

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 5 December 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

61/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

An apologies for lateness was received from Mr Tim Hall who arrived at 10.15am during item 6 of the agenda.

62/16 MINUTES OF THE PREVIOUS MEETING - 26 SEPTEMBER 2016 [Item 2]

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

63/16 DECLARATIONS OF INTEREST [Item 3]

There were none.

64/16 QUESTIONS AND PETITIONS [Item 4]

There were none.

65/16 RECOMMENDATIONS TRACKER AND BULLETIN [Item 5]

Declarations of interest:

None

Key points raised during the discussion:

1. A20/15 and A43/15 to be merged as one item.
2. Item A45/15, A1/16 and A4/16 to be removed.

Full discussion on the tracker items took place after item 6 on the agenda and included the following points:

3. A20/15 and A43/15 - Three Members had attended the Social Care Services Board (SCSB) meeting on 26 October to discuss Adult Social Care financial accounting. Each had differing levels of confidence that the issues were being taken seriously and being dealt with effectively. One of those Members who is also a Member of SCSB explained that work was taking place to improve the confidence of those receiving

care, that were fearful or distrusting of banks and direct debits. The target was to have 100% payments by direct debit.

4. That the merged A20/15 and A43/15 items remain on the tracker in order that the issues be flagged up to the post election committee members.
5. That A18/15 – SEND strategy be kept on the tracker and reviewed in the New Year when the expected Ofsted letter was published.

Action/Further information to note:

A20/15 and A43/15 to be merged as one item and Items A45/15, A1/16 and A4/16 to be removed from the tracker.

RESOLVED:

That the committee notes the report.

66/16 REVIEW OF ENTRIES TO THE ONLINE GIFTS AND HOSPITALITY REGISTER [Item 6]

Declarations of interest:

None

Witnesses:

Ken Akers, Head of Human Resources and Occupational Development

Key points raised during the discussion:

1. The Gifts and Hospitality Policy required the Chief Executive or a designated officer to present an annual report to an appropriate committee of the council for consideration. Apologies were given that a recent Internal Audit review of gifts and hospitality arrangements identified that a report was last presented to this Committee in 2011.
2. To ensure compliance with the Gifts and Hospitality guidance and address the related Internal Audit recommendation, this report presented a summary of the gifts and hospitality recorded online during the period 1 April 2011 to 31 March 2016.
3. The Head of Human Resources and Occupational Development, in response to a Member query reported that he saw no relation to Children, School's and Families (CSF) department having the highest number of receipts and being the poorest performing department. That CSF worked closely with the public so it was to be expected that they would receive a higher number.
4. Members recognised that the system relied heavily on people being honest and in response to a query the Head of Human Resources and Occupational Development reported that managers are trained to act as role models, trends were monitored and Audit asked to look at areas of concern.

Actions/ further information to be provided:

That the annual report be put on the Committee's forward plan for May/June 2017.

Resolved:

To note the content of this report, the detail of which has been shared with the Statutory Responsibility Network.

67/16 PROPERTY ASSET MANAGEMENT SYSTEM: UPDATE [Item 7]

Declarations of interest:

None

Witnesses:

Claire Barrett, Deputy Chief Property Officer
Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. The Deputy Chief Property Officer reported that the new IT system had been rolled out and was fully implemented apart from an interface to/from SAP for rent and service charge transactions which was hoped to be live by the new financial year. She explained that the system was made up of seven modules which were all in place and had gone live. Upgrades to systems, staff training and any developments to add further benefits to the system would be ongoing.
2. Members queried why the Council's investment properties were not managed under PAMS as it would seem to improve efficiency to use the same system. The Deputy Chief Finance Officer undertook to look into and consider this proposal.
3. The Deputy Chief Finance Officer undertook to respond to a Member query regarding who presently managed the Halsey Garton properties after the meeting.
4. In response to a query regarding capacity issues of the PAMS system it was reported that the system was cloud hosted so the capacity could be endless.

Actions/ further information to be provided:

1. That the Deputy Chief Finance Officer and Chief Property Officer look into and consider the use of PAMS for the Halsey Garton properties. (Tracker A9/16)
2. That details of the current management details of Halsey Garton be sent to committee members following the meeting. (Tracker A10/16)

Resolved:

That progress made since the conclusion of the joint implementation project with Hampshire County Council was noted.

68/16 BABCOCK 4S LIMITED - DIRECTOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 2016 [Item 8]

Declarations of interest:

None

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. Members discussed the need to monitor Babcock 4s and how it would operate in the future with its diminishing support as a result of diminishing budgets.
2. The Deputy Chief Finance Officer reported that officers met with Babcock on a regular basis and were discussing ways forward.
3. One Member queried the lack of information on the County's future position with Babcock as there appeared to be a retreat from Babcock on government services. The Deputy Chief Finance Officer offered to raise this issue with the portfolio holder. The Chairman would also write to the portfolio holder regarding the committee's concerns.

Actions/ further information to be provided:

1. The Chairman to write a letter to the Cabinet Member for Business Services and Resident Experience regarding the Committee's concerns. (Tracker A11/16)
2. Committee Manager to resend Babcock sales pack to Mr Barker. (Tracker A12/16)

Resolved:

1. To note the Annual Report and Statements;
2. To note the findings at the informal meeting of the Audit & Governance Committee.

69/16 EXTERNAL AUDIT UPDATE REPORT [Item 9]

Declarations of interest:

None

Witnesses:

Geoffrey Bannister, Grant Thornton

Key points raised during the discussion:

1. Mr Bannister introduced the report and explained that the audit involved looking at systems in place to capture details rather than looking at the details.

Resolved:

To note the external auditor's progress report.

The Committee adjourned for a comfort break from 10.55 am and reconvened at 11.05 am.

70/16 2015/16 AUDIT FINDINGS REPORT FOR SE BUSINESS SERVICES AND HALSEY GARTON [Item 10]

Declarations of interest:

None

Witnesses:

Geoffrey Bannister, Grant Thornton Manager
Susan Smyth, Strategic Finance Manager

Key points raised during the discussion:

1. The representative of Grant Thornton introduced the Audit Findings Report and stated that there had been good co-operation during the audit.
2. In response to a query about identifying fraud, the Grant Thornton Manager explained that Grant Thornton were responsible for any material fraud and expected companies to notify them of any fraud to be brought to their attention. It was not the responsibility of Grant Thornton to look at systems.
3. There was a query relating to the reasonableness of the interest rate on the intergroup loan which was 6% for £10m. The Strategic Finance Manager explained that this rate was market compliant.
4. It was reported that whilst personnel changes in Grant Thornton had delayed getting some sign offs they were still within deadlines.
5. The Strategic Finance Manager also reported that investment properties were managed by agents but key events would be put into the PAMS system in the future.
6. The Committee requested that the annual accounts for the two companies be presented alongside the audit findings in the future. The Grant Thornton Manager explained that sign off by the companies would be needed for them to do that.
7. The Strategic Finance Manager explained that the companies employ their own auditors separate to the Council's auditors but in this instance it was the same auditor. She also sought to reassure that Committee that the Shareholder Board could act quickly if for some reason the director's were incapacitated. In response to a query regarding shadow directors she reported that to her knowledge there were no known or perceived shadow directors.
8. The Strategic Finance Manager confirmed that extended guarantees for safeguards to members and officers had been approved by Cabinet so there was no personal liability for them.

Actions/ further information to be provided:

That the annual accounts be presented alongside the annual audits in future.

Resolved:

That the committee noted the 2015/16 Audit Findings Report for S. E. Business Services Ltd & Halsey Garton Ltd.

71/16 TREASURY MANAGEMENT HALF YEAR REPORT 2016/17 [Item 11]

Declarations of interest:

None

Witnesses:

Phil Triggs, Strategic Manager Pensions & Treasury
Alex Moylan, Senior Accountant

Key points raised during the discussion:

1. The Strategic Manager Pensions & Treasury introduced the report. He explained that under the Markets in Financial Instruments Directive II (MIFID II) which was due to come into effect from January 2018, all local authorities would be automatically classified as retail status (both pension fund and treasury). A retail status infers that local authorities are not professionally competent to understand the instruments in which they are dealing, and so will have to rely on the particular investment firm to advise them of all the investment risks. Local authorities will be able to "opt up" to professional status, but the process will need to be with every counterparty (investing), and is destined to be administratively burdensome. In response to a query about the advantages or disadvantages of the classifications, the Strategic Manager Pensions & Treasury explained that to remain as retail classification would limit the transactions that the Council could enter into.
2. In response to a further query the Strategic Manager Pensions & Treasury stated that discussions had taken place with Arlingclose regarding risks around world events and in the current uncertain scenario, UK date are expected to remain low. Arlingclose also expected interest rates to remain low over the medium/long term.
3. It was confirmed that the Treasury Management Strategy would be presented to the Committee in February 2017.
4. That Chairman stated that he had voiced concerns regarding short term borrowing which was a discussion for the future.

Actions/ further information to be provided:

That the Treasury Strategy be put on the Committee workplan for February 2017.

Resolved:

To note the Treasury Management Half Year Report for 2016/17.

72/16 INTERNAL AUDIT HALF-YEAR REPORT [Item 12]

Declarations of interest:

None

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the report and explained that a formal follow-up on Foster Care would come back to this Committee.
2. There was some discussion around concerns that some internal problems were not being picked up before they came to the attention of outside agencies like Ofsted. One Member also raised concern about the level of cuts to back office staff.
3. With regards to youth services the Chief Internal Auditor reported that the Council Overview Board (COB) had requested that two reviews were undertaken; the first focussed on financial controls and the other on other areas.
4. In response to a query about the Council's responsibility regarding HIV services the Chief Internal Auditor reported that she had been advised the Council had a statutory responsibility to provide open access to sexual services i.e. signposting. The service provided by the Terrence Higgins Trust was not part of the statutory service but was greatly valued. Difficulties may arise if some Clinical Commissioning Groups (CCGs) decide not to fund this service. Statutory responsibilities were provided by the Council's internal team.
5. In response to a query about raising the issue of inequity of CCGs with Members of Parliament (MPs) another member responded that this should be raised with the Cabinet Member and Health Scrutiny Chairman.
6. The Chief Internal Auditor reported that because no reassurance had been received that all 2015/16 monies had been received, Operation Horizon was continued to marked as red. There was some discussion whether there was the resources to do the expected monitoring. The Chief Internal Auditor was requested to enquire about this and ask for details on how they expected to cope in the future.
7. The Chief Internal Auditor explained that a follow-up audit on Trust Funds was taking place now.

Actions/ further information to be provided:

The Chief Internal Auditor was requested to enquire about the resources to do the expected monitoring for Operation Horizon. (Tracker A13/16)

Resolved:

The Committee noted the report.

73/16 COMPLETED INTERNAL AUDIT REPORTS [Item 13]**Declarations of interest:**

None

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor
Tim Semken, Lead Auditor

Kirsty Malak, Commissioning Lead for Home Based Care (HBC)
Revinder Hothi, Senior Auditor
Ian Lyall, Senior Procurement Officer

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the report stating there had been 12 audits completed and of those two had been ranked effective and another two as needing significant improvement. She also reported that Economic Prosperity, Environment and Highways Board would be receiving a report on civic parking enforcement to its meeting on 8 December.
2. Members discussed the issue of boroughs and districts not passing on their end of year statements to parking enforcement and the lack of enforcing deadlines. The Chairman agreed to write to the Chief Executive regarding the Committee's concerns on this matter.
3. The Commissioning Lead for HBC explained that the audit was being taken very seriously by officers and work had started on the actions. The service was going out to tender for a new HBC contract and would feed any comments from Committee into that.
4. A Member queried to the lost of £445k by not invoking policies and asked if this was a case of officers not doing their job properly to which the Senior Auditor replied that the issue related to service monitoring and not the service provided by carers. There was evidence that guidance had been drafted but no evidence that guidance had been sent to providers.
5. In response to a query regarding claiming back the lost £445k the Commissioning Lead reported that there were eight strategic providers and all had submitted Key Performance Indicator (KPI) data. There had been an internal decision to change the way in which KPIs were collected so it was felt that providers shouldn't be penalised for that.
6. In response to a query about the new HBC contract the Senior Procurement Officer explained that the current contract expires in September 2017 and that specifications were being reviewed with an aim to introduce more flexibility in the provision of care.
7. The Commissioning Lead also responded that if a provider goes bust the Council would be responsible for care which would be picked up by the localities teams.

Actions/ further information to be provided:

Chairman to write to the Chief Executive regarding the Committee's concerns on boroughs and districts not passing on their end of year statements to parking enforcement and requesting that deadlines are enforced. (Tracker A14/16)

Resolved:

The Committee noted the report.

74/16 HALF-YEAR SUMMARY OF INTERNAL AUDIT IRREGULARITY INVESTIGATIONS AND COUNTER FRAUD MEASURES APRIL - SEPTEMBER 2016 [Item 14]

Declarations of interest:

None

Witnesses:

Reem Burton, Lead Auditor
Sue Lewry-Jones, Chief Internal Auditor

Key points raised during the discussion:

1. The Lead Auditor introduced the report stating that there had been 13 new investigations and that less time had been taken on them due to referring some things to others and taking on more of a support role.
2. The Lead Auditor gave further details on the Business Services figures of four thefts stating that three cases were proven, two cases for cash and the other was for theft of assets. In response to a query she stated that fraud had cost the council £586k since April 2011 and that data analytics was being used as a way forward.
3. There was some discussion regarding penalties and making public those found guilty of fraud. The Lead Auditor reported that the penalty was dependent on the value and nature of the fraud and that names were not circulated. She also reported that Government were considering have a register of people in positions of responsibility found guilty of fraud. The Chief Internal Auditor added that there had been incidents in the past whereby people had been reported to their professional bodies.

Resolved:

That the new Counter Fraud Strategy and Framework, attached at Annex A to the report was approved, and endorsed to council for inclusion in the Constitution.

75/16 RISK MANAGEMENT HALF-YEAR REPORT [Item 15]

Declarations of interest:

None

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. The Deputy Chief Finance Officer introduced the report and explained the updates and increased risk levels as contained in paragraphs 15 and 16 of the report.

Resolved:

1. That the Committee were satisfied with the risk management arrangements;
2. To note the Leadership risk register (Annex B) and determined that there were no matters that they wished to draw to the attention of the Chief Executive, Cabinet, Cabinet Member or appropriate scrutiny board.

76/16 GOVERNANCE UPDATE REPORT [Item 16]

Declarations of interest:

None

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. The Committee discussed the risks involved following Brexit and some expressed surprise that this was not on the risk register. The Deputy Chief Finance Officer stated that there was increasing uncertainty in the world and it would be difficult to pin down specific risks relating to Brexit.
2. A Member expressed concerns for the future of Council Tax collection when wages were predicted to be static for the next 10 years and all costs of living going up, including Council Tax. The Deputy Chief Finance Officer responded that Council Tax collection rate was very high in Surrey and that figure would be the first to be affected if there was a problem.

Resolved:

- a) That it was satisfied with the ongoing governance work; and
- b) That there were no concerns to be referred to the Cabinet or to the relevant Cabinet Member.

77/16 DRAFT WORK PROGRAMME 2017 [Item 17]

The draft work programme for 2017 was noted.

78/16 DATE OF NEXT MEETING [Item 19]

The date of the meeting was noted.

Meeting ended at: 1.08 pm

Chairman