

**MINUTES** of the meeting of the **AUDIT AND GOVERNANCE COMMITTEE** held at 10.00 am on 8 March 2023 at Surrey County Council, Committee Room, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

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

**Elected Members:**

(Present = \*)

(Remote Attendance = r)

- \* Victor Lewanski (Chairman)
- Richard Tear (Vice-Chairman)
- r Stephen Cooksey
- \* Saj Hussain
- \* Joanne Sexton
- \* Mark Sugden
- Terry Price (Independent Member)

**Members in Attendance**

- r David Lewis (Cobham) - Cabinet Member for Finance and Resources

**14/23 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies were received from Terry Price, Stephen Cooksey and Richard Tear.

Jonathan Hulley acted as a substitute for Richard Tear.

**15/23 MINUTES OF THE PREVIOUS MEETING - 18 JANUARY 2023 [Item 2]**

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

**16/23 DECLARATIONS OF INTEREST [Item 3]**

There were none.

**17/23 QUESTIONS AND PETITIONS [Item 4]**

There were none.

**18/23 RECOMMENDATIONS TRACKER AND WORK PLAN [Item 5]**

**Witnesses:**

Nikki O'Connor - Strategic Finance Business Partner

**Key points raised during the discussion:**

1. The Chairman queried why on the work plan concerning the 10 May 2023 meeting there was an item on the external auditor's audit findings report and to approve the letter of representation as that was an item on the current agenda. The Strategic Finance Business Partner confirmed that the Chairman was correct and that it should be removed.

**RESOLVED:**

1. Monitored progress on the implementation of recommendations from previous meetings (Annex A).
2. Noted the work plan and any changes to it (Annex B).

**Actions/further information to be provided:**

1. A3/23 - The Committee Manager will delete the item on the work plan - 10 May 2023: Surrey County Council Accounts and External Audit's Audit Findings Report / Surrey Pension Fund Local Government Pension Scheme Accounts.

**19/23 STATEMENT OF ACCOUNTS 2021/22 [Item 6]****Witnesses:**

Barry Stratfull - Chief Accountant (Corporate)  
Ciaran McLaughlin - Grant Thornton  
Nikki O'Connor - Strategic Finance Business Partner  
Russell Banks - Orbis Chief Internal Auditor  
David John - Audit Manager

**Key points raised during the discussion:**

1. The Chief Accountant (Corporate) introduced the report noting that there had been some delays in the audit, since January's Committee meeting the service had worked with Grant Thornton to finalise the accounts and a high-level lessons learned report was appended regarding the process for future years.
2. The Grant Thornton representative noted that the audit was near to completion and an unqualified opinion was anticipated. He highlighted the potential understatements in the pension fund accounts due to timing differences, a decision would be made by the partner panel on 14 March. The final documentation was going through a 'hot review process' with the statement of accounts reviewed against the Chartered Institute of Public Finance and Accountancy (CIPFA) code. Grant Thornton was satisfied that there were no significant risks concerning: management override of controls, revenue recognition, Level 3 investments - private equity infrastructure type assets - the assessment of the key judgements and estimates; and no material misstatements concerning: the valuation of land and buildings which had taken a large amount of time to complete due to the level of challenge and information to be reviewed, investment properties, the pension fund net liability. Regarding the consolidated group accounts, the draft group Movements in Reserves Statement (MIRS) presentation was not compliant with the CIPFA code and that had been amended in the final version. He concluded that the quality of working papers and data cleansing were being reviewed to make improvements for next year, and the estimated final fee for the audit was not expected to change.
3. A Committee member asked how the valuations were done on the Council's properties, some of which were specialised. The Grant Thornton representative explained that under the CIPFA code, specialised properties were valued at a depreciated replacement cost as opposed to what the

- Council might receive if sold on the open market, to recognise the use of the asset to the Council and any obsolescence.
4. A Committee member referred to the three investment properties that were not revalued and asked what process had been put in place to ensure that those would be revalued regularly. The Chief Accountant (Corporate) explained that the Council was required to revalue assets over a five-year period. For investment properties this is annually and three had been missed within that timeframe and had been revisited. The Grant Thornton representative noted that the issues occurred in last year's accounts (2020/21) and confirmed that for the current accounts he was satisfied that the investment properties had been valued appropriately. The Strategic Finance Business Partner noted that the process had been changed and Finance was confident that those would not be missed going forward in line with CIPFA's annual revaluation requirement and the Council's five-year rolling programme.
  5. Responding to the Chairman's query on the investment property valuation, the Grant Thornton representative confirmed that Grant Thornton had finalised its review of valuation assumptions following the receipt of queries.
  6. The Chairman queried what the increase in fees of around £110,000 was composed of, the Grant Thornton representative explained that the figure was based on the additionality of time to complete the audit since the end of September which was when the audit was originally scheduled to finish.
  7. Responding to a Committee Member's query, the Grant Thornton representative confirmed that there had been delays in the work being undertaken as the information had not been as forthcoming as required and therefore extra fees had been incurred. The Committee member asked what provision had been put in place to ensure that the Council would not have to pay an increased fee again. The Grant Thornton representative explained that in the debrief meeting next month with the Council the issues would be reviewed and an action plan put in place to ensure that they would not reoccur in future years. The Strategic Finance Business Partner added that there were reasons for the delay on both sides, those would be reviewed and changes put in place specifically in relation to the quality and timing of working papers, which were dependent on information from across the Council - Finance was running a training course on the matter in an attempt to address these issues. Following on from the initial lessons learned appendix, there would be a more detailed review on areas for improvement with Grant Thornton once the accounts were signed off; the Committee member requested more information on that.
  8. A Committee member asked whether it was the first time the Council had lagged behind on accounts sign off or had that happened previously. The Strategic Finance Business Partner explained that it was the first time the Council had missed the statutory deadline for a significant number of years, she highlighted that a significant number of other local authorities had not signed off their current or last year's accounts due to national issues relating to infrastructure issues and other factors affecting external audit firms.
  9. Referring to the increased audit fees versus what was planned, a Committee member asked whether an appropriate provision for fees had been made for next year's accounts. The Strategic Finance Business Partner explained that the Council had increased the budget for 2022/23 based on what was an anticipated market-wide increase - that provision would be less than 2021/22 - a provision had not been made for a delay or an extension.
  10. Regarding the section on other communication requirements in relation to fraud, Grant Thornton had not been made aware of any recent incidents, a

Committee member asked whether Grant Thornton was satisfied with the assurances given that an incident of fraud would likely not reoccur. The Grant Thornton representative clarified that the report stated that Grant Thornton had previously discussed the risk of fraud with the Committee. Grant Thornton reported to the Committee annually on management's view of fraud, that assessment was thorough and provided sufficient assurance that the arrangements in place would identify material fraud. The Orbis Chief Internal Auditor explained that within Internal Audit, there was a Counter Fraud team which undertook reactive investigations and proactive work concerning fraud, corruption or financial irregularities within the Council; through a fraud risk assessment and training on fraud prevention targeted at higher risk services, Internal Audit led on the National Fraud Initiative looking for evidence of fraud.

11. Regarding the section which stated that the audit of the Council's financial statements was substantially complete subject to outstanding queries being resolved and that Grant Thornton anticipated issuing an unqualified audit opinion shortly after the Committee meeting, a Committee member asked whether that referred to the current Committee meeting and what substantially complete meant. The Grant Thornton representative confirmed that it referred to March's Committee meeting and that the audit was not fully complete as a review process would be undertaken once in receipt of the final version of the accounts, he did not expect there to be any material adjustments to the accounts and in response to the Chairman, if there were to be then the accounts would be brought back to the Committee. The Strategic Finance Business Partner clarified that any minor changes - adding words, presentational changes or clarifying points - to the current version in the agenda would be discussed with the Committee Chairman outside of a Committee meeting prior to final sign off.
12. Responding to a Committee member's query, the Chairman explained that the Committee was asked to approve the statement of accounts as they were, subject to any material misstatement being reported. The Strategic Finance Business Partner noted that as the audit was substantially complete, it was unlikely there would be any material misstatements, but there was still a chance. She clarified that the accounts would be signed off once confirmed that there were no material misstatements, to be republished on the Council's website as audited.
13. A Committee member asked for an example of the ad hoc checks made in respect of fraud and irregularity and whether there was a specific number of checks to be carried out per area. The Orbis Chief Internal Auditor noted that as part of the Internal Audit work, testing would be carried out focusing on the existence and effectiveness of the controls, looking at evidence of potential fraud, all staff were alert to the risk of fraud. The Counter Fraud team analysed data, looking for indicators of irregularity and then investigated those specific incidents, such as matching accounts payable data with payroll data. The Audit Manager noted that if someone had defrauded the Council through expenses for example, an internal control report would be produced following that investigation; that knowledge would benefit the Council. The Orbis Chief Internal Auditor added that most financial irregularities or fraud uncovered would come from management raising the issue or via whistleblowing.
14. A Committee member referred to key point 10 whereby Grant Thornton had not been made aware of any other incidents in that period, following on from the responses around the different layers of investigatory expertise via the Counter Fraud team he asked whether those were all in place at the time of previous incidents when the Council had been defrauded or whether those

were new measures. The Orbis Chief Internal Auditor explained that the dedicated Counter Fraud team was created when the Orbis Internal Audit partnership was formed in April 2018 with East Sussex County Council, and Brighton and Hove City Council, prior to that there was a standalone internal service in the Council.

15. The Chairman asked whether there was anything that could be done in the future to ensure that all the valuation work was done quickly so as not to cause delays. The Strategic Finance Business Partner noted a national issue about the carrying value of infrastructure assets on the Council's balance sheet, a statutory override had been passed through Parliament which resolved that for a period of two years, time for CIPFA to enact a workable solution. She highlighted another issue of the delays by the Council's external valuers on the initial valuation information provided and in their responses to external audit follow-up queries on the data. The Council is working closely with the valuers, setting out clearer Key Performance Indicators (KPIs) around response times and information quality. The Grant Thornton representative highlighted the limited resourcing nationally of valuers qualified to carry out local authority asset valuations and the Strategic Finance Business Partner noted the greater level of detail required in the audit compared to previous years.
16. The Chairman asked when the audit would start for the 2022/23 accounts, the Grant Thornton representative explained that the planning visit would be in April, with the plan to be received at the May Committee meeting and the final accounts to be reviewed between July to September, he flagged that the intended September sign off would be a major issue due to the backlog of incomplete audits in the sector. Regarding a suggestion by a Committee member to extend the timeframe to August to October, the Committee concluded that it was vital to sign off next year's accounts as promptly as possible.
17. A Committee member welcomed that Grant Thornton had not identified any risks of significant weaknesses in the Council's efficiency and effectiveness in its use of resources, the Grant Thornton representative noted that the Committee at its last meeting received the detail on the value for money work.
18. The Chairman thanked officers for all their work and highlighted that as many as 60% of councils had not signed off their accounts for the 2021/22 financial year.

#### **RESOLVED:**

1. Noted the contents of the Audit Findings Report (Annex A).
2. Approved the 2021/22 Statement of Accounts (Annex B) for publication on the council's website.
3. Approved the Executive Director of Resources' letter of representation (Annex C).
4. Approved the group letter of representation and Pension Fund letter of representation subject to any material changes (Annex D).
5. Noted the initial outcomes from the lessons learned review and commitments to improve processes for future years (Annex E).

#### **Actions/further information to be provided:**

1. A4/23 - The Committee will be provided with information concerning the detailed review on areas for improvement and action plan produced

following the debrief meeting next month between the Council and Grant Thornton.

## **20/23 INTERNAL AUDIT PROGRESS REPORT - QUARTER 3 [Item 7]**

### **Witnesses:**

David John - Audit Manager

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

1. The Audit Manager introduced the report and highlighted that the audit on the Children, Families and Lifelong Learning (CFL) panel process was given Reasonable Assurance which was encouraging, and recommendations were made to management to action. He highlighted the follow-up audits on the Officer Code of Conduct and the Public Sector Accessibility Regulations, the level of assurance had increased to Reasonable Assurance, confirming that management had acted on the recommendations and actions. He highlighted two audits given Partial Assurance: one out of the five schools being audited received that opinion due to an accumulation of issues and those were being addressed; and the audit on Social Value in Procurement, positive responses were had from the Corporate Leadership Team and management to ensure that the strategic objectives were aligned more to the procurement advantages. He highlighted the list of additional audits added, some removed and some deferred.
2. Referring to the planning audit received at January's Committee meeting which had Partial Assurance, the Chairman asked when that review would be complete. The Audit Manager explained that management were following up actions with an implementation date between December and the end of March that year; a follow-up audit would be scheduled later in quarter 1.
3. Referring to the Home to School Transport audit received at January's Committee meeting, the Chairman noted that the internal review indicated that parents would see an immediate improvement; he asked when the Committee would receive the results of the survey. The Audit Manager was unsure about the survey as that was service led, he noted that the follow-up work was being done in parallel with the new responsible officer. The results of the follow-up audit to be reported to the Committee within the first two quarters.

### **RESOLVED:**

That the Committee noted the report and considered any further action required in their response to issues raised.

### **Actions/further information to be provided:**

None.

## **21/23 INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2023/24 [Item 8]**

### **Witnesses:**

Russell Banks - Orbis Chief Internal Auditor

David John - Audit Manager

Nikki O'Connor - Strategic Finance Business Partner

**Key points raised during the discussion:**

1. The Orbis Chief Internal Auditor introduced the report and noted that the Annual Audit Plan was risk-based, drawn from on a range of sources of information and it was fluid with time included for emerging risks; an anticipated major change concerned the go live of MySurrey and integrated financial systems run through that would need to be audited. There were challenges around resourcing and there was a clear strategy to address that through recruitment and investment in training and development. He noted that a slight reduction in the number of audit days had been made across the Orbis partners, it was a prudent estimate of what could be realistically delivered. He clarified that the Committee would receive information on the KPIs throughout the year.
2. A Committee member asked whether the number of potential audits of maintained schools was significantly more than had been done previously, as in quarter 3 there had been five audits. The Orbis Chief Internal Auditor responded that the scheduled 30-35 school audits represented a new normal level compared to a few years ago - more than other Orbis partners - as the Council had separately funded a programme of work of school audits. He noted that the aim was not to audit every school within a five-year period, it was not a purely cyclical process, schools were targeted based on risk.
3. A Committee member asked for the percentage of how short staffed the service was. The Orbis Chief Internal Auditor noted that there were around 38 staff and within that there were 5 vacancies. Internal Audit resourcing was expressed in the number of audit days that could be delivered, there was a challenge of trying to match the resources to the work both in terms of the days but also the calibre of staff. The Internal Audit Plan was becoming more complex, the approach of growing in-house staff took time and investment, supplemented with contractors.
4. A Committee member referred to the Highways Contract audit which was carried forward from 2022/23, as it was a large issue for residents and Members he asked whether Internal Audit was confident that it would be audited in the current cycle. The Audit Manager confirmed that it would be delivered in 2023/24 as enough time had been given for that contract to bed in, with nine to twelve months' worth of data to audit; it was carried forward on a predetermined basis.
5. Following up the response to key point 3, the Committee member understood that therefore Internal Audit was down 12-15% on staff numbers and the problem was more acute than that due to the lack of senior staff members, he asked what support could be given by the Committee around improving that situation. The Orbis Chief Internal Auditor explained that Internal Audit had sufficient resources in terms of budget, the challenge concerned recruiting and retaining the right people; sharing resources across the Orbis partnership was a significant benefit, the training and development budget had trebled in the last few years, however advertising externally for more senior roles was not very successful. He noted that the partnership was doing more than others in recruitment and retention, and he was looking at growing Internal Audit by working with the borough and district councils to generate more income to create more management posts. The diversification in recruitment was welcomed by a Committee member.

6. Referring to the General Ledger work, the Chairman asked whether any issues had ever been found with suspense accounts. The Audit Manager noted that Internal Audit had audited that and had found immaterial balances to be cleared. The Strategic Finance Business Partner confirmed that Finance was looking at all balances as part of the data cleanse moving into the new system.

**RESOLVED:**

Members considered the contents of the report and Appendices, and approved the following:

- (i) The Internal Audit Strategy (Annex A).
- (ii) The Internal Audit and Corporate Fraud Plan (Appendix A).
- (iii) The Internal Audit Charter (Appendix B).

**Actions/further information to be provided:**

None.

**22/23 ETHICAL STANDARDS ANNUAL REVIEW 2022-23 [Item 9]**

**Witnesses:**

Paul Evans - Director of Law and Governance

**Key points raised during the discussion:**

1. The Director of Law and Governance introduced the report and noted that there had not been any changes to the Members' Code of Conduct in the last year. Members had received training following their induction post-election and received regular reminders on registering their interests. In the Spring all political groups would have a session on the Member-Officer Protocol. He noted that there had been six complaints compared to eleven the previous year and he provided a breakdown of those. He noted that Member conduct in the Council was generally good and there had not been any complaints between political groups. Residents' grievances were resolved and investigated as appropriate.
2. Committee members made no comments.

**RESOLVED:**

1. Noted the Monitoring Officer's report on recent activity in relation to the Members' Code of Conduct and complaints made in relation to Member conduct.
2. Noted the further training and development planned for the coming year at paragraph 12.

**Actions/further information to be provided:**

None.

## **23/23 RISK MANAGEMENT [Item 10]**

### **Witnesses:**

David Mody - Head of Strategic Risk

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

1. The Head of Strategic Risk introduced the report which set out the macro level risks as well as the top risks for the Council as detailed in the Corporate Risk Register. The risk plan for the next year was ambitious and the four areas targeted would support the Council going forward. He noted that Committee members had received training over the past few months. Two audits on risk management had been undertaken over the past six months, one by Internal Audit which gave a Substantial Assurance, and the other audit done by Grant Thornton; an overlap between the two was the desire to provide more online training to have a wider reach and that was being factored in. An update would be provided in September on the Constitution Review Group's consideration of delegated approval to the Committee on the Risk Management Strategy.
2. A Committee member commended the document which was clear, concise and user-friendly; the Chairman echoed the thanks to the Head of Strategic Risk for his work. The Head of Strategic Risk noted that the organisation had been supportive.

### **RESOLVED:**

That Members noted the update on risk management.

### **Actions/further information to be provided:**

1. A5/23 - The Head of Strategic Risk will provide an update in September on the Constitution Review Group's consideration of delegated approval to the Committee on the Risk Management Strategy.

## **24/23 REVISED FINANCIAL REGULATIONS [Item 11]**

### **Witnesses:**

Nikki O'Connor - Strategic Finance Business Partner  
Paul Evans - Director of Law and Governance

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

1. The Strategic Finance Business Partner introduced the report which would go to the next Council meeting for approval, she noted that most of the updates proposed related to title and structural changes in the organisation, and processes had been clarified and the wording of various sections strengthened. Regarding the Scheme of Delegation, she noted that Committee members had received a briefing note concerning special severance payments, ensuring that the thresholds and the regulations were aligned to the Localism Act 2011.
2. The Chairman sought clarification on whether special severance payments over £100,000 would be first reviewed by the select committee and if Members were not in agreement it would go to a Council meeting for a vote. The Director of Law and Governance noted that the approval of normal severance payments, redundancy for example, would go to the People,

Performance and Development Committee (PPDC) if over £150,000. Whereas special severance payments concerned a matter over and above contractual time, for example a dispute with someone, and the Council has an option to pay a settlement if there was a risk of a tribunal. The proposal was that if the figure was over £100,000 it would need to go to a meeting of the Council, however there were exceptional circumstances. Ex gratia payments between £20,000 - £100,000 would be signed off by the Chief Executive and Chairman of PPDC, they could choose to refer significant cases to PPDC or choose not to sign it off.

3. Responding to a Committee member's query around special severance payments if someone was asked to leave or chose to leave for example regarding a structural reorganisation or where there was a disciplinary or grievance matter, the Director of Law and Governance clarified that the guidance was rigorous regarding what needed to be considered when granting a payment.
4. The Chairman asked how the process was done before, the Director of Law and Governance explained that payment sign offs were done via normal approval processes, it would be taken to PPDC if there was a contentious element. He noted that there was previous guidance that anything over £100,000 needed to go to a Council meeting, but that was uncommon due to the short timescales.

**RESOLVED:**

That the Audit and Governance Committee agreed that the Financial Regulations are proposed to County Council for approval (Annex A).

**Actions/further information to be provided:**

None.

**25/23 DATE OF NEXT MEETING [Item 12]**

The date of the next meeting of the Committee was noted as 10 May 2023.

Meeting ended at: 11.25 am

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**Chairman**