

**MINUTES** of the meeting of the **AUDIT AND GOVERNANCE COMMITTEE** held at 10.00 am on 13 June 2022 at Surrey County Council, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

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

**Elected Members:**

Stephen Cooksey  
Victor Lewanski (Vice-Chairman)  
David Lewis (Chairman)  
Joanne Sexton  
Richard Tear  
Terry Price (Independent Member)

**Members in Attendance**

Becky Rush, Cabinet Member for Finance & Resources  
Nick Harrison, Chairman of Surrey Pension Fund Committee

**26/22 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

There were none.

**27/22 MINUTES OF THE PREVIOUS MEETING [28 MARCH 2022] [Item 2]**

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

**28/22 DECLARATIONS OF INTEREST [Item 3]**

There were none.

**29/22 QUESTIONS AND PETITIONS [Item 4]**

There were none.

**30/22 RECOMMENDATIONS TRACKER AND WORKPLAN [Item 5]**

**Speakers:**

Chairman

**Key points raised during the discussion:**

1. It was understood that report templates were being reviewed as part of a wider package and was expected that the new templates would be ready in time for the September meeting of this committee.
2. It was noted that an informal discussion would be arranged near the September meeting to discuss counter fraud work.

**Action/Further information to note:**

None.

**RESOLVED:**

That the report be noted.

## 31/22 INTERNAL AUDIT ANNUAL REPORT AND OPINION 2021/22 [Item 6]

### **Speakers:**

Russell Banks, Chief Internal Auditor  
David John, Audit Manager (SCC)  
Simon White, Audit Manager (Counter Fraud)  
Mark Winton, Audit Manager (ESCC)

### **Key points raised during the discussion:**

1. The Chief Internal Auditor introduced a report that summarised all the audit work delivered and presented the overall opinion on the Councils internal control, risk and governance arrangements. Internal Audit we're able to provide reasonable assurance based on that work. The opinion itself will contribute directly to the Council's annual governance statement, which forms part of the Council's accounts.
2. The Audit Manager gave a detailed precis of the submitted report and highlighted several points including:
  - the elements considered to form the opinion
  - 118 completed assignments covering both key Financial Systems and service reviews
3. In response to Members questions the Audit Manager responded that:
  - a) He would let Members know how much was in the pension fund suspense account as he didn't have that figure to hand.
  - b) Staffing was a challenge for internal audit nationally. Orbis Internal Audit had been successful in recent years in recruiting at entry level so there had been heavy investment in professional training for the team which led to promotions from within the service. It was acknowledged that there were still some gaps and there would be a pressure this year on the team's ability to deliver plans. However, he was confident that enough work would be done to be able to provide the overall opinion.
  - c) Audit plans needed to be as flexible as possible and that items are deferred but are kept under constant review. It is a risk-based plan. In some cases items are deferred because they need to fit in with other timetables but when changes are made they are reported to this committee.
  - d) That a full list of schools be circulated to Members.
  - e) He explained that reasonable assurance tended to be most common opinion and gave some context as to what substantial assurance may look like and described the one substantial assurance he had given in his career. It was confirmed that Surrey was on the right trajectory and did have the ambition to reach a substantial assurance opinion.

### **Action/Further information to note:**

None.

## **RESOLVED:**

1. That the work undertaken and the performance of Internal Audit in 2021/22 and the resultant annual opinion of the Chief Internal Auditor be noted.
2. That there were no further matters that the Committee wishes to consider for inclusion in the Council's Annual Governance Statement; and
3. That the Council's arrangements for internal audit have proved effective during 2021/22.

## **32/22 COUNTER FRAUD ANNUAL REPORT 2021/22 [Item 7]**

### **Speakers:**

Russell Banks, Chief Internal Auditor  
David John, Audit Manager (SCC)  
Simon White, Audit Manager (Counter Fraud)  
Mark Winton, Audit Manager (ESCC)

### **Key points raised during the discussion:**

1. The Audit Manager (Counter Fraud) introduced a report that provided a summary of the work completed in the last year. Highlights included:
  - a contingency of 120 days and this was exceeded a little with the counter fraud work, which was 149 days. Therefore, the contingency has been increased for the coming year.
  - 22 allegations had been investigated which remained stable with previous year's figures
  - Allegations were spread fairly evenly across the directorates.
2. A Member asked about whether there was an emerging theme or weakness that the council should focus on. The Audit Manager (Counter Fraud) responded that Covid had produced a change in the threat landscape with changes in ways of working and moving to an agile organisation, and with that more risks. He described the two irregularities around employment whereby individuals were working for Surrey whilst working in a substantive full-time position in another organisation. Awareness among managers was increasing. Also, for each investigation an internal control report would be produced which would focus on the organisational lessons associated with that investigation and feed into audit planning.
3. In response to a Member query it was explained how the national fraud initiative (NFI) worked in practice and what this meant for the team and how they prioritised matches.
4. A Member queried whether or not the council should be doing something outside of the national fraud initiative to review concessionary travel passes and maybe save some money. The Audit Manager (Counter Fraud) explained that the saving was a national saving and just because an individual was deceased did not necessarily mean that the pass was still being used as a cost to Surrey. However, it was acknowledged that the council could look at the cost of doing more frequent concessionary travel checks and will consider additional matches following the next NFI exercise.

**Action/Further information to note:**

None.

**RESOLVED:**

That the fraud activity completed during 1 April 2021 to 31 March 2022 be noted.

**33/22 EXTERNAL ASSESSMENT PROPOSAL [Item 8]**

**Speakers:**

Russell Banks, Chief Internal Auditor  
David John, Audit Manager (SCC)  
Simon White, Counter Fraud Manager  
Mark Winton, Audit Manager (ESCC)

**Key points raised during the discussion:**

1. The Chief Internal Auditor introduced a report that requested approval for a bid to the Institute of Internal Auditors for them to conduct the external quality assessment. He explained that as a public sector internal audit provider, the Orbis Internal Audit was required to comply with a very strict set of professional standards which were set jointly between the Chartered Institute of Internal Auditors and CIPFA and included a requirement for the service to be independently assessed against them at least once every five years. The same report was being presented to all three partner audit committees and it was a request of one of those committees that the review be carried out by one of the two professional bodies themselves, just to add more credibility to the review. The Chartered Institute were approached and had provided the proposal at Annex A to the report.
2. In response to a Member question about why the charge for the review was commercially sensitive and why there was only a single quotation, it was explained that the market for conducting these assessments was a national market and many different providers who could deliver these reviews. The Chartered Institute had asked for the cost not to be included within the formal committee report, but it was agreed that the committee could be told the cost if asked. Also, the reason for a single quotation was because under procurement standing orders it fell below the threshold for which there was a need to get a competitive quotation.

**Action/Further information to note:**

None.

**RESOLVED:**

That the appointment of the Chartered Institute of Internal Auditors to carry out the independent external assessment of Orbis Internal Audit in accordance with Public Sector Internal Audit Standards be agreed.

**34/22 2021/22 TREASURY MANAGEMENT OUTTURN REPORT [Item 9]**

**Speakers:**

Nikki O'Connor, Strategic Finance Business Partner

**Key points raised during the discussion:**

1. The Strategic Finance Business Partner introduced a report that set out the treasury management activity for 2021/22 financial year, outlining the management of cash flows, borrowing investment and associated. Some of the highlights included:
  - a) The Council was typically 'cash rich' in the short term as government grants and council tax typically were received before spent,
  - b) However, the Council was 'cash poor' in the longer term, as capital expenditure was incurred before it was financed, therefore, treasury management activities balance that on a daily basis, with surplus cash invested short term until it was required, looking to avoid both excessive credit balances and overdraft in the current account
  - c) work closely with treasury advisors to ensure that the approach represents the best balance between managing cost and minimising the interest rate risk
  - d) no limits or prudential indicators were breached during the course of the financial year and confirmed that the Council's fulfilled its obligations as part of the Treasury management code of practice.
  - e) at the end of the financial year, the council took out a PWLB loan of £50m to maintain the balance of long-term borrowing where there was certainty over interest rates and cheaper short-term borrowing.
  - f) The report set out the impact on the budget for last year and the capital financing requirement.
2. In response to a Member question, it was confirmed that Surrey Pension Fund cash was held separately and that the treasury management strategy was reported to the Surrey Pension Fund Committee and Local Pension Board as part of their governance.
3. In response to a Member question about where the Your Fund Surrey budget of £100m sits, it was explained that this forms part of the overall capital programme. Borrowing was not specifically taken out for individual projects or programmes in the capital budget. Borrowing was taken looking at cash flow forecasts across the period and into the medium term, looking at forecasts on capital spend both in terms of what's built into capital programme, but also what was in the pipeline. The Your Fund Surrey budget was considered as part of this overall view, but there was not a specific loan directly linked to it.
4. A Member asked whether the Arlingclose interest rate forecast was still realistic given what was happening with inflation and was there likely to be an even worse situation with bigger impact on the council's finances? The Strategic Finance Business Partner responded that the team regularly meet with Arlingclose to discuss the forecast, including immediately after each MPC meeting. Current forecasts remain as included in the report but may change as the Bank of England balance the need to respond to high inflation and the risk of recession.

**Action/Further information to note:**

None.

**RESOLVED:**

That the Treasury Management Outturn Report for 2021/22 and compliance with all Prudential Indicators be noted.

## 35/22 COUNCIL COMPLAINTS - ANNUAL REPORT [Item 10]

### Speakers:

Sarah Bogunovic, Head of Customer Strategy

Jo Lang, Head of Customer Engagement

### Key points raised during the discussion:

1. The Head of Customer Strategy presented the annual performance report for the Council's complaint procedure. It was agreed at a previous committee meeting to bring forward the annual report in the committee cycle so there was less of a time gap, but this would be followed up with a separate benchmarking report at the mid-year. The submitted report was a high-level report looking at the top line figures in terms of contacts from residents. She reminded Members of the different complaints procedures available and that the ombudsman was the last stage of each procedure. She highlighted the increase in numbers going through the formal complaints process for adult social care and children's education and that there was a decrease for all other areas. The escalation rate was higher than would be liked.
2. In response to Member questions Head of Customer Strategy reported that:
  - It was recognised that the system of communicating with residents was complicated and in order to simplify that there was, over the next 12 to 24 months, a big systems project being undertaken that would allow link up to say social media: it will make it easier for residents to have their voice heard and for the council to capture it. With regards to mystery shopping this was something that could be revisited in the future.
  - She would ask the complaints teams for their input into how Members could provide help and value
3. In response to Member questions around children and education, the Head of Customer Engagement reported that:
  - Future reports would contain information about the complaints that were not settled within the timescale. It was explained that children's and education could be very complex cases and may only miss the deadline by a few days, but it was accepted that this information would help members consider the performance data.
4. The Chairman spoke of the high rise in numbers of education and children's service complaints and the information he receives on ombudsman cases which often result in result of maladministration. Whilst not underestimating the complexity of some cases he asked what was being done in terms of feeding back the lessons into the organisation? This level of finding was not sustainable.
5. The Head of Customer Strategy explained that case reviews and reflective practice with practitioners was undertaken as well as regular reports that go into senior management teams.
6. The Head of Customer Engagement explained that:
  - a) Procedures had been made more accessible which had led to more complaints as well as improving recording

- b) as a result of discussions had with the Children's Education leadership team, a customer engagement review would be undertaken. A steering group would be set up to look at how to improve customer experience, particularly in education because that was the area which has seen the significant rise.
  - c) more training was being undertaken directly within operational staff and the team were pushing the early resolution approach. Training was actively encouraged for new staff because there has been a significant staff turnover in education and in children's alongside that. Directors were engaged with the mandatory customer relations training. The assistant directors had got a real overview of what the learning was from those complaints.
  - d) She was confident that structures were in place so that next year it should be a better picture.
7. The Chairman recognised that arrangements were being put in place for the initial stages of the process but his concern related to further stages and that learning did not appear to be happening. The Head of Customer Engagement explained the two-stage process in education and how the second stage was now to be brought in-house. The second stage of the process was being managed by senior leaders within the services. It was hoped that this should prevent some escalation to the ombudsman and some real learning take place.
8. The Head of Customer Strategy also stated that it was a legal right that people could go to the Ombudsman. Even if the council had upheld the complaint, they could still go to the Ombudsman for the Ombudsman to uphold the complaint/decision.
9. The Chairman recognised that whilst there had been an emphasis on the negative aspects of the report that there was a lot of good work undertaken.

**Action/Further information to note:**

None.

**RESOLVED:**

That the report be noted and to continue to monitor the situation.

**36/22 GOVERNANCE - HIGHWAYS BUDGETS [Item 11]**

**Speakers:**

Lucie Monie, Director, Highways & Transport

Katie Stewart, Executive Director Environment, Transport & Infrastructure

Richard Bolton, Highways Operations & Inf Group Manager

Amanda Richards, Ad Highways - Network & Asset Management

Paul Millin, Strategic Transport Group Manager

**Key points raised during the discussion:**

1. The Executive Director ETI gave a brief introduction to the submitted report about highways budgets and the governance arrangements around those budgets. She reported that there had been many changes in the highway service over the last 12 months. These included changes to decision-making changes and to maintenance contracts with the aspiration of providing a better service for residents and providing better

outcomes because of those changes. Much of what Highways do and the budgets was complex, and much was driven by legislation and regulation. There was an aspiration to engage better with Members and residents and ultimately provide a more transparent service. The report set out a few next steps that officers would like to undertake with this committee after the discussion today.

2. The Director for Highways and Transport continued to present an overview of the report which outlined some of the different approaches and requirements in terms of delivering the highways service. She gave a very detailed overview of governance including policies and strategies, strategic and local decision making and budget setting. The capital budget was largely investment focused and there were some specific rules around some of the capital in terms of the grants. Some of the decision making was more straightforward in places than others and there was a need to think about how that was explained to Members and others. As part of the recent restructure an engagement and stakeholder team had been set up to help facilitate and provide a better response in terms of queries or requests that were received from Members and residents.
3. In response to a Member concern about the low budget for enforcement, the role of the two enforcement teams was described and it was explained that the report did not show staff costs, only work costs.
4. There were comments made about Member perceptions of the new procedures which appeared to reduce member influence in decisions. It was reported that the A-Z guidance would be issued within the next few weeks and would help provide clarity to members.
5. The Chairman reiterated the role of the Committee in relation to this report in that they should not get into the scrutiny role but focus on the following elements around governance:
  - What the governance arrangements are around highways budgets, both capital and revenue
  - What the decision-making processes were
  - What were the various checkpoints in the process.
  - He wanted to see clearer, more simplified information on these areas as it was unclear at the moment and categories appeared to be duplicated, overlapped or just not clear what that related to.
6. The Executive Director ETI explained that this was valuable feedback and would feed into the A-Z which she was committed to getting right.
7. A Member asked for old programmes suggested by previous members under the Horizon programme to be removed if there was no chance of them getting the go-ahead as it was very confusing, and some schemes were more than seven years old. The Chairman also requested that a list of projects also be provided for each division. The Director for Highways and Transport responded that the website only showed those schemes that would be funded in the next five years. The team were also working on members pages and would look at making it easier to find divisional information.



8. There were several very detailed questions and comments requesting clarification on details within the submitted report around streetlights and trees which were responded to by the Highways Officers.

**Action/Further information to note:**

That a follow-up report be scheduled for six months' time.

**RESOLVED:**

That the report be noted and a follow-up report be scheduled for six months' time.

**37/22 DRAFT ANNUAL GOVERNANCE STATEMENT [Item 12]**

**Speakers:**

Paul Evans, Director Law & Governance

**Key points raised during the discussion:**

1. The Director Law & Governance introduced the draft annual governance statement, which summarised the Council's governance arrangements for the financial year. He explained that this was an annual report which the committee recommends an annual governance statement that is set out in three main sections.
2. There was a query about the Surrey Forum and with it being a new forum, the Chairman asked for more information. The Director Law & Governance explained that the forum was something established through the leader and the Council in 2021. The intention was that it had much more of a profile in terms of transparency and interaction with public and residents. The meetings were quarterly both for the overarching forum and for the strategic boards that sat below it. He described the Forum as being similar to a strategic partnership between the County Council and the key partners in the county and that it was a developing process.
3. That Chairman stated that it might be something for the future work program to look at the governance around the forum and the strategic boards once they had matured.

**Action/Further information to note:**

To include in the Committee workplan.

**RESOLVED:**

1. That the draft Annual Governance Statement was represented correctly; and
2. That the draft Annual Governance Statement be commended for publication with the council's Statement of Accounts.

**38/22 EXTERNAL AUDIT PLAN AND DRAFT STATEMENT OF ACCOUNTS 2021/22 (TO FOLLOW) [Item 13]**

**Speakers:**

Barry Stratfull, Chief Accountant (Corporate)  
Ciaran McLaughlin, Grant Thornton

**Key points raised during the discussion:**

1. The Chief Accountant gave a brief introduction to a report that demonstrated how Grant Thornton were going to ensure the accounts were audited and signed off by the end of November which was the deadline. He stated that the deadline for the draft statement of accounts was 31 July 2022. A draft set out accounts had been produced but could not be presented to Committee as the Council were still awaiting the valuations of some of their assets. Without these the draft accounts were not materially accurate. Valuations were promised by the end of the week which would enable the draft accounts to be completed.
2. Grant Thornton gave a precis of the report and highlighted several key matters including:
  - the continuing financial position and some of the developments in relation to pension fund accounting
  - the impact of the war in Ukraine on global markets
  - the recent passing of the Public Services, Pensions and Judicial Officers Act which helps to address some of the MacLeod issues which have been ongoing in the pension scheme for several years,
  - significant risks recognised in all local authorities in relation to valuation of land and buildings, valuation of investment properties, valuation of the net pension liability, the risk of management override of controls and the risk of Level 3 investments.
3. There was some discussion and explanations of why the accounts were delayed and the actions taken by officers to try to get the information required on valuations.

**Action/Further information to note:**

None.

**RESOLVED:**

That the process for undertaking the audit be noted.

**39/22 DATE OF NEXT MEETING [Item 14]**

The date of the meeting was NOTED as 18 July 2022.

Meeting ended at: 12.39 pm

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**Chairman**