

MINUTES of the meeting of the **AUDIT AND GOVERNANCE COMMITTEE** held at 10.30 am on 17 December 2018 at Committee Room A, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

*= in attendance

- *David Harmer (Chairman)
- *Keith Witham (Vice-Chairman)
- *Edward Hawkins
- *Dr Peter Szanto
- *Will Forster
- Mr Stephen Spence

Substitute Members:

Mr Nick Harrison

56/18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Stephen Spence. Nick Harrison acted as a substitute.

57/18 MINUTES OF THE PREVIOUS MEETING - 27 SEPTEMBER 2018 [Item 2]

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

58/18 DECLARATIONS OF INTEREST [Item 3]

Edward Hawkins declared a non-pecuniary interest in item 8 as he was the Surrey County Council (SCC) appointed Director of Halsey Garton Property Investment Ltd.

59/18 QUESTIONS AND PETITIONS [Item 4]

There were none.

60/18 RECOMMENDATIONS TRACKER [Item 5]

Witnesses:

Mary Lewis, Cabinet Member for Children, Young People and Families
Melanie Harris, School Commissioning Officer

Key points raised during the discussion:

1. In relation to Action A6/18, The Cabinet Member for Children, Young People and Families attended the meeting in order to discuss the Committee's concerns relating to the decline in revenue for Babcock 4S. The Cabinet Member explained that the Council were gradually reducing work with Babcock 4S due to changes to school improvement works. It was further explained that the Council's joint

venture with Babcock 4S had provided a dividends that was less than expected due to issues located in Babcock 4S's pensions fund. Members noted that a report which provided further detail was considered by Cabinet earlier in the year. Members further noted that various non-teaching staff, who were previously provided by Babcock 4S, would be transferred within the Council in order to continue providing essential services. Officers confirmed that overall details would be provided to the relevant officers to outline future changes and responsibility arrangements.

2. In regards to Action A16/18, officers confirmed there were ongoing discussions with the Police on this matter and that the situation would continue to be monitored.

RESOLVED:

The Committee noted the report.

61/18 TREASURY MANAGEMENT MID YEAR REPORT [Item 6]

Witnesses:

Nikki O'Connor, Finance Manager

Key points raised during the discussion:

1. Officers introduced the report and provided Members with a brief summary where it was noted that no long term borrowing was undertaken during the first half of 2018/19 and that internal borrowing was maximised and short term borrowing was utilised to manage cash flow. It was also highlighted that operational treasury management work now fell within the remit of the Orbis Centre of Expertise team which included staff who were split over each local authority within Orbis.
2. Members noted that, following County Council agreement on 10 December 2018, approval of the Treasury Management Strategy would now be delegated to the Audit and Governance Committee for consideration. The Strategy would be considered at the Committee's meeting on 7 February 2019 and scrutinised at the Corporate Overview Select Committee meeting on 25 January 2019.
3. Officers informed Members that the resource for internal borrowing was around £400 million.
4. It was noted that, although it was not currently classed as treasury management activities and therefore not covered by the CIPFA Code, the Council also held £77 million of investments in directly owned investment property and £197m in loans to and shareholdings in its subsidiaries.
5. Members discussed the Council's access to liquid assets on a day to day basis where it was noted that, in the current financial climate, it would not be sensible to hold a significant sum of liquid cash due to cost of carry.
6. Members discuss the benefits of investing in money market funds.

Resolved:

The Audit and Governance Committee noted the contents of the Treasury Management Half Year Report for 2018/19.

62/18 INTERNAL AUDIT PROGRESS REPORT - QUARTER 2 (01/07/18 - 30/09/18) [Item 7]

Witnesses:

Russell Banks, Chief Audit Officer

Key points raised during the discussion:

1. Officers introduced the report and provided Members with a brief summary. It was noted that the report outlined the work completed by Internal Audit between 1 July 2018 and 30 September 2018. It was further noted that there had been some adjustments to the audit plan in order to incorporate absences within the team and resource to support to the Council's transformation programme. The Chief Internal Auditor confirmed he felt comfortable that he would be able to provide an audit opinion at the end of the year.
2. The Committee sought clarification on how Internal Audit intended to support the Council's transformation programme. It was explained that, as the transformation was in its early stages, Internal Audit would be working initially on specific high level areas of focus. New areas of focus would then be agreed following completion. It was requested that officers update the Committee on focuses of the transformation within the Quarter 3 report. Following further discussion, it was suggested that the Council's various select committee's would be interested in discussing audit findings related to the transformation. It was noted that Select Committee Chairmen were notified when audit reports relevant to their remit received a 'high' risk priority indicator.
3. When discussing areas for improvement, it was highlighted that parked invoices of around £30,000 in value were found, the majority of which were in Children's, Families and Learning Directorate. Officers explained that the most likely reason for this was due to weaknesses in the system, or that the system had not been complied with. If the latter, training would be provided to officers to increase compliance.
4. The Committee discussed issues relating to the lack of VAT receipts being attached for fuel purchase, as required by rules set by HM Revenue & Customs (HMRC). Members suggested that officers contact HMRC to investigate the possibility of opting-out of the requirement.
5. Members sought further information on the pension opt-out issue outlined in the Payroll (2017/18) audit summarised in the report. Officers agreed to provide a response outside the meeting.
6. When discussing the Contact Bank Supervisors audit, Members highlighted the £317,000 paid and asked if there was any more context available on the number, particularly in terms of comparison with previous years and other services. Officers agreed to provide a response outside the meeting.

Resolved:

The Audit and Governance Committee noted the report.

63/18 2017/18 AUDIT FINDINGS REPORT AND ANNUAL STATEMENT OF ACCOUNTS FOR S. E. BUSINESS SERVICES LTD, SURREY CHOICES LTD & HALSEY GARTON PROPERTY LTD [Item 8]

Witnesses:

Susan Smyth, Head of Strategic Finance

Key points raised during the discussion:

1. Officers introduced the report and provided Members with a brief summary. Members noted that Officers were satisfied with the outcome and findings of the external audit of the 2017/18 financial statements of S.E Business Services Ltd, Surrey Choices Ltd and Halsey Garton Property Limited.

Resolved:

The Audit and Governance Committee considered the contents of the 2017/18 Audit Findings Reports of S.E Business Services Ltd, Surrey Choices Ltd and Halsey Garton Property Limited.

64/18 EXTERNAL AUDIT UPDATE REPORT [Item 9]

Witnesses:

Marcus Ward, Grant Thornton
Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. Representatives introduced the report and provided Members with a brief summary. It was noted that the report included a sector update on matters identified to be relevant to Committee Members.

Resolved:

The Committee noted the external auditors progress report.

65/18 EXTERNAL AUDIT UPDATE REPORT - SUPPLEMENTARY VALUE FOR MONEY FINDINGS REPORT 2017/18 [Item 10]

Witnesses:

Marcus Ward, Grant Thornton
Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. Officers introduced the item and provided a brief summary. It was noted that the report was supplementary to the Audit Findings Report issued on 26 July 2018 and was intended to provide further information on the basis of the auditors Value for Money conclusion, which was issued on 28 September 2018. Representatives from Grant Thornton further stated that they were satisfied that the Council was doing everything possible to undertake a robust process to identify and implement its transformation plans.

2. In regards to the summary of findings, Members noted that the external auditors would continue to monitor the outlined recommendations and were confident that the appropriate project management actions were in place.

Resolved:

The Committee noted the external auditors supplementary report.

66/18 DATE OF NEXT MEETING [Item 11]

The date of the meeting was noted as 7 February 2019.

Meeting ended at: 12.05 pm

Chairman

