

MINUTES of the meeting of the **AUDIT AND GOVERNANCE COMMITTEE** held at 10.30 am on 20 May 2019 at Committee Room C, 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

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

Substitute Members:

Mr Nick Darby*

19/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Stephen Spence and Will Forster. Nick Darby acted as a substitute for Stephen Spence.

20/19 MINUTES OF THE PREVIOUS MEETING: 8 APRIL 2019 [Item 2]

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

21/19 DECLARATIONS OF INTEREST [Item 3]

There were none.

22/19 QUESTIONS AND PETITIONS [Item 4]

There were none.

23/19 RECOMMENDATIONS TRACKER AND BULLETIN [Item 5]

Witnesses:

David John, Audit Manager

Key points raised during the discussion:

The Audit Manager provided a verbal update on the item A16/18 on police action, the Committee were informed that the Crown Prosecution Service have charged the individual and the case is proceeding to court after a delay.

Action/Further information to note:

None.

Resolved:

That the Committee noted the report.

24/19 CODE OF CORPORATE GOVERNANCE [Item 7]

Witnesses:

Cath Edwards, Service Improvement and Risk Manager

Key points raised during the discussion:

The Service Improvement and Risk Manager informed Members that the report provided an update on the Council's Code of Corporate Governance and that it was an annual document in which the core principles of governance remain fundamentally the same. It was noted that the Code of Corporate Governance would be presented to the County Council for inclusion in the Constitution.

Actions/ further information to be provided:

None.

Resolved:

That the Committee approved the updated report and commended it to the County Council for inclusion into the Constitution.

25/19 2018/19 DRAFT ANNUAL GOVERNANCE STATEMENT [Item 6]

Witnesses:

Joanna Killian, Chief Executive

Key points raised during the discussion:

1. The Chief Executive introduced the draft Annual Governance Statement which summarised the Council's governance arrangements for the financial year ending 31 March 2019. She made the following points:
 - That the report provided a positive reflection of the Council's governance arrangements for future years, with mechanisms put in place for effective governance.
 - That the organisational culture had already undergone a process of transformation and noted the progression; however, wholesale change to this culture will take time and there will be periods of difficulty.
 - A key area of progression included working with partners more constructively and in an open manner, ensuring good governance for those employed in the Council's services and a measure of the success of the Council's governance would come from the residents.

2. Members questioned how improvements in governance will be measured with reference to recruitment in Children's Services. The Chief Executive explained that this would happen by using hard indicators including the Ofsted Priority Action Board to deliver the Council's Children Improvement Plan.
3. The Committee expressed concern over the challenges to a sound system of governance within the South East due to a high cost of living for Surrey employees. Although expensive accommodation is an issue, the Chief Executive stated that good technical supervision, manageable case-loads and good managerial support were fundamental to governance. The Council would ensure a safeguard to key services with the launching of the new Surrey Children's Services Academy with strong feedback from participants. The Chief Executive also noted the importance of retention of key workers within the National Health Service by analysing exit interviews to understand why some chose to leave the organisation.

Actions/ further information to be provided:

A6/19 - The Chief Executive agreed to provide a document which summarised the Council's yearly achievements. This would be a concise and accessible document for councillors to provide to their residents.

Resolved:

The Committee reviewed the draft report and were satisfied that the governance arrangements were represented correctly; and

That the Committee commended the draft Annual Governance Statement to the Chief Executive and the Leader of the Council to be signed off before publication into the Council's Statement of Accounts for 2018/19.

26/19 2018/19 TREASURY MANAGEMENT OUTTURN REPORT [Item 8]

Witnesses:

Kevin Kilburn, Strategic Finance Manager - Corporate

Key points raised during the discussion:

1. The Committee were asked by the Chairman of the Committee whether they were comfortable with the report and both Members and Officers expressed their satisfaction.
2. The Strategic Finance Manager - Corporate, introduced the report and provided background information to the uncertainty in finance globally with reference to the US-China trading tensions and the volatility with the UK's withdrawal from Europe as noted in Annex 1. The Council's Treasury team would continue to monitor the impact on interest rates as this affects the Council at a more local level.
3. Referring specifically to the Risk Reference 2 (Financial) in Annex 2 on Interest Rate Risk, the Strategic Finance Manager - Corporate stated that the Council's strategy of short term borrowing provided a financial

saving as the average rate of interest is 0.84%, compared to the 2.65% interest rate if long term borrowing had been undertaken over a 25 year period. It was noted that this however would mean that the Council would not get returns as high as other councils due to short term investing, but the policy of low investment levels ensures the Council is able to ensure borrowing at an affordable level.

Actions/ further information to be provided:

None.

Resolved:

The Committee noted the report; and

The Committee agreed to adopt the Treasury Management Risk Register, attached as Annex 2.

27/19 DATE OF NEXT MEETING [Item 9]

The date of the meeting was noted as 29 July 2019.

Meeting ended at: 11.00am

Chairman

Risk Group	Risk Ref.	Risk Description	Impact			Likelihood	Total risk score	Mitigation actions	Impact			Likelihood	Total risk score
			Financial	Reputation	Total				Financial	Reputation	Total		
Financial	1	Continuing uncertainty over the 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	2	4	4	16	Since the Referendum, the UK has been downgraded to AA. However, this has not to date had any adverse impact on gilt prices. The Treasury Management Centre of Expertise continue to monitor closely Gilts and receive regular updates from treasury advisers on short and medium term interest rate expectations. In addition, the levels of short term and long term exposure to interest rate fluctuations are monitored and reported to Audit & Governance Committee. The interest payable budget includes some allowance for future interest rate rises.	1	2	3	4	12
Financial	2	Interest Rate Risk 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.	3	2	5	3	15	As part of the current Treasury Management Strategy, short term borrowing is undertaken to reduce the levels of interest paid. The Treasury Management Centre of Expertise continually monitor interest rates available to ensure any borrowing is prudent, and at an affordable level. Investments levels remain low and this reduces the impact of interest rate changes. The interest payable budget includes some allowance for future interest rate rises.	2	1	3	3	9
Operational	3	HSBC System Failure The partial or complete failure of HSBC's online banking system preventing access or usage of online payment and bank account information.	1	3	4	2	8	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. This would result in the daily treasury processes taking more time than usual but all activities are possible using these alternative arrangements.	1	1	2	2	4
Operational	4	Financial failure of SCC's main bankers The collapse of the council's main bank, leading to loss of services and/or value of balances held.	3	4	7	1	7	The suitability of the council's banker (HSBC) in terms of its security and stability is assessed on a regular basis and investment balances are not held with the Council's main banker but in diversified deposits in line with the approved investment strategy.	2	3	5	1	5
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	2	14	The Council's current investment strategy restricts investments with a single counterparty and counterparty criteria has been set at a level to allow only the most financially secure banks, money market funds and Government backed local authorities within the lending list. Such lists are regularly monitored against updates and advice provided by our Treasury consultant.	3	4	7	1	7
Operational	6	Fraud, Error and Corruption 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.	5	5	10	2	20	The Treasury Management Centre of Expertise ensures strong internal controls, segregation of duties, unique security log-ins, documented procedures and limits on transaction levels are in place to reduce the risk of fraud and corruption. In addition, HSBC policies and procedures ensure unusual activity is questioned and required additional approval. Regular internal audit tests the quality of internal controls in place.	1	5	6	1	6
Operational	7	Legal and Regulatory Risk 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.	2	4	6	2	12	The Treasury Management team receives and acts upon relevant updates from CIPFA and our treasury advisors.	2	4	6	1	6
Operational	8	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	2	4	3	12	The Council has easy access to readily available funds at competitive interest rates from the PWLB. The Treasury Management Centre of Expertise monitor and update cash flow forecasts on a daily basis and regularly assess the accessibility of short term funds from the local authority market.	1	2	3	1	3

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