

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.30 am on 29 July 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:

(* = Present)

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

28/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

29/19 MINUTES OF THE PREVIOUS MEETING - 20 MAY 2019 [Item 2]

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

30/19 DECLARATIONS OF INTEREST [Item 3]

There were none.

31/19 QUESTIONS AND PETITIONS [Item 4]

There were none.

32/19 RECOMMENDATIONS TRACKER [Item 5]

Witnesses:

David John, Audit Manager
Amelia Christopher, Democratic Services Assistant

Key points raised during the discussion:

1. Action A2/18 - The Committee agreed with the Chairman's view that the Action should remain ongoing until further information was received.
2. Action A16/18 - The Audit Manager provided further detail to the Committee on the individual that had been convicted of defrauding the Council. The Committee agreed to mark the Action as completed.
3. Action A1/19 - Members had no queries on the circulated information provided prior to the meeting by the Strategic Finance Manager- Corporate. The Committee agreed to mark the Action as completed.

4. Action A5/19 - The Audit Manager informed the Committee that the report had been sent and added to the relevant Select Committee's forward plan.
5. Action A6/19 - The Democratic Services Assistant reported to the Committee that the Chief Executive had conferred with the Leader of the Council on this Action. The relevant document would be provided to the Committee at the next meeting in September.

Action/Further information to note:

None.

RESOLVED:

The Committee monitored the progress on the implementation of recommendations from previous meetings.

33/19 INTERNAL AUDIT & COUNTER FRAUD ANNUAL REPORT AND OPINION 2018-19 [Item 7]

The Chairman considered Item 7 (this item) before Items 6 and 8.

Witnesses:

Russell Banks, Chief Internal Auditor
David John, Audit Manager

Key points raised during the discussion:

1. The Chief Internal Auditor introduced the report and summarised the key points:
 - Areas of significant weaknesses had been highlighted by Internal Auditors. There was now a clear commitment and desire from management to improve internal control and governance through the transformation programme.
 - That the Committee had a key role in overseeing the Internal Audit function and would continue to ensure that the Internal Audit performance indicators were satisfied.
 - Reported the proactive approach with the Council's Strategy on counter fraud.
2. In response to Member queries it was reported that:
 - a) The Chief Internal Auditor recalled the case of the former employee of Surrey County Council who defrauded the Council of around £90,000 through the use of a pre-paid card scheme, which was discovered in May 2017. However, it was explained that Internal Audit had identified relatively small amounts of fraud considering the large size of Surrey County Council.
 - b) The Chief Internal Auditor summarised examples of the three areas of minimal assurance identified and reported the specific weaknesses within the CFL Care Assessment audit with a detailed summary in Annex 2.
 - c) The Audit Manager stated that work was in progress on the Looked After Children Initial Health Assessments and an update would be given at the next Committee in September.

He was hopeful that verbal robust assurance could be given later this calendar year.

- d) The Audit Manager explained that high priority actions of partial and minimal assurance were being monitored in a management system with follow-up emails to managers and to the relevant auditor. Managers were required to report back to Internal Audit to explain any overdue actions and that compensating controls would be in place to mitigate any further and future delays. The system tracked performance and ensured more regular engagement between Internal Audit and the Corporate Leadership Team on a quarterly basis.
3. The Chairman noted positively that the culture within Surrey County Council had changed as a result of new leadership and the Corporate Leadership Team were operating effectively. As part of the governance role of the Committee, the Chairman and Vice-Chairman agreed to take the matter of assessing the performance of the management system to Cabinet.
4. The Chief Internal Auditor confirmed that there was a sufficient level of resources available to cover the planned and unplanned audit work in 2018/19.
5. The Audit Manager stated that Internal Audit carry out 60-70 audits a year and that more areas of minimal assurance had been identified. This was a result of the changed Council control environment with the audit planning process being more focussed and with greater intelligence on risk areas.
6. The Chairman reported that he had a positive discussion with the Select Committee Chairmen and Vice Chairmen's Group over the insufficient amount of governance considered by the Committee. The Chairman suggested that Members should collect their views on the changes to the scrutiny arrangements. A pre-meeting before the next Committee in September was agreed.
7. The Audit Manager clarified the wording of CFL Care Assessments on page 21 on the meaning of the "financial sustainability of care packages not being robustly challenged". It was explained that there was an inefficient control environment on the consideration of final care packages. However, the Council now considered more efficient alternative provisions such as the gateway process in East Sussex County Council in order to reduce costs. There would also be a CFL Care Assessments review in quarter 2 2019/20 since the last in September 2018.
8. The Vice-Chairman noted the Deprivation of Liberty Standards (DOLS) – Follow Up audit, the number of DOLS requests from Surrey County Council by early 2018 increased from 100 a year to 3,000 a year from the Supreme Court Ruling in 2014, which improved the control environment for Internal Audit to raise the level of assurance to reasonable from partial.

Actions/ further information to be provided:

1. A7/19 - A pre-meeting before the next Committee in September was agreed by the Committee as part of its governance function to discuss the change in scrutiny arrangements.
2. A8/19 - As part of the Committee's governance role, the Chairman and Vice-Chairman in agreement with Members and officers will raise the

issue of the performance of the management system which tracked high priority actions, to Cabinet.

RESOLVED:

That the Committee:

1. Noted the work undertaken and the performance of Internal Audit in 2018-19 and the resultant annual opinion of the Chief Internal Auditor.
2. Determined matters to be drawn to the attention of Cabinet.
3. Considered that the Council's arrangements for internal audit had been proved effective during 2018/2019.

34/19 STATEMENT OF ACCOUNTS 2018/19 [Item 6]

An amended cover report with additional information and the annexes was published in the supplementary agenda on 25 July 2019.

Witnesses:

Anna D'Alessandro, Director of Corporate Finance
Tom Beake, Grant Thornton
Ciaran McLaughlin, Grant Thornton
Leigh Whitehouse, Executive Director of Resources
Craig Tucker, Principal Accountant – Finance

Key points raised during the discussion:

1. The Director of Corporate Finance introduced the report which was on track for publication by its statutory deadline of 31 July 2019 and summarised the key findings. The Council's financial resilience must be understood with consideration of auditor prudence after the financial crises of Northamptonshire County Council and Carillion.
2. Grant Thornton informed the Committee that a detailed summary of the Audit Findings Report for Surrey County Council could be found in Annex 2 of the report, the key points of the report were summarised:
 - That concerning the financial statements the anticipated audit report would be unmodified with adjustments having no impact on the Council's usable reserves.
 - One additional audit adjustment since the publication of the report was provided to the Committee on a non-trivial misstatement to the valuation of land and buildings specifically on the Property, Plant and Equipment (PPE) opening balance. An erroneous interpretation of valuer guidance given in 2013/14 had now been adjusted.
3. A Member praised the comprehensive report but remarked that on the valuation of pension fund net liability, the Council should adopt the Local Government Association's (LGA) advice that pension auto-enrolment should apply to councillors as they are "workers".
4. Members stated that the conclusions on Children's Services were similar to last year's and queried present reforms to improve the service. The representative from Grant Thornton reported that since Ofsted's May 2018 follow-up report, the service would be continued to be monitored over 2019/20. With one out of the three areas of audit

- opinion remaining adverse, on permanence planning by social workers and the progress tracking of these plans by managers.
5. The Executive Director of Resources reported that the adverse opinion on Children's Services VfM was not unreasonable as outliers had been highlighted. The next step would be to receive Ofsted's next opinion on the level of sustainability of the Services' financial position.
 6. The Director of Corporate Finance stated that the savings achieved in 2018/19 meant the avoidance of drawing from the reserves which were budgeted to be £21.3 million. However, the level of savings required to produce a balanced budget in 2019/20 continued to be significant at £82 million.
 7. In response to Member questions it was reported that:
 - a) The Executive Director of Resources explained that the Eco Park PFI was a finance lease liability under an integrated services charge. This was calculated in part on the tonnages of waste sent for disposal and the VfM cost of a reduced unitary payment would be approximately £2 million a month for an operational facility.
 - b) Grant Thornton informed the Committee that the actuarial calculation from the Government changes and court rulings from the impact of the McCloud and GMP equalisation on the Council's financial position may amount to a possible increase in pension liabilities of £22 million.
 - c) The Principal Accountant – Finance summarised Surrey County Council's expenditure figures. That the position on pages 10/11 showed an under spend of £0.5 million in the Council's revenue outturn position in 2018/19, whilst page 18 showed the full service costs in respect of the £82.2 million deficit in 2018/19 in the Council's Comprehensive Income & Expenditure Statement (CIES). The Director of Corporate Finance and the Principal Accountant agreed that they would provide greater detail to the Committee on the matter.

Actions/ further information to be provided:

1. A9/19 - The Principal Accountant – Finance and the Director of Corporate Finance agreed that they would provide a Briefing Note to reconcile pages 10/11 and page 18 of the report.

RESOLVED:

That the Committee:

1. Approved the 2018/19 Statement of Accounts, for publication on the council's website and in a limited number of hard copies (agreed at 100 copies).
2. Considered the contents of the 2018/19 Audit Findings Report.
3. Agreed the officer response to recommendations of the external auditor.
4. Noted the Executive Director of Resources' letter of representation.
5. Determined that no issues in the Audit Findings Report should be referred to the Cabinet.
6. Noted the revised Annual Governance Statement, as approved by Cabinet on 17 July.

**35/19 SURREY PENSION FUND LOCAL GOVERNMENT PENSION SCHEME
ACCOUNTS 2018/19 AND GRANT THORNTON EXTERNAL AUDIT
FINDINGS REPORT [Item 8]**

An amended cover report with additional information, an amended page to an annex and the remaining annexes was published in the supplementary agenda on 25 July 2019.

Witnesses:

Anna D'Alessandro, Director of Corporate Finance
Mamon Zaman, Senior Accountant
Ciaran McLaughlin, Grant Thornton

Key points raised during the discussion:

1. The Director of Corporate Finance introduced the report and summarised the findings:
 - That she was pleased to state that the external auditor (Grant Thornton) had issued an unqualified audit opinion and that there were also no material misstatements.
 - That the Pension Fund Draft Accounts 2018/19 were approved by the Pension Fund Committee on 7 June 2019 and that it was expected that the Pension Fund Draft Annual Report 2018/19 (which included the Pension Fund Accounts 2018/19) would be presented at the next Surrey Pension Fund Committee on 13 September 2019.
 - That the most recent funding position was 93.3% at the end of 2018 was thought to improve, with the results from the 2019 Full Triennial Valuation for the 31 March 2019 Funding Position remaining outstanding.
 - That Surrey Pension Fund was now a partner fund of Border to Coast Pensions Partnership Limited (BCPP) in line with the Government's proposal to pool Local Government Pension Scheme assets into the regional asset pool of £45 billion, the Fund had transitioned approximately £400 million to the BCPP by Autumn 2018.
2. The Senior Accountant explained the benefits to the Committee of the pooled assets, which included: reduced costs and management rates, improved returns and greater resilience across the funds.
3. In response to a Member's query on the BCPP, the Senior Accountant remarked that the pooled funds also covered Surrey's 11 borough and district councils and some parish councils also.
4. Grant Thornton stated that they had not identified any issues to report on the risks presented in the Audit Plan and praised the work provided by the Surrey Pension Fund.
5. That the Pension Fund Level 3 investment funds were tested by the auditors at their last audited financial statements for any material cash flows in order to obtain a more substantive valuation.
6. Additional fees were incurred during the year from the impact of the McCloud and GMP judgements. Grant Thornton had been asked by auditors from the 11 Surrey districts to provide IAS 19 assurance letters. These were charged at £3,000 each for the work and £500 for

each assurance letter requested. The final audit fee would be confirmed with management in August 2019.

7. The Chairman expressed interest in the comment that the funding position of 93.3% would improve since the figure was reported in December 31 2018. The Director of Corporate Finance had spoken to the Strategic Finance Manager – Pensions and was hopeful of this change.

Actions/ further information to be provided:

None.

RESOLVED:

That the Committee:

1. Approved the Pension Fund Accounts 2018/19.
2. Considered the content of the Audit Findings for Surrey Pension Fund Report.
3. Determined that no issues needed to be referred to Cabinet in relation to the external auditor's conclusions and recommendations.
4. Considered the content of the draft representation letter and authorised the Deputy Chief Finance Officer to sign it on the Council's behalf.

36/19 DATE OF NEXT MEETING [Item 9]

The date of the meeting was noted as 26 September 2019.

Meeting ended at: 11.58am

Chairman