEETING [Item 14]**

The date of the next meeting was noted.

Meeting ended at: 1.05 pm

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**Chairman**