

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 27 July 2017 at Members Conference Room, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

Mr David Harmer (Chairman)
Mr Keith Witham (Vice-Chairman)
Mr Edward Hawkins
Mr Ernest Mallett MBE
Dr Peter Szanto
Mrs Fiona White

Members in Attendance

Mr David Hodge

40/17 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

41/17 MINUTES OF THE PREVIOUS MEETING [13 JUNE 2017] [Item 2]

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

42/17 DECLARATIONS OF INTEREST [Item 3]

There were none.

43/17 QUESTIONS AND PETITIONS [Item 4]

There were none.

44/17 RECOMMENDATIONS TRACKER [Item 5]

Declarations of interest:

None

Witnesses:

None

Key points raised during the discussion:

The Committee reviewed each item of the tracker and noted its contents with the exception of tracker item A1/17 being reworded as below.

Action/Further information to note:

To re-word tracker item A1/17- Surrey Choices - to read: *That the Committee will see how the new Overview and Budget Scrutiny Committee will be dealing with this matter going forward.*

RESOLVED:

The report was noted.

45/17 ANNUAL REPORT OF SURREY COUNTY COUNCIL [Item 6]

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 Senior Principal Accountant introduced the Council's Annual Report explaining that the same format of the report had been maintained and there was less jargon making it more accessible. It was also reported that whilst the Council was not required to produce an annual report, it continued to do so, as it was good practice for transparency.
2. The late Environmental Sustainability Review section from page 44 of the Annual Report was tabled and is attached to these minutes as Appendix A.
3. There was some discussion around the format of the printed copies and where they were distributed. Several ideas were mooted regarding what information should be contained in the 'mini' version and who should receive the full version and the mini version. The Chief Executive explained that this document should be primarily viewed as a reference document, and not primarily as a communication tool, which would also be available online. The online version would be in sections which would make it easier to read and printing costs would be kept to a minimum.
4. A member compared the length of this document with that of a multi billion pound corporation that had a much more succinct document. The Leader reminded the committee that the council dealt with people who held the council to account.
5. The Committee questioned the Chief Executive and Leader about the contents of the report and made suggestions for inclusion. Some would not be relevant or information would be available in next year's report as this was a backward looking document.
6. The Chief Executive highlighted that the council receive three times more compliments than complaints across the board and not in just one area and that members should be pleased with this good news.
7. In response to a member statement about devolution the Chief Executive explained that there was no longer Government interest in devolution, apart from those already started, and that plans were on hold. However, progress had been made with talks on health devolution.
8. Several amendments and suggestions for inclusion were made and agreed as given below.

Actions/ further information to be provided:

Suggested amendments and inclusions for the Annual Report:

- It was thought that the cogs used on page 10 of the report didn't provide the impact needed for the message. (Tracker A8/17)

- Page 13 - £ missing from schools expenditure. Three paragraphs of text beneath this table to be re-worded in order to make better sense.
- To include a table on page 54 of the report to show property investment details. (Tracker A8/17)
- That the summary of accounts as used on page 210 of the agenda pack could be included in the mini version of the annual report. It was suggested that the outturn position may be simpler to read.

Resolved:

To endorse the Annual Report (Annex A to the submitted report) for the authority.

Reason for decision:

To produce an Annual Report is good for transparency.

46/17 SURREY COUNTY COUNCIL ACCOUNTS 2016/17 AND EXTERNAL AUDIT'S AUDIT FINDINGS REPORT [Item 7]

Declarations of interest:

None

Witnesses:

Nikki O'Connor, Finance Manager
Jonathan Evans, Principal Accountant
Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. The Principal Accountant introduced the report and highlighted changes to CIPFA reporting requirements, the unqualified opinion on the financial statements and qualified opinion on an except for basis on VfM (Value for Money), as well as the action plan based on the audit findings.
2. In response to Member queries it was reported that:
 - a) Capital underspends occurred due to both delays in projects and in some cases projects not occurring. Carry forwards were only approved for projects that were delayed and not for those that were no longer required. This was reviewed throughout the year and it was unusual not to have a carry forward as slippage in capital schemes was common.
 - b) There was some discussion about social care debt. It was agreed that this was a sensitive area and one which was constantly being reviewed. The Finance Manager confirmed that the bad debt provision was calculated based on the age of the debt.
 - c) The Finance Manager confirmed that the accounts of the council's trading companies are on the agenda to be presented to the December meeting of this committee.
 - d) It was recognised that the primary statements could be very difficult for the layman to read and understand but that the

Director's narrative report would help the reader to understand what the figures mean in simple terms and highlight the key messages.

3. Grant Thornton introduced the audit findings report and explained that the audit was substantially complete. The support from officers was good. A couple of adjustments had been identified as set out in the submitted report and these were regarding an academy conversation and the recognition of a deferred capital receipt. In response to a question, the Finance Manager explained that academies were written out of the council's balance sheet when they convert and were treated as expenditure in the comprehensive income & expenditure account.
4. In response to a member question as to why materiality included the Dedicated Schools Grant (DSG), over which the council had no control, Grant Thornton explained that there was a need for the council to measure, monitor and maintain records of DSG received. Grant Thornton included this when considering appropriate levels for materiality.
5. Grant Thornton also confirmed that it was not their role to look at things like cyber security.
6. Grant Thornton confirmed that they expected to issue an unqualified opinion on the financial statements and that in relation to value to money, they were satisfied that in all significant respects the council had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources for the year ended 31 March, with the exception of the arrangements for management of children's services due to the findings of Ofsted, published in their June 2015 report. This 'except for' opinion is the same as issued in previous years and would remain the case until Ofsted issue a revised opinion.

Actions/ further information to be provided:

- 1) To request that the Finance Manager email a copy of the narrative report by the Director of Finance to the Chairman to circulate to all Members of the Council with a covering letter highlighting where a full version of the accounts could be found. (Tracker A9/17)
- 2) That graphs used in future reports do not rely on colour for their understanding.
- 3) That the Financial Health risk identified in the VfM section of the auditor's report be written in past tense and highlight that this was identified as part of the Audit Plan in February and that the then planned Council Tax referendum did not occur. (Tracker A9/17)

Resolved:

1. That the 2016/17 Statement of Accounts, as in Annex A to the submitted report, be approved for publication on the council's website and in a limited number of hard copies.
2. That the 2016/17 Audit Findings Report in Annex B to the submitted report be noted.
3. That the officer response to recommendations of the external auditor be noted.
4. That the Director of Finance's letter of representation, in Annex C to the submitted report be noted.
5. That there were no issues in the Audit Findings Report that should be referred to the Cabinet.

Reason for decision:

To fulfil the committee's role in providing an independent and high level focus on financial accounts matters.

The Committee adjourned for a comfort break at 12.10pm and reconvened at 12.15pm.

47/17 SURREY PENSION FUND LOCAL GOVERNMENT PENSION SCHEME AND EXTERNAL AUDIT FINDINGS REPORT [Item 8]

Declarations of interest:

None

Witnesses:

Phil Triggs, Strategic Manager Pensions and Treasury
Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. The Strategic Manager Pensions and Treasury and Grant Thornton introduced their respective part of the report.
2. There was some discussion around the increase in numbers of deferred pensioners. It was explained that there was a revised method of counting and the numbers given included the backlog in administration.

Actions/ further information to be provided:

None.

Resolved:

1. That the 2016/17 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, to the report, was noted.
3. That there were no issues to be referred to Cabinet.
4. That the Director of Finance be authorised to sign the representation letter, as set out in Annex C to the report, on behalf of the Council.

Reason for decision:

To fulfil the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

48/17 TREASURY MANAGEMENT OUTTURN REPORT 2016-17 [Item 9]

Declarations of interest:

None

Witnesses:

Phil Triggs, Strategic Manager Pensions and Treasury

Key points raised during the discussion:

1. The Strategic Manager Pensions and Treasury introduced the report.
2. An updated risk register was tabled and is attached as Appendix B to these minutes.
3. The Committee discussed the low interest rate environment that continued and how it was expected to continue for the next few years.
4. There was a discussion regarding item one on the risk register and the fact that it was not Brexit alone that was the risk and that the risk was one of volatility caused by geo-political events.

Actions/ further information to be provided:

That item one of the risk register be amended as below and that item eight of the risk register be amended to be consistent on the use of lower case and capital letters.

Resolved:

1. That the Treasury Management Annual Report for 2016/17 was noted.
2. That the revised Treasury Management Risk Register shown in Annex 3, and with the following amendment/addition be adopted:
 - that Risk 1 should read 'geo-political issues' rather than UK leaving Europe and the risk rating made higher.

Reason for decision:

To ensure compliance with CIPFA's Code of Practice for Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

49/17 WORKPLAN AND BULLETIN TIMETABLE 2017/18 [Item 10]

The workplan and bulletin timetable were noted.

50/17 DATE OF NEXT MEETING [Item 11]

The date of the meeting was noted.

It was also agreed that the start time of meetings would be 10.30am going forward.

Meeting ended at: 12.50 pm

Chairman

Environmental Sustainability Review -

Trevor Pugh

Trevor Pugh is the Strategic Director for Environment and Infrastructure and responsible for the council's annual environmental sustainability statement.

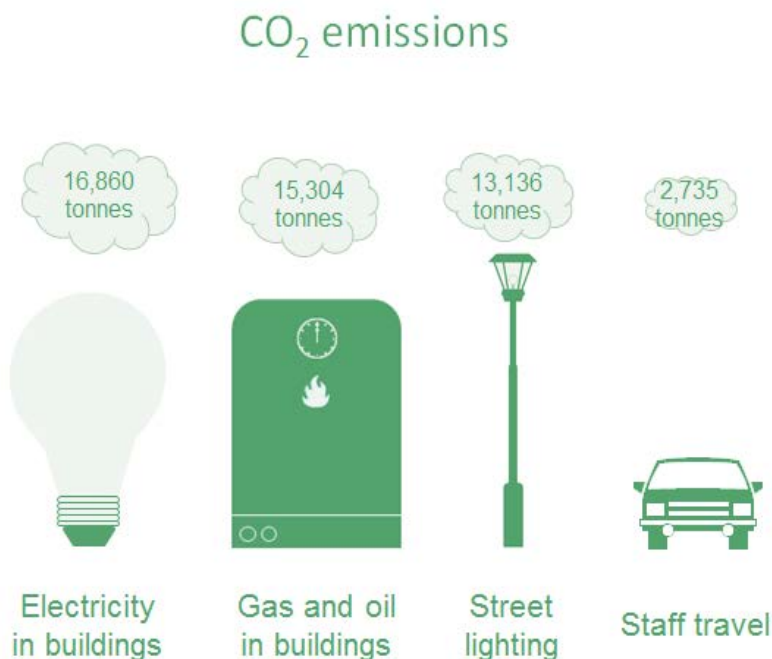
A healthy and well-functioning natural environment is the foundation for prospering communities, economic development and personal wellbeing; therefore environmental sustainability is an important goal for the council.

Surrey County Council manages public services in the environmental sector, in the areas of waste, transport, conservation and planning. Furthermore, the council has influence over environmental impacts through its own operations such as estate management, business travel and its procurement decisions. This report focuses on these 'corporate' aspects of environmental sustainability.

Scope of reporting:

- Greenhouse Gas emissions from our own estate and operations,
- Waste management on our own estate,
- Water consumption on our own estate,
- Business travel mileage by staff and county councillors, and
- Sustainable Procurement

Greenhouse Gas emissions from our own estate (including maintained schools) and operations



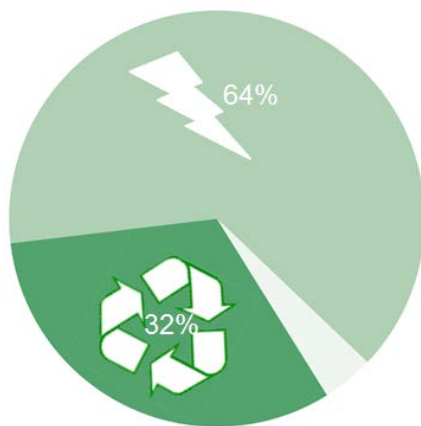
Our target for increasing energy efficiency and reducing our carbon emissions is a 10% reduction in emissions over a five year period. Three years into this programme, our carbon emissions from our own estate and operations have reduced by 8% compared to the baseline year.

This is a 'like for like' comparison, taking account of the impact of weather on variations in heating demand and also the impact of schools leaving our estate to become Academies.

Improvements in 'low carbon' electricity generation nationally have made the biggest difference in this reduction. Capital investment in energy efficiency in the council's buildings and the street lighting replacement programme have also contributed to emissions reductions. Further investment in energy efficiency measures in council buildings has been suspended due to financial pressures and so zero capital expenditure options are being investigated. The recently introduced part night lighting policy for street lights is projected to make cost and carbon savings in 2017/18 and the council will continue to look for affordable ways to increase energy efficiency.

Waste management on our own estate (excluding all schools)

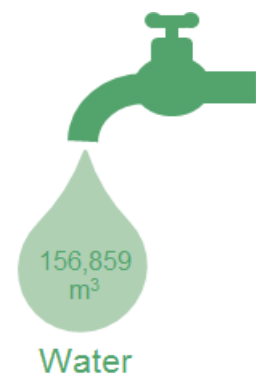
We are recycling 32% of our waste and a further 64% is being sent for Energy from Waste



The amount of waste diverted from landfill slightly increased (96% in 2016/17 vs 95% in 2015/16) and the total amount of waste produced from council buildings reduced; both positive trends. However a lower proportion of the non-landfilled waste was sent for recycling (32% vs 37%) and a higher proportion was sent to 'energy from waste' compared to previous year.

Water consumption on our own estate (excluding all schools)

Water consumption decreased in 2016/17 compared to the previous year. This includes water used in care homes, some of which were vacated during 2016-17. The council has water meters installed at its largest sites and is examining further opportunities via reforms to the water market.



Business travel



Business travel is mileage driven by staff and councillors, including out of county visits such as visiting children in care.

Business mileage reduced in 2016/17 compared to the previous year, which

counters the previous trend of year on year increases. The council encourages smart and remote working and provides a range of measures to support sustainable travel for business purposes and commuting.

Sustainable Procurement

We have revised our process for suppliers to address environmental sustainability, which now includes a method to quantify environmental commitments in monetary equivalent values and to include these within the tender evaluation

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Risk Group	Risk Ref.	Risk Description	Impact			Likelihood	Total risk score	Mitigation actions
			Financial	Reputation	Total			
Financial	1	UK's withdrawal from the European Union causes volatility The UK's withdrawal from the EU, results in the further downgrading of the UK Government as an international creditor, with resultant volatility in gilt yields, and pressure on Sterling, resulting in possible inflationary pressure and changes in interest rates.	2	3	5	3	15	Since the Referendum, the UK has been downgraded to AA. However, this has not had any adverse impact on gilt prices, the reverse being true as gilt yields have sunk to historical low points. Sterling has lost ground against all currencies but, given the already low level of interest rates, the expectation is that monetary policy will be kept loose in response to the reduced trading position, weaker economic outlook, and to support consumer and business sentiment. There is little anticipation of any interest rate rises in the short/medium term.
Financial	2	Interest Rate Risk (Borrowing) The risk that fluctuations in the levels of interest rates (gilt yield) create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	4	1	5	3	15	As part of the Treasury Management Strategy, the TM function will continually monitor interest rates available to ensure any borrowing is prudent, and at an affordable level.
Operational	3	HSBC System Failure The partial or complete failure of HSBC's online banking system disallowing access or usage of online payment and bank account information.	2	3	5	2	10	In the event of an online systems failure officers are able to request information or payments to be made through the Council's relationship manager and HSBC corporate team.
Operational	4	Financial failure of SCC's main bankers The collapse of the council's main bankers, leading to a total shutdown of services.	4	4	8	1	8	The UK Government has implied by its takeover of both Lloyds TSB and RBS that it will not allow a UK financial institution to fail. The suitability of the council's banker (HSBC) in terms of its security and stability is assessed on a regular basis.
Financial	5	Credit and counterparty risk The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or revenue resources.	3	4	7	1	7	As part of the Treasury Management Strategy, counterparty criteria has been set at a level to allow only the most financially secure banks and other counterparties within the lending list. Such lists are regularly monitored against updates and advice provided by our Treasury consultant.
Operational	6	Fraud, Error and Corruption This is defined as the risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends.	3	4	7	1	7	Ongoing internal audit advice will ensure that the Council identifies the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Advice is also supplied with regard to the use of internal controls and compliance testing as to their effectiveness. Managers will maintain a constant watch over the suitability of its systems and procedures.
Financial	7	Interest Rate Risk (Investments) The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	2	1	3	2	6	As part of the Treasury Strategy, all investments will be kept with counterparties with a high rating, on a short term basis of one year or less, minimising any interest rate risks.
Financial	8	Too Conservative Strategy The overall treasury management strategy is judged as too prudent and unnecessarily stringent, resulting in investment returns being lower than might have been with a more risky, but ultimately safe, approach.	3	2	5	1	5	Treasury strategies, outturn reports and monitoring reports and scrutinised on a regular basis by the Audit and Governance Committee with recommendations and opinions minuted and actioned. The current treasury management strategy focuses on internal borrowing as a means of funding the Council's capital budget and therefore the current investment strategy is one of providing liquidity to the Council's cashflow.
Operational	9	Legal and Regulatory Risk Defined as the risk that the organisation itself, or a third party with which it is dealing, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.	1	4	5	1	5	The Treasury Management function will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements, by receiving relevant updates from CIPFA and from the treasury advisors.
Operational	10	Theft of intellectual property and confidential information	1	4	5	1	5	Ensure all sensitive data is locked away. Challenge any unknown visitors. Use of secure passwords to protect against unauthorised access.
Operational	11	Liquidity Risk The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.	2	3	5	1	5	As part of the Treasury Management Strategy, a minimum cash balance of £15m will be maintained. In the event of unforeseen circumstances leading to a negative balance, short term borrowing is widely available from both the money markets and from other local authorities.
Financial	12	Market Risk The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.	1	1	2	2	4	The Treasury Management Strategy prevents exposure to instruments which can be subject to significant adverse market fluctuations in the capital sum invested.
Financial	13	Refinancing Risk The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.	2	2	4	1	4	As part of the Treasury Management Strategy, restrictions have been set on the proportion of borrowing that is due for refinancing in the short term..

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