

# Audit and Governance Committee

Annual Report: 2012/13

## INTRODUCTION

Welcome to the second Annual Report of the Audit & Governance Committee. The committee members believe that an annual report to full Council is a useful way to develop understanding of the committee's role and functions. The Committee is accountable to full Council and welcomes scrutiny of its effectiveness in fulfilling its terms of reference and its impact on the improvement of governance, risk and control within the authority.

This report covers the work of the Audit & Governance Committee during the period **October 2012 – September 2013**. In addition to a summary of work undertaken, the report includes details of committee membership, officer support to the Committee and how the Committee has engaged with others.

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**Nick Harrison**  
**Chairman**  
**Audit & Governance Committee**

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## 1 THE ROLE OF THE AUDIT & GOVERNANCE COMMITTEE

Cipfa (the Chartered Institute of Public Finance and Accountancy) defines the purpose of an audit committee as:

*“...to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process”*

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Fundamental to the work of the Committee is having a clear understanding that the role of the committee is primarily concerned with assuring itself, and advising the Cabinet and County Council as necessary, that the Council’s policies are being implemented and has in place systems which provide adequate controls over the Council’s resources and assets to prevent the risk of loss through fraud and corruption. It is not the role of the Audit and Governance Committee to be responsible for or manage the arrangements themselves.

Key to the role of an audit committee is that it should be independent of the Cabinet and Scrutiny (Select Committee) functions of the authority, have clear reporting lines and rights of access to other committees (primarily the Cabinet and County Council) and that its members should be properly trained to fulfil the role. The terms of reference for the Audit and Governance Committee are as follows:

### **Regulatory Framework**

- To monitor the effective development and operation of the risk management and corporate governance arrangements in the council
- To monitor the effectiveness of the council’s anti-fraud and anti-corruption strategy
- To monitor compliance with the council’s corporate governance framework and advise or make recommendations to the Cabinet or County Council as appropriate
- To review the Annual Governance Statement and commend it to the Cabinet
- To conduct an annual review of the effectiveness of the system of internal audit
- To make proposals to appropriate Select Committees on suggested areas of scrutiny

### **Audit Activity**

- To consider the Chief Internal Auditor’s annual report and opinion, a summary of internal audit activity and the adequacy of management responses to issues identified
- To approve the annual Internal Audit & Inspection plan
- To consider periodic reports of the Chief Internal Auditor and internal audit activity
- To consider and comment upon the reports of the external auditor, including the annual audit letter

### **Accounts**

- To consider and approve the annual statement of accounts for Surrey County Council, the firefighters' pension fund accounts and the Surrey Pension Fund accounts
- To review the Council's Treasury Management strategy and consider periodic reports of treasury management activity
- To undertake statutory functions as required on behalf of the fire fighters' pension schemes\*.

\* This is not a normal function of an audit committee but is the most convenient way of undertaking a function that cannot be dealt with by the Cabinet.

### **Ethical Standards**

- To monitor the operation of the Member's Code of Conduct
  - To promote advice, guidance and training for Members and co-opted Members on matters related to the Code of Conduct.
  - To ensure the Council's complaints procedures operate effectively.
  - To grant dispensations to Members (including co-opted members) from requirements relating to interests set out in the Members' Code of Conduct.
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## **2 MEMBERSHIP OF THE COMMITTEE**

The Audit & Governance Committee is composed of six elected Members from across the political spectrum. Following the election, the Committee saw half its membership change, although stability was maintained with the retention of the existing Chairman and Vice-Chairman.

The Chairman of the Audit & Governance Committee is the Leader of the Residents' Association/Independents Group and the Council's Constitution specifically sets out that the role of Chairman may be filled by a Member from one of the minority groups. CIPFA recommend that in order to promote objectivity and increase an audit committee's standing in the eyes of the public, the chairman should not be a member of the executive and the committee should be independent from the scrutiny function.

It is also recommended as good practice to have an audit committee which has a good depth of knowledge and experience. The current Audit & Governance Committee has a membership drawing from chartered accountancy, the actuarial profession, risk management and experience in local authority leadership. The Committee is also politically balanced.

### Current Membership:

- Nick Harrison, the Leader of the Residents' Association/Independent Group of councillors, has been a member of the Audit & Governance Committee since 2005, and Chairman since 2009. To help maintain the Audit & Governance Committee's independence, Nick Harrison is not a member on any of the Council's scrutiny committees. He is a member of the Member Conduct Panel.
- Bill Barker, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2005. He was Vice Chairman of the Committee for 2005/06 and then reappointed as Vice Chairman of the Committee in 2009. Bill Barker is also a member of the Surrey Pension Fund Board and the Health Scrutiny Committee.
- Tim Evans, a member of the Conservative Group, has been a member of the Audit & Governance Committee since May 2013. He is also a member of the Health Scrutiny Committee.
- Will Forster, a member of the Liberal Democrat Group, has been a member of the Audit & Governance Committee since May 2013.
- Denis Fuller, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2009. Denis Fuller is also the Vice Chairman of the Children and Education Select Committee.
- Tim Hall, a member of the Conservative Group, has been a member of the Audit & Governance Committee since May 2013. Tim is also Vice-Chairman of Planning & Regulatory Committee and a member of Health Scrutiny Committee.

### Members until May 2013:

- Stephen Cooksey, a member of the Liberal Democrat Group, was a member of the Audit & Governance Committee from 2009.
- Tony Elias, a member of the Conservative Group, was a member of the Audit & Governance Committee from 2009.
- Mel Few, a member of the Conservative Group, was a member of the Audit & Governance Committee from 2009.

### Attendance

Attendance at Audit & Governance Committee has been good, as evidenced below:

Member	Total expected attendances	Total attendances	Percentage
Nick Harrison	7	7	100%
Bill Barker	7	7	100%
Tim Evans	2	2	100%
Will Forster	2	2	100%
Dennis Fuller	7	5	71%
Tim Hall	2	2	100%
Stephen Cooksey	5	5	100%
Tony Elias	5	3	60%
Mel Few	5	5	100%

### 3 OFFICER SUPPORT TO THE COMMITTEE

#### **The Section 151 Officer**

The Section 151 Officer, Sheila Little, has provided key support to the Audit & Governance Committee. The Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs. CIPFA best practice states that a core Chief Finance Officer responsibility within an authority is the support of the audit committee.

The Section 151 Officer or her representative Kevin Kilburn, with the support of the Financial Reporting Team, has provided reports and training in relation to the Statement of Accounts, external audit activity and financial management. They have attended every Audit & Governance Committee meeting and ensured that the Committee has received the information and advice that it needs to do its job effectively.

#### **Chief Internal Auditor**

The Chief Internal Auditor, is a role defined by CIPFA as ‘...a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee’. At Surrey County Council, the Chief Internal Auditor, Sue Lewry-Jones has supported the Audit & Governance Committee in relation to internal audit activity and the regulatory framework. The Chief Internal Auditor sits within the Policy & Performance Directorate and reports to the Head of Policy & Performance.

#### **Risk & Governance Manager**

The Risk & Governance Manager, Cath Edwards, is the Council’s lead officer for coordinating risk management arrangements and monitoring the annual review of governance. The Audit & Governance Committee have received regular reports on governance action plans and reviewed the Leadership Risk Register at each meeting.

#### **Pension Fund & Treasury Manager**

Phil Triggs was appointed as Strategic Manager - Pension Fund and Treasury and started in his post in October 2012. The Committee is responsible for reviewing the Council’s Treasury Management strategy on an annual basis as well as approving the Surrey Pension Scheme accounts. Until May 2013, the Strategic Manager – Pension Fund & Treasury also brought regular reports to the Committee on Pension Fund investments. These reports are now considered by the Surrey Pension Fund Board which was established as of 21 May 2013.

#### **External Audit**

Grant Thornton is the County Council’s appointed external auditors and operates under the Audit Commission Act 1998 and a code of practice approved by Parliament. The appointed auditor for Surrey County Council is Andy Mack and his primary responsibility is to give his opinion on whether the Council’s accounts give a true and fair view of the Council’s financial transactions. Grant Thornton also annually assesses the council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

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## 4 SUMMARY OF WORK CARRIED OUT BY THE COMMITTEE

A summary of the key work undertaken by the Committee during 2012/13 is highlighted in the table below. The Committee has considered a number of items on a standing basis as well as some ad hoc special items.

### Regulatory Framework

Item	Summary and outcomes
Risk Management	<p>On a six-monthly basis, the Committee has considered the development and operation of the Council's risk management arrangements. The Committee has also reviewed the Leadership Risk Register at every meeting.</p> <p>The Committee has commended the Risk Management Policy Statement and Strategy to Council for inclusion in the Constitution. This was agreed by Council on 15 October 2013.</p> <p>The Chairman has written to the Cabinet Member for Environment &amp; Transport to raise his concern about an outstanding Strategic Director risk register.</p>
Governance	<p>The Committee twice reviewed the Council's governance arrangements.</p> <p>The draft Annual Governance Statement was commended to Cabinet for publication with the Council's Statement of Accounts. Cabinet approved the Annual Governance Statement on 23 July 2013 and authorised the Leader and Chief Executive to sign for inclusion in the Statement of Accounts. The Committee will continue to monitor the governance environment and report to Cabinet where appropriate.</p> <p>The Committee also approved the updated Code of Corporate Governance and recommended it to County Council for inclusion in the Constitution. This was agreed by Council on 15 October 2013.</p>

### Audit Activity

Item	Summary and outcomes
Internal Audit Activity	The Committee has twice reviewed the work and performance of Internal Audit during 2012/13. It has also considered the Audit Plan for 2013/14.
Internal Audit Reports	<p>The Committee had a standing item to review the findings of Internal Audits and consider if there were any issues it wished to review in more detail or refer onto Select Committees.</p> <p>Among the outcomes from these reports were:</p> <ul style="list-style-type: none"> <li>• Members raised their concerns about the Telecare audit at Council Overview &amp; Scrutiny Committee.</li> <li>• A process for handling internal audit reports at Select Committees was agreed.</li> <li>• The Committee recommended to Head of Corporate Purchasing that where managers are failing to follow Purchasing Card guidelines, consideration be given to removing cards from use in that department.</li> <li>• The Chairman wrote to the Cabinet Member for Transport, Highways and Environment and Cabinet Member for Schools and Learning about concerns over Transport for Education.</li> </ul>

Irregularities	<p>Twice during the year, the Committee received an update on irregularity investigations by Internal Audit.</p> <p>The Committee also considered the work of Internal Audit in countering, and raising awareness of the risk of, fraud across the Council.</p>
Public Sector Internal Audit Standards	The Committee adopted the Public Sector Internal Audit Standards (PSIAS) as best practice for the delivery of a quality Internal Audit Service at Surrey County Council.
Public Effectiveness Review of the System of Internal Audit	<p>The Committee sponsors an annual review on the effectiveness of the Council's system of internal audit. For 2012/13, the review was undertaken by an external assessor (appointed through CIPFA).</p> <p>The review concluded that internal audit in the Council is well led and is given a high priority by those charged with good governance who acknowledge that improvements have been made in the service over recent years. The report also included a number of recommendations to ensure compliance with the PSIAS for 2013/14.</p>
External Audit	The Committee met with its external auditors at each formal meeting. Over the course of the year, the Committee received the External Audit Plan for the County Council and the Surrey Pension Fund; it reviewed the proposed fees; and considered its findings. The Committee specifically considered the work undertaken on the certification of claims and returns and the results of the review of the Council's arrangements for securing financial resilience.

### Accounts

Item	Summary and outcomes
Surrey County Council and Surrey Pension Fund Local Government Pension Scheme Accounts 2012/13	The Committee approved the Council's statement of accounts and the Pension Fund accounts for audit. Following the external audit, the Committee considered the auditor's results and approved the Council's letters of representation from the Chief Finance Officer & Deputy Director for Business Services.
Treasury Management	<p>On two occasions, the Committee reviewed treasury management activity.</p> <p>On 1 February 2013 the Audit &amp; Governance Committee joined the Council Overview &amp; Scrutiny Committee to consider the Treasury Management Strategy, which formed part of the Business Planning 2013 – 2018 papers. On 12 February, the Committee endorsed the decisions made with Council Overview and Scrutiny Committee</p> <p>In June 2013, the Committee considered and adopted the Treasury Management Risk Register.</p>
Pension Fund Investments	Until the establishment of the Surrey Pension Fund Board, the Committee regularly monitored and ratified the decisions of the Investment Advisory Group of the Surrey Pension Fund.

Babcock 4S Ltd	The Committee twice met with representatives of Babcock 4S and the Council's Schools and Learning Service to review the company's reports and financial statements.
Self-assessment on issues raised in 'Financial Sustainability of Local Authorities'	The Committee considered two recent publications on financial sustainability and good governance in local authorities. It analysed the Council's performance against the issues raised within the two reports.
Progress Reports	The Committee received updates on the Funding Strategy, improvements to the closing process, and work undertaken to identify the extent of a potential overstatement of the Council's creditors as identified by the external auditor's Annual Governance Report.

### Ethical Standards

Item	Summary and outcomes
Granting Dispensation	<p>The Committee agreed a new process for handling applications for dispensation under the new standards regime.</p> <p>This process for granting dispensations is now included in Part 6 of the Constitution of the Council.</p> <p>This was followed by the Committee granting all County Councillors a dispensation to enable them to participate in and vote at the Council budget meeting on 12 February 2013.</p>
Ethical Standards Annual Review	The Committee has reviewed the operation of the Council's Code of Conduct for its Members, training on the Code of Conduct and the Council's arrangements for dealing with complaints that members have breached the Code of Conduct.
Complaints Performance	The Committee has received an overview of the council's complaint policy, procedures and reviewed performance in 2012/13.
Whistle-blowing	The Committee received a regular update on whistle-blowing activity.

## 5 ENGAGING WITH OTHERS

### Engaging with the Leadership

The Chairman of the Audit & Governance Committee has had regular meetings with senior managers across the Council during 2012-13. This included 6-monthly meetings with the Head of Communications and '3 Way Governance' meetings with the Section 151 Officer and Head of Policy & Performance before each Audit & Governance Committee meeting. The Chairman has also met with the Chief Executive on a regular basis and Leader as and when the need has arisen.

The Cabinet Member for Business Services, whose portfolio includes corporate governance, audit and risk assurance, has attended the majority of Audit & Governance Committee meetings during 2012-13. The Leader of the Council and the Council's Chief Executive attended the Audit & Governance Committee on 24 June 2013 to present the Annual Governance Statement. The Annual Governance Statement is the Council's comprehensive assessment of the governance arrangements and the internal control environment across all Council activities for the financial year ending 31 May 2013. It is signed and jointly owned by both the Chief Executive and Leader.

The Chairman of the Member Conduct Panel, David Munro (who is also an ex-officio member of the Committee), joined the Audit & Governance Committee meeting on 2 September 2013 for consideration of an Annual Review of Ethical Standards. Audit & Governance Committee has responsibility for monitoring the operation of the Code of Conduct and promoting advice and training on the Code, while the Member Conduct Panel deals with specific allegations of Member misconduct. The Chairman of the Audit & Governance Committee and the Chairman of the Member Conduct Panel are working closely to ensure that the two bodies have a joined-up approach to Member Conduct matters.

### **Making recommendations**

The Committee has made a number of formal recommendations to Cabinet and the Council as well as drawing attention to matters of concern, without formal recommendation.

All recommendations, referrals to other individuals and bodies, and other actions (including requests for further information) are followed up through the use of a recommendations tracker which is reviewed at every meeting of the Audit & Governance Committee.

### **Wider Council engagement**

Since 2009, an Audit & Governance Committee Bulletin has been produced. The Bulletin was originally introduced to help keep Members up-to-date with issues relevant to the Committee's remit between meetings. Over time the Bulletin has evolved to include more information such as updates from the Council's Finance, Policy & Performance and Adult Social Care services, as well as linking to useful websites. To help raise the profile of the Committee's work, the Bulletin is now published alongside agendas on the public website and is available on notice boards in County Hall.

Over the coming year, the Committee will raise the profile of its work further with the Council through inclusion within the Regulatory Committees Bulletin, to be circulated by email on a quarterly basis.

### **Public Engagement**

A new Visitor's Guide was introduced during the year to give members of the public a better understanding of the Committee's terms of reference and how they can get involved.

## 6 TRAINING

Training and informal briefing sessions are offered to Members of the Committee to help develop them in their role. Throughout 2012/13 the following training or briefing sessions were held:

- **Induction**  
A general induction to the terms of reference of the Committee was held following the elections and Annual Council meeting.
  - **Statement of Accounts 2012/13**  
Officers took Members through the accounting policies and regulations so that they were able to scrutinise the accounts effectively at Committee.
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## 7 NEXT YEAR'S FOCUS

The Audit & Governance Committee will continue to focus on reviewing and challenging the Council's arrangements with regards to risk management, corporate governance, internal and external audit and treasury management into 2013/14. It will also assess its own effectiveness once the new membership is settled and then report back to Council.

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