

MINUTES of the meeting of the **AUDIT AND GOVERNANCE COMMITTEE**
held at 10.30 am on 28 August 2020 at Remote Meeting.

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
Stephen Spence*
Mr Stephen Cooksey

23/20 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Stephen Cooksey.

24/20 MINUTES OF THE PREVIOUS MEETING (22 MAY 2020) [Item 2]

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

25/20 DECLARATIONS OF INTEREST [Item 3]

There were none.

26/20 QUESTIONS AND PETITIONS [Item 4]

There were none.

27/20 RECOMMENDATIONS TRACKER [Item 5]

Witnesses:

David John, Audit Manager

Key points raised during the discussion:

1. In regards to action A2/19, the Audit Manager confirmed that the report had been published and had received reasonable assurance. The Committee agreed that the action could be marked complete.
2. In regards to action A2/18, Member highlighted that, in light of changes to business due to the COVID-19 pandemic, it was now an appropriate time to request a report outlining the council's process to support business continuity.

Action/Further information to note:

A20/20 - Committee Manager to discuss with key officers an appropriate time for the Committee to consider a report on business continuity which takes into account situations which affect home working.

RESOLVED:

The Committee noted the actions tracker.

28/20 RISK MANAGEMENT UPDATE [Item 6]

Witnesses:

Anna D'Alessandro, Director – Corporate Finance

Key points raised during the discussion:

1. The Director – Corporate Finance introduced the report and provided Members with a brief overview. It was noted that risk management consultants, Gallagher Bassett, had carried out a Baseline Review of the Council's Strategic Risk Management arrangements at the end of 2019 and a number of recommendations were made. The council procured a strategic risk partner to support the implementation of the recommendations with the aim of raising the profile, impact and effectiveness of the council's approach to risk management and ensuring clear policies were in place, adequately resourced and had full engagement across the Council. The contract for this work was awarded to Ernst & Young (EY) and details of their approach were outlined in the report.
2. Members sought financial details of the contract awarded to EY. Officers stated that financial information was confidential and agreed to circulate details outside of the meeting.
3. The Committee agreed to invite EY to the next meeting on 1 October 2020 to provide an overview of their approach and details of next steps.

Action/Further information to note:

1. A21/20 - The Committee agreed to invite EY to the next meeting on 1 October 2020 to provide an overview of their approach and details of next steps.

RESOLVED:

The Committee considered the contents of the report and confirm they were satisfied with the next steps.

29/20 INTERNAL AUDIT & COUNTER FRAUD ANNUAL REPORT AND OPINION 2019-20 [Item 7]

Witnesses:

David John, Audit Manager

Russell Banks, Chief Internal Auditor

Anna D'allessandro, Director – Corporate Finance

Key points raised during the discussion:

1. The Audit Manager introduced the report and provided Members with a brief summary. Members noted that the purpose of the report was to give an opinion on the adequacy of the council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The report covered the audit work completed in the year from 1 April 2019 to 31 March 2020 in accordance with the Internal

Audit Strategy for 2019/20. Officers stated that this year an overall opinion of reasonable assurance had been given which was an improvement on the previous year. Members note that Pensions Administration and Health and Safety would continue to be a focus for the service.

2. Members of the Committee stated that they were happy with the content of the report and that it was positive the council was moving in the right direction.
3. The Committee sought further information on the situation around Pensions Administration and the actions which had been taken. The Director – Corporate Finance confirmed that the service was now within her remit and provided a brief overview. Members noted the complexity of the situation as the pension service dealt with six funds and therefore a lot of work needed to be done to make positive changes. Sonia Sharma had been engaged to act as Programme Manager and currently managed five to six different streams of work to turnaround the service. The Committee agreed to invite the Programme Manager to the next meeting to brief Members on work undertaken on Pensions Administration and the agreed approach. Further to this, Members noted that a follow up audit on Pensions Administration would likely be held in quarter four of 2021.
4. Members of the Committee had a discussion based on the details of antifraud and corruption which were outlined in the report. Officers stated that 19 allegations were not an unusually high number and that work was ongoing to ensure the services were aware of the right processes to follow when dealing with a potential antifraud or corruption situation.
5. Members noted that some internal audits had received 'no opinion' and asked for additional information of why no opinion was given. Officers stated that as a service, Internal Audit were doing more proactive work to support the council by providing advice to services and therefore a formal opinion would not be appropriate. Officers further stated that this would be clearer in future reports and they may potential change 'no opinion' to something outlining 'advice only – no formal opinion'.
6. Members stated that it may be beneficial to better promote the work of Internal Audit internally and externally. Officers stated that this was an area being investigated by the Counter Fraud team as it would be positive for their work to raise awareness.
7. A Member of the Committee said there was a need to use clear and easy-to-understand language when explaining technical matters within the report.

Action/Further information to note:

A22/ 20 - The Committee agreed to invite the Programme Manager to the next meeting to brief Members on work undertaken on Pensions Administration and the agreed approach.

RESOLVED:

The Audit and Governance Committee:

- (i) Noted the work undertaken and the performance of Internal Audit in 2019/20 and the resultant annual opinion of the Chief Internal Auditor; and
- (ii) Did not there were any matters that the Committee wished to draw to the attention of the Cabinet or full Council;
- (iii) Consider whether the Council's arrangements for internal audit have proved effective during 2019/20

30/20 2019/20 TREASURY MANAGEMENT OUTTURN REPORT [Item 8]

Witnesses:

Anna D'Alessandro, Director – Corporate Finance

Haley Woollard, Manager - Treasury Centre of Expertise for Orbis

Key points raised during the discussion:

1. The Manager - Treasury Centre of Expertise for Orbis introduced the report and provided Members with a brief summary. It was noted that the report was an outturn report for 2019 / 2020 which outlined the council's performance against indicators which had previously been agreed by the Audit and Governance Committee. Members noted that all indicators had been met throughout the year. Full details were noted and can be found from pages 57 of the agenda.
2. The Committee noted that joint treasury management training with the Resources and Performance Select Committee would be taking place at the end of the year.
3. Members noted that the future of the strategy was uncertain however, Arlingclose, the council's treasury advisors, would continue to consider the appropriateness of the council's treasury strategy.

Action/Further information to note:

None.

RESOLVED:

The Committee noted the content of the Treasury Management Outturn Report for 2019/20 and compliance with all Prudential Indicators.

31/20 ANY OTHER BUSINESS [Item 9]

Witnesses:

Ciaran McLaughlin, Grant Thornton
Anna D'Alessandro, Director – Corporate Finance

Key points raised during the discussion:

Surrey County Council and Pension Fund External Audit Verbal Update –
Grant Thornton

1. Ciaran McLaughlin, Grant Thornton, provided Members with an update on the council and pension fund external audit. Members noted the following details:
 - Almost all areas of the audit were in progress, and all samples had been selected. There were minor disclosures where work needed to be commenced. Audit aim to turn around all sample testing in the next two weeks.
 - The audit was subject to a 'hot review' by Grant Thornton's audit technical team – there was so far nothing ground-breaking coming out of the review compared to others
 - A small number of minor amendments and some disclosure points had been proposed and agreed by the council. There were no material adjustments to the accounts at this stage.
 - In regards to journals, sampling had been completed. There were 24 manual journals to test and evidence had been received from Council
 - In regards to Property, Plant and Equipment (PPE), methods for the council's valuations had been reviewed by Grant Thornton's internal expert, Gerald Eve, with one key item highlighted with regards to the valuer's methodology of using a rating manual for build costs.
 - In regards to surplus assets, in the draft accounts the council had moved £11m of properties from Surplus Assets to Investment Property which was the result of an exercise through which the council re-assessed the portfolio. As there was no clear in-year change of use that is required under IAS40 for such a transfer management considered reversing the transfer. Grant Thornton were considering this matter.
 - That the bulk of the work was completed on pension liabilities.
 - In regards to Minimum Revenue Permission (MRP), the Panel concluded that while the Council's approach was not explicitly unlawful it did lead to potentially imprudent MRP charge in the year. Grant Thornton recognise that this was at odds with the views of officers. Grant Thornton's view was that the council's approach to MRP with regard to third party loans and loans to purchase equities assumed that the loans could be repaid in full or the assets could be sold at full value to allow the council to repay the debt. In the current economic environment, Grant Thornton believe that this cannot be guaranteed, and this represents a risk to the local council taxpayers. Further to this, the panel agreed that Grant Thornton should comment on this in the audit findings report to those charged with governance and should ask the Audit Governance Committee to confirm that they were satisfied that the Council's approach results in a prudent MRP being recognised in the year. It was also recommend that the Council reviewed and considered revisions to the policy.
 - Subsidiary audits had been signed off.
 - In regards to Collection Fund Disclosures, there had been a delay in documentation received from the Districts.

- In regards to Value for Money, the existing qualification regarding children's services would remain due to no OFSTED update.
 - Regarding the Pension Fund, IAS19 letters had been sent by both internal and external auditors, with their specific requests requiring additional testing, which was in progress. Internal review processes remain to be completed and conclusion of some national discussions around McCloud and Goodwin cases, among others.
2. The Committee asked if, hypothetically, the council had chosen to adopt a MRP that Grant Thornton were advocating, what the financial difference would be. Officers stated that the financial implication suggested would be £2.5 million. Members further noted that the council had changed the policy in February 2019 and that there was an intention to review the policy once the external audit had completed. Officers stated that they still maintain that they believed the policy was prudent at the time.
 3. The Committee agreed to hold a pre-meeting prior to the next meeting to receive a briefing on the council's accounts.

Action/Further information to note:

None.

32/20 DATE OF NEXT MEETING [Item 10]

The date of the meeting was noted as 1 October 2020

Meeting ended at: 12.10 pm

Chairman