

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 25 July 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 Stuart Selleck (Chairman)
Mr Denis Fuller (Vice-Chairman)
Mr W D Barker OBE
Mr Will Forster
Mr Tim Hall
Mr Saj Hussain

37/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

38/16 MINUTES OF THE PREVIOUS MEETING - 26 MAY 2016 [Item 2]

The Minutes of the meeting held on 26 May 2016 were approved as an accurate record and signed by the Chairman.

39/16 DECLARATIONS OF INTEREST [Item 3]

There were none.

40/16 QUESTIONS AND PETITIONS [Item 4]

There were none.

41/16 ANNUAL REPORT OF SURREY COUNTY COUNCIL [Item 5]

Declarations of interest:

None.

Witnesses:

Julie Fisher, Deputy Chief Executive
Verity Royle, Senior Principal Accountant

Key points raised during the discussion:

1. The Deputy Chief Executive and Senior Principal Accountant introduced the Council's Annual Report explaining that the emphasis had been to maintain the same format of the report with few changes. The only changes to the report related to reporting how the Council operated and its focus. It was also reported that whilst the Council was not required to produce an annual report, it continued to do so as good practice.
2. Some Members felt that there was not enough emphasis put on the inadequacy of Surrey's transport system, which was the cause of much upset with residents. Also, that the Leader had made a

statement to say that the county was not involved in local infrastructure and used examples to explain why this was not a good thing. The Deputy Chief Executive explained that local plans were the local council's responsibility but officers were working closely with them. She also recognised that infrastructure was important which was why the Council were working with Government on a devolution deal which the Leader had addressed in the summary of the annual report.

3. In response to a Member query regarding looking at other ways other than a straight devolution deal the Deputy Chief Executive explained that financial challenges would limit what the Council could do without devolution.
4. There was some discussion about what Members perceived as a disconnect between local and County Council and whilst they recognised that improvements had been made that communication needed to be improved.
5. The Ofsted inspection was discussed and in response to questions the Deputy Chief Executive reported:
 - It was not known when Ofsted would re-inspect, which could happen at any time, but that a quarterly monitoring visit was planned for August.
 - The improvement plan was a three year plan and the Council were a third into that period.
 - The improvement plan would be considered by the Improvement Board on a monthly basis at a detailed level.

Action/Further information to note:

The Committee agreed that the Deputy Chief Executive take away comments made on infrastructure for further discussions rather than making changes to the annual report.

Resolved:

1. That the County Council's annual report, set out in Annex A to the report, was noted and endorsed.

Mr Will Forster attended the meeting from 10.09 am and arrived during the debate on this item.

42/16 STATEMENT OF ACCOUNTS 2015/16 [Item 6]

Declarations of interest:

None.

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer
Jonathan Evans, Principal Accountant
Thomas Ball, Grant Thornton
Andy Mack, Grant Thornton
Jeff Bannister, Grant Thornton

Key points raised during the discussion:

1. The Principal Accountant introduced the report and tabled a paper of minor changes and amendments to the main report which is attached as annex 1 to these minutes.

2. It was recognised that the balance sheets would be very difficult for the public to read and understand but that the Director's narrative report would help the public to understand what the figures mean in simple terms.
3. That Surrey Choices had been shown to have no significant risks was questioned. The Principal Accountant explained that the report was for the county as a whole and was a high level analytical review. He also said that Surrey Choices would have its own audit and audit opinion which would be reported back to this committee. Auditors were very aware of the issues around Surrey Choices and would aim to provide assurance.
4. In response to a question whether Orbis would be audited separately it was reported that Orbis would be included in a Value for Money (VfM) audit. The external auditor also responded that the council could request they look at specific areas/issues. It was also pointed out by the Principal Accountant that the Council needed to consider the large risks and take account the size of the organisation/partnership with regard to risk.
5. There was some discussion around Committee concerns that there may not be right amount of leadership in terms of time and effort given to roles and skills. That many of the leading members had various roles and maybe were spread too thin. The main concern from this was that it would be easy for something important to be missed. The external auditor explained that further audit work was to be done and they expected next year's plan to deal with these issues.

Action/Further information to note:

None.

Resolved:

1. That the 2015/16 Statement of Accounts , as attached in Annex A to the report, was approved for publication on the Council's website and in a limited number of hard copies.
2. That the contents of the 2015/16 Audit Findings Report in Annex B to the report was noted.
3. That the officer response to recommendations of the external auditor was agreed.
4. That the Director of Finance's letter of representation, as in Annex C to the report was noted.
5. That there were no issues in the Audit Findings Report that should be referred to the Cabinet.

43/16 SURREY PENSION FUND LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2015/16 AND EXTERNAL AUDIT'S AUDIT FINDINGS REPORT [Item 7]

Declarations of interest:

None.

Witnesses:

Phil Triggs, Strategic Manager Pensions and Treasury
Thomas Ball, Grant Thornton
Andy Mack, Grant Thornton

Key points raised during the discussion:

1. The Strategic Manager Pensions and Treasury introduced the report and highlighted the audit findings against significant risks and the auditor's action plan. He reported that externally held cash balances would be reconciled on a quarterly basis and that action on late starter letters had been implemented.
2. The external auditor thanked the staff for all their hard work and reported that it has been a much improved process from last year.
3. The committee discussed the potential for teething problems with the new Border To Coast pool. The external auditor reported that there would be no changes as to how the accounts were compiled or presented and that they would be working with other auditors in the pool as a matter of course.
4. It was recognised by those involved in the pool that this was very new ground and officers were taking advice from a wide range of experts in order to avoid any teething issues. The pool was to be set up by April 2018.

Action/Further information to note:

None.

Resolved:

1. That the 2015/16 Pension Fund financial statements in Annex A to the report was approved.
2. That the content of the Audit Findings for Surrey Pension Fund Report in Annex B was noted.
3. That there were no issues that needed to be referred to Cabinet in relation to the external auditor's conclusions and recommendations.
4. That the Director of Finance be authorised to sign the representation letter as set out in Annex C to the report.

44/16 EXTERNAL AUDIT FEE LETTER - REMOVED [Item 8]

This item was removed from the agenda prior to the meeting.

45/16 TREASURY MANAGEMENT OUTTURN REPORT 2015/16 [Item 9]

Declarations of interest:

None.

Witnesses:

Phil Triggs, Strategic Manager Pensions and Treasury

Key points raised during the discussion:

1. The Committee discussed the low interest rate environment that had continued for the last seven years and that in comparison with other councils, Surrey was in the lower quartile in terms of its debt cost.
2. The Chairman reported that he had invited Arlingclose, the new external Treasury Advisor to the next committee meeting when a training session would be provided following that meeting.
3. There was a discussion regarding Brexit and what assessments were being undertaken to ensure investments were the right ones.
4. In relation to Brexit, the Strategic Manager Pensions and Treasury explained that:

- Brexit was the number one risk on the treasury risk schedule
- There had been some unexpected surprises following Brexit in that the FTSE100 index had seen healthy increases.
- Gilt prices had risen and yields had fallen which was favourable for local authorities.
- The Bank of England's Monetary Policy Committee had met in the previous month and had decided to take no action.
- It was suspected that the current base rate may reduce at the August meeting and the level of quantitative easing may be increased.
- It was reported that officers were carefully monitoring the investment/financial horizon and constantly looking for warning signs in order that there would not be a repeat of the Icelandic issue in Surrey.
- In July, full council approved a revised treasury management strategy that will result in cash balances being further reduced and short term borrowing increased in order to reduce risk.

Action/Further information to note:

The Chairman asked that Members send any questions regarding treasury to the Strategic Manager Pensions and Treasury before the next committee meeting and training session in September.

Resolved:

1. That the content of the Treasury Management Annual Report for 2015/16 was noted.
2. That the revised Treasury Management Risk Register, shown in Annex 3 of the report be adopted.

46/16 RECOMMENDATIONS TRACKER [Item 10]

Declarations of interest:

None

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer
Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. A20/15 and A43/15 were taken together. The Chairman would invite the Head of Resources & Caldicott Guardian back to the December meeting of this Committee to give an update on progress.
2. A45/15 – The Chairman reported that the Head of Human Resources & Organisation Development had done most of the work on this and would report back to the Committee at its meeting in September.
3. A1/16 – The Deputy Chief Finance Officer reported that the Shareholder Board would be considering a report tomorrow and that the Council Overview Board (COB) would then scrutinise anything to come out of that. If extra funding was required then that would be a Cabinet decision. Several Members expressed frustration at the delayed meetings and not knowing what was going on.
4. A2/16 - The Chairman reiterated that he would still prefer council finance officers sitting on the partnership boards. Despite the Deputy Chief Finance Officer trying to reassure the Committee that the boards

had high level officers on the boards the Chairman stated that he did not feel assured with the level/skill of officers on those boards.

5. A4/16 – The Chief Internal Auditor reported that an audit of highways works was to be undertaken and the report would come back to this Committee. It was agreed therefore to take this off the tracker and put on the forward plan.
6. A18/15 – The Chairman requested that this item stay on the tracker and for Committee to be updated on the workstreams to be undertaken.

Action/Further information to note:

1. That the Chief Internal Auditor reports to the Chair when the Committee is likely to see the audit report into highways.
2. That Toni Carney, Head of Resources & Caldicott Guardian, be invited to the December meeting of this Committee.
3. That Ken Akers, Head of Human Resources & Organisation Development, be invited to report back to the September meeting of this Committee.
4. To remove A4/16 from the tracker and transfer to the Forward Plan.

Resolved:

That the committee noted the report.

47/16 DATE OF NEXT MEETING [Item 11]

The date of the meeting was noted.

Meeting ended at: 11.34 am

Chairman

Addendum to Item 6

Schedule of changes

Annex A – Statement of Accounts

Note	Page no	Change
Note 16 – Short term debtors	60	Debtors figure at 31/03/2016 for 'Central government bodies' update from £37,577 to £37,559
Note 25 – Pooled budgets	71	Funding provided to the pooled budget from East Surrey CCG update from -£2,960 to -£2,690.
Note 39 – Defined benefit pension schemes	90	Update 'Fair value of plan assets' on the Local Government Pension Scheme in the table at the top the page from £1,554,747 to £1,554,797.

Note 16: Short term debtors

The amounts shown below and on the face of the balance sheet include amounts paid in advance.

31/03/2015		31/03/2016
£000		£000
21,782	Central government bodies	37,559
42,398	Other local authorities	51,289
3,317	NHS bodies	3,242
	Public corporations and trading funds	274
	Bodies external to general government (i.e. All other bodies)	76,534
<u>65,686</u>	Total	<u>168,897</u>
<u>133,183</u>	Less:	
	Provision for bad debts	
-6,146	- Social services and health services	-6,929
-722	- Other services	-1,490
<u>-7,105</u>	- Local taxation arrears	<u>-8,398</u>
<u><u>119,210</u></u>		<u><u>152,080</u></u>

Note 17: Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

31/03/15		31/03/16
£000		£000
-27,007	General account	-22,510
<u>43,600</u>	Money market funds	<u>2,895</u>
<u><u>16,593</u></u>	Total cash and cash equivalents	<u><u>-19,615</u></u>

Note 18: Assets held for sale

Assets held for sale (current)		Assets held for sale (current)
31/03/2015		31/03/2016
£000		£000
6,050	Balance outstanding at 1 April	33,975
	Assets newly classified as held for sale:	
3,219	- Property, plant and equipment	4,684
28,456	Revaluation gains	18,347
<u>-3,750</u>	Assets sold*	<u>-32,846</u>
<u><u>33,975</u></u>	Balance outstanding at 31 March	<u><u>24,160</u></u>

* Of the total assets sold (i.e. £32.846m) in 2015/16, £32.585 relates to land and property included in the opening balance.

2015/16

	North West Surrey LJCG	Surrey Downs LJCG	Guildford & Waverley LJCG	East Surrey LJCG	Surrey Heath LJCG	North East Hampshire & Farnham LJCG	Windsor, Ascot & Maidenhead LJCG	Total
Funding provided to the pooled budget								
- Surrey County Council	-9,681	-8,024	-5,491	-4,594	-2,690	-1,272	-264	-32,015
- North West Surrey CCG	-9,681							-9,681
- Surrey Downs CCG		-8,024						-8,024
- Guildford & Waverley CCG			-5,491					-5,491
- East Surrey CCG				-4,594				-4,594
- Surrey Heath CCG					-2,690			-2,690
- North East Hampshire & Farnham CCG						-1,272		-1,272
- Windsor, Ascot & Maidenhead CCG							-264	-264
	-19,362	-16,047	-10,982	-9,188	-5,379	-2,544	-528	-64,030
Expenditure met from the pooled budget	19,415	16,064	10,867	9,183	5,407	2,542	519	63,997
Surplus or (deficit)	53	17	-115	-5	28	-2	-9	-33
Surrey County Council share	27	9	-58	-3	14	-1	-5	-17

The council is also part of the following pooled budgets arrangements;

- Surrey integrated community equipment service for the supply of equipment to enable people with physical disabilities to live at home;
- Child and adolescent mental health service offering support and advice to young people experiencing mental health, emotional and behavioural problems;
- HOPE is a partnership that provides intensive support for young people with serious mental health needs;
- Surrey safeguarding children's board is a key statutory mechanism for agreeing how agencies in Surrey will cooperate to safeguard and promote the welfare of children in Surrey.
- East Surrey Local Transformation Investment Fund is a pooled budget with East Surrey CCG to transform the provision of Adult Social Care services in the east of the county.

The financial performance of these budgets has been excluded from this note to the account on the basis of materiality.

Pension assets and liabilities recognised in the balance sheet

The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Present value of the defined benefit obligation	-2,436,780	-2,287,583	-581,295	-518,310
Fair value of plan assets	1,521,637	1,554,797		
Net liability arising from defined benefit obligation	<u>-915,143</u>	<u>-732,786</u>	<u>-581,295</u>	<u>-518,310</u>

Assets and liabilities in relation to post-employment benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded Liabilities Local Government Pension Scheme		Unfunded Liabilities Firefighters' pension scheme	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Opening Balance at 1 April	-2,042,976	-2,436,780	-489,324	-581,295
Current service cost	-69,910	-87,093	-12,400	-10,800
Interest cost	-87,567	-78,135	-21,100	-18,700
Contributions by scheme participants	-19,118	-18,992	-2,700	-2,500
Remeasurements:				
- Actuarial gains and losses arising on changes in demographic assumptions				1,500
- Actuarial gains and losses arising on changes in financial assumptions	-314,473	223,972	-71,500	55,400
- Other experience	17,917	30,187	400	22,200
Actuarial gains and losses Pensions and lump sum expenditure			14,900	19,700
Benefits paid	65,103	64,049		
Past service costs (including curtailments)	302	301		
Settlements	16,484	17,146		
Employer contributions adjustment*	-2,542	-2,238	429	-3,815
Closing balance at 31 March	<u>-2,436,780</u>	<u>-2,287,583</u>	<u>-581,295</u>	<u>-518,310</u>

Curtailments include pension fund strain contributions to compensate the pension fund for the loss of contributions from staff that retire early and added years costs for staff that have increased years of service.