

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 22 February 2016 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 Denis Fuller (Vice-Chairman, in the Chair)
Mr W D Barker OBE
Mr Tim Hall
Mr Saj Hussain
Mr Nick Harrison (Substitute)

Apologies:

Mr Stuart Selleck
Mr Will Forster

In Attendance

Thomas Ball – Manager, Grant Thornton
Cath Edwards – Risk & Governance Manager
Sue Lewry-Jones – Chief Internal Auditor
Sheila Little – Director of Finance
Andy Mack – Engagement Lead, Grant Thornton
David McNulty – Chief Executive
Susan Smyth, Strategic Finance Manager

1/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Stuart Selleck and Will Forster. Nick Harrison substituted for Stuart Selleck.

The meeting was chaired by Denis Fuller.

2/16 MINUTES OF THE PREVIOUS MEETING (7 DECEMBER 2015) [Item 2]

The Minutes were approved as an accurate record of the previous meeting.

3/16 DECLARATIONS OF INTEREST [Item 3]

There were none.

4/16 QUESTIONS AND PETITIONS [Item 4]

There were none.

5/16 RECOMMENDATIONS TRACKER [Item 5]

Declarations of interest:

None

Key points raised during the discussion:

1. **A18/15** (SEND Strategy) - The Vice-Chairman reported that he had circulated to Members of the Committee an email from the Chairman of the Education & Skills Board outlining the Board's proposals for its review of the SEND Strategy.
2. **A20/15** (Adult Social Care record-keeping) – it was reported that the Chairman had met with the Head of Resources in Adult Social Care about the action being taken to reduce contentious queries, and that plans were in place to improve the current arrangements, The Chairman would report back to the Committee more fully at the next meeting.
3. **A39/15** (audit effectiveness) – The Vice-Chairman reported back on a discussion held with the external auditors, Grant Thornton, prior to the start of the meeting. Grant Thornton had recently published a report on its review of audit effectiveness (based on a survey of 50 councils nationally), which had highlighted the ability to ask challenging questions (with effective follow-up) as a key skill. A copy of the report would be circulated to Members of the Committee. There had also been a discussion about whether the number of Members on the Audit & Governance Committee right, and whether named substitutes would be helpful to ensure appropriately trained Members were available to cover for absences.
4. **A41/15** (schools with cash balances) – It was noted that information about the current 0% interest rate on schools' cash balances held with the Council had been drafted by the Strategic Manager (Pensions & Treasury) for inclusion in the next Schools' Bulletin. It was suggested that this information should also be included in the clerks' briefing note which is sent to school governors. Some bursars had expressed concern about the 0% interest rate, and this would be discussed further with the Chairman of the Committee.
5. **A43/15** – A response from Helen Atkinson, Strategic Director for Adult Social Care and Public Health was tabled at the meeting and is attached as **Annex 1** to the Minutes. The Committee expressed concerns about the functionality and effectiveness of the new case management system and requested that the Strategic Director attend the next meeting with the project manager and someone from the client side so that its concerns can be discussed more fully.
6. **A46/15** – It was noted that comparison information relating to Member conduct complaints in 2015 would be circulated to Committee Members.

Action/Further information to note:

None.

The Committee noted the report.

6/16 2015/16 EXTERNAL AUDIT PLAN [Item 6]

Declarations of interest:

None

Witnesses:

Thomas Ball, Manager - Grant Thornton
Andy Mack, Engagement Lead – Grant Thornton
Sheila Little, Director of Finance

Key points raised during the discussion:

1. The representatives of the External Auditors introduced the report and confirmed that they would be leading the audit of the 2015/16 financial statements of the Council. The aim was to complete the audit at the end of July 2016, two months ahead of the deadline. The key areas of focus in terms of value for money would be financial management, the Orbis partnership and the Ofsted review.
2. The Council's financial settlement from the Government had been highlighted as an issue as the Auditors were required to report on any impacts rated 'non-trivial', which was defined as having impacts in excess of 5% of the total value.
3. The Director of Finance had spoken to the Auditors about the level of the financial settlement as soon as the Council had received confirmation from the Government in December 2015. There was frequent communication between the two parties and early discussion about any issues of concern identified, so that steps could be taken to address the concerns prior to the completion of a formal audit.

Action/Further information to note:

None.

RESOLVED: That the Audit Plan for the 2015/16 financial statements of the Council be approved.

7/16 2014/15 AUDIT FINDINGS REPORT FOR SURREY CHOICES [Item 7]**Declarations of interest:**

None

Witnesses:

Thomas Ball, Manager – Grant Thornton
Andy Mack, Engagement Lead – Grant Thornton

David McNulty, Chief Executive
Sheila Little, Director of Finance
Susan Smyth, Strategic Finance Manager

Key points raised during the discussion:

1. It was noted that the Shareholder Board was responsible for the oversight of companies in which the Council held shares, including Surrey Choices, and that its role may be scrutinised by the Council Overview Board. The responsibility of the Audit & Governance Committee was in relation to the impact on the Group accounts of the

Council.

2. The Chief Executive commented that whilst the Shareholder Board was deeply disappointed by the governance failures identified, he was pleased that Grant Thornton felt that the issues were being adequately addressed by the company. This reflected the fact that more rigorous processes had been put in place, particularly in relation to financial management.
3. In response to a challenge about whether the business model adopted for Surrey Choices was the most appropriate, it was reported that unit costs for the service had been reduced. Some innovation in the approach to service delivery had been introduced, and the profile of the workforce was now more reflective of the clients they were working with. Also, there had been some growth in the services provided for other councils, which meant that Surrey Choices was less reliant on County Council funding. The Shareholder Board was sufficiently reassured about the basis of the business model and the recovery plan, and believed that there were strong prospects for future growth.
4. The Annual Business Plan for Surrey Choices was being presented by the company to the Shareholder Board in March/April 2016. This was expected to include the resolution of the increased volumes under the block contract with Adult Social Care. The Shareholder Board would then be able to determine whether the concerns had been fully addressed.
5. The Committee requested that the Annual Business Plan be shared with the Committee after it had been approved by the Shareholder Board.
6. Concern was expressed about whether the governance failings should have been picked up earlier, and the Chief Executive commented that the processes in place to identify issues of concern (ie internal and external audit) had operated as they should have done. The Committee noted that immediate changes were made to the financial support within the company and that the Surrey Choices Managing Director was taking a more pro-active role to significantly improve the company's governance processes. The Deputy Chief Finance Officer had been appointed to be a Director of the company to provide strategic advice, and the company was being supported by the advisors to the Shareholder Board. The company would progress the recruitment of a new Chief Financial Officer for Surrey Choices.
7. In the light of the concerns with Surrey Choices, the Committee agreed to recommend again that a financial expert from the Council should be appointed to serve on the boards of the Council's trading companies in a non-executive capacity. Officers commented that the Council's limited resources meant that it would not be practicable for a senior finance officer to fulfil that role on the board of each company and that Council employees would not necessarily have the required level of commercial experience. Decisions would therefore best be made on a case-by-case basis.

Action/Further information to note:

The Surrey Choices Annual Business Plan to be shared with the Committee after it has been approved by the Shareholder Board. **[Recommendations Tracker ref: A2/16]**

RECOMMENDED:

That a financial expert from the Council be appointed to serve on each of the boards of the Council's trading companies in a non-executive capacity. **[Recommendations Tracker ref: A3/16]**

[The Committee adjourned from 11.22am to 11.26am]

8/16 COMPLETED INTERNAL AUDIT REPORTS [Item 8]

Declarations of interest:

None

Witnesses:

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

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the report and made a correction to the table of reports in paragraph 3: the number of recommendations rated as high priority for the Public Health Contracts Audit to read 0 instead of 1.

Highways Contract

2. It was reported that the contract extension to 2021 had been approved by the Cabinet and Kier, subject to completion of the legal process. The improvement plan would form part of the extended contract.
3. The reason for the publication of a decision statement without audit opinion was due to the commercial sensitivity of the contract negotiations. The conclusion that the contract had so far delivered value for money was a Procurement Team rather than Audit opinion, but that did not imply that Internal Audit were not in agreement. Internal Audit worked closely with the Highways service, and the concerns expressed about the Star Items were not that the Council was being charged too much but that the level of spending over time was at a level which meant that it should have been added to the schedule.
4. The Committee expressed concerns that repair work being signed off as complete by the Highways team had not always been completed by Kier or its sub-contractors. A particular concern related to drainage work, and it was requested that this be added to Internal Audit's programme of work. Members would also be asked to provide feedback to Internal Audit if they felt repair work in their Divisions was not being completed as claimed.

Training Course Cancellations

5. The Committee shared the concern about the high number of cancellations for classroom-based training, and requested that the Chairman of the People, Performance and Development Committee (PPDC) be sent a copy of the audit report and that the PPDC be asked to look into this issue.

General Ledger

6. The Director of Finance reported that she believed that there were no longer any uncleared transactions on the General Ledger, but would confirm that with the Committee after the meeting.

Schools Compliance Audit – Schools Fraud Checklist 2015/2016

7. It was noted that the reports were sent to the relevant schools and to Babcock. Schools were asked to discuss the report with their governors and then address any actions in relation to the recommendations in their financial standards report.

Action/Further information to note:

The Director of Finance to report back to the Committee on the balance of transactions on the General Ledger. **[Recommendations Tracker ref: A4/2016]**

RESOLVED:

- (a) That the effectiveness of drainage work carried out under the Highways Contract be added to Internal Audit's programme of work, and that Members be asked to provide feedback to Internal Audit if they felt that highways repair work in their Divisions was not being completed as claimed. **[Recommendations Tracker ref: A5/2016]**
Action by: Sue Lewry-Jones
- (b) That the Chairman of the People, Performance and Development Committee (PPDC) be sent a copy of the audit report, and that PPDC be requested to look into the high number of cancellations for classroom-based training. **[Recommendations Tracker ref: A6/2016]**
Action by: Sue Lewry-Jones/Ken Akers

9/16 STATUTORY RESPONSIBILITIES NETWORK [Item 9]

Declarations of interest:

None

Witnesses:

David McNulty, Chief Executive

Key points raised during the discussion:

1. The Chief Executive reported that the Statutory Responsibilities Network continued to meet fortnightly and that he and the Chairman of the Committee met after each meeting to discuss the outcomes.
2. The Adults and Children's Safeguarding Boards were the main mechanisms for working with partners in those areas, and each had

working groups to address the detailed issues arising. It was noted that both Safeguarding Boards reported back to the Cabinet, and the Improvement Board was in place to oversee the Children's Improvement Plan. Other mechanisms for keeping track of performance against statutory responsibilities included Internal Audit, the Leader and Chief Executive's meetings with front-line staff, and the Council's whistle-blowing policy. Discussions would be held about how best to involve Scrutiny Boards.

3. A lead officer at Director level was allocated for all new key risks identified, and they had responsibility for working with the appropriate partners and escalating issues to the Statutory Responsibilities Network as necessary.

Action/Further information to note:

None.

RESOLVED: That the Audit & Governance Committee Chairman continues to meet with the Chief Executive, as Statutory Responsibilities Network Chairman, in order to keep up-to-date with Network activity.

[Recommendations Tracker ref: A6/2016]

10/16 LEADERSHIP RISK REGISTER [Item 10]

Declarations of interest:

None

Witnesses:

Sheila Little, Director of Finance

Cath Edwards, Risk and Governance Manager

Key points raised during the discussion:

1. No specific issues were raised, and the Committee noted the report.

Action/Further information to note:

None.

11/16 AUDIT AND GOVERNANCE COMMITTEE - ANNUAL REPORT 2015 [Item 11]

Declarations of interest:

None

Key points raised during the discussion:

1. The following wording was agreed for inclusion in the Annual Report:

‘During 2015 the Committee received training in the following areas:

Internal Audit processes

Treasury Management

Risk Culture

A skills assessment of core areas of knowledge was carried out for each member of the Committee. This covered several areas, including the Good Governance Framework; financial management and accounting; risk management; and counter-fraud. The assessment was used to inform individual members' training plans.'

Action/Further information to note:

None.

RESOLVED: That the Annual Report, as amended, be approved.

[Recommendations Tracker ref: A7/2016]

12/16 DATE OF NEXT MEETING [Item 12]

It was noted that the next meeting would be held at 10.00am on Monday 11 April 2016.

Meeting ended at: 12.20pm

Chairman