

**MINUTES** of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00am on 3 October 2012 at County Hall, Kingston upon Thames.

These minutes are subject to confirmation by the Committee at its meeting on 6 December 2012.

**Members:**

- \* Mr Nick Harrison (Chairman)
- \* Mr W D Barker OBE (Vice-Chairman)
- \* Mr Stephen Cooksey
- A Mr Tony Elias
- \* Mr Mel Few
- A Mr Denis Fuller

**Ex officio Members:**

Mrs Lavinia Sealy (Chairman of the Council)  
Mr David Munro (Vice-Chairman of the Council)  
Mr David Hodge (Leader of the Council)  
Mr Peter Martin (Deputy Leader of the Council)

- \* = Present
- A = Apologies

**Cabinet Members:**

- \* Mrs Denise Le Gal, Cabinet Member for Change & Efficiency

**Officers:**

Cath Edwards, Risk & Governance Manager  
Kevin Kilburn, Deputy Chief Finance Officer  
Sue Lewry-Jones, Chief Internal Auditor  
Sheila Little, Section 151 Officer  
Helen Rankin, Regulatory Committee Manager  
Phil Triggs, Strategic Finance Manager – Pension Fund & Treasury

**PART 1**

**IN PUBLIC**

**68/12 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies were received from Mr Tony Elias and Mr Denis Fuller.

**69/12 MINUTES OF THE PREVIOUS MEETING: 3 September 2012 [Item 2]**

The minutes were agreed as an accurate record of the meeting.

**70/12 DECLARATIONS OF INTERESTS [Item 3]**

There were none.

## **71/12 QUESTIONS AND PETITIONS [Item 4]**

There were none.

## **72/12 RECOMMENDATIONS TRACKER [Item 5]**

### **Declarations of Interest:**

None.

### **Key Points Raised During the Discussion:**

1. In relation to R3/11 (Social Care Debt), it was noted that updates would continue to be provided through the Committee bulletin.
2. With regards to A58/11 (pension payments), the Section 151 Officer confirmed that it was expected that regular payments would be set up by November.
3. It was noted that Babcock 4S would provide an update on A9/12 when they attend Committee in December.
4. In relation to A14/12 (distribution of audit reports), it was reported that a new Committee Management System had been procured by Democratic Services. The system would include a library/archive feature where all audit reports dated back to 21 May 2012 would be added and all future audit reports would be published. It was expected that this work would be completed in November.
5. In relation to A36/12 (new external auditors), the Section 151 Officer confirmed she had had an introductory telephone conversation with the Grant Thornton partners who would become the Council's external auditor from 31 October 2012. A face-to-face meeting had been arranged for November, however, it was noted that the current external audit team would be TUPEd across to Grant Thornton for consistency.
6. Members confirmed that they would like the opportunity to challenge the new external auditors on how they would achieve their proposed 40% audit fee saving. It was agreed that this action would stay on the recommendations tracker.
7. It was reported that A37/12 (asset register) had been assigned to an EPM manager and would be finalised ahead of the next Committee.
8. It was noted that a response for A20/12 (damage to county property) would continue to be pursued.
9. The Chief Internal Auditor advised that the Highways Contract follow up audit referred to in A33/12 was at the early stages of planning and would be published sometime after January 2013.

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

- The Recommendations Tracker to be updated to reflect the action points noted above.

### **RESOLVED:**

- The Committee noted the report and agreed that the items on page 9 of the tracker were complete and would be removed.

### **Committee Next Steps:**

- To continue to monitor outstanding actions on the tracker at their next meeting.

## 73/12 LEADERSHIP RISK REGISTER [Item 6]

### Declarations of Interest:

None.

### Officers:

Cath Edwards, Risk & Governance Manager

### Key Points Raised During the Discussion:

1. The Risk & Governance Manager introduced the register and advised there had been a number of changes since the Committee last reviewed it in June 2012. The Finance risk had been split into two elements: the Medium Term Financial Plan and the future funding, to reflect the fact that they were two distinct risks. Three risks had been deleted from the register: resource allocation in Adults Personalisation was deleted as the features of the risk were now incorporated into business as usual, and the two London 2012 risks had been deleted as the Olympic Games were now finished. It was reported that the Leadership Risk Register would go to Cabinet as part of the Quarter 2 Business Report.
2. It was noted that the Quality Board, referred to in risk L11 (Information Governance) and the Risk and Resilience Steering Group referred to in risk L3 (business continuity), were being looked at by the Council Overview & Scrutiny Committee.
3. In relation to L4 (IT Systems), consideration was given to the wording of the risk, as Members felt that it needed to emphasise that the migration of data was a key risk. The Chairman advised the Committee that a joint trip to the Data Centre, with the Council Overview & Scrutiny Committee, was being arranged for 14 November 2012. **(Recommendations Tracker Ref: A41/12)**
4. Members queried why the Medium Term Financial Plan was a high risk given the reserves and contingencies held by the Council. The Section 151 Officer advised that the Section 25 report stressed the fact that risk grows as the years in the MTFP go by. It was noted that the MTFP covered a 5 year plan, whereas budget monitoring information was reported on the current year.
5. In relation to risk L14 (Future Funding), the Section 151 Officer explained that she had close working relationships with district and borough colleagues, and met with them monthly to discuss financial matters. Conversations had been dominated by Council Tax localisation and business rate retention issues as government were about to change how funding was allocated. It was noted that conversations were ongoing to consider potential agreements for how to deal with business rates. It was noted that pooling with districts and boroughs was only beneficial if the County Council joined in on that pool. The Cabinet Member for Change & Efficiency advised that a letter of intent had been submitted to the Treasury, with the possibility of any district, borough or the County being able to pull out of the deal before finalisation. The Section 151 Officer confirmed that there was an all-Member briefing on the MTFP on 22 October.
6. During the continued discussion L14, Members stressed the importance of identifying the difference between identified savings and achieved savings. In particular, concern was raised about the knock-on effect of

Academies having their own admissions arrangements. The Section 151 Officer advised that officers were working with the Department for Education to review school funding.

7. Members queried whether the membership of the Risk & Resilience Steering Group was satisfactory. The Risk & Governance Manager explained that the membership was currently being revisited, as up to recently the focus had been around the Olympics. Now that the Olympics were over it was important to consider the focus moving forward.
8. Members queried whether risk L7 (Waste Contract) was correctly described as procurement and planning challenges had progressed. The Section 151 Officer advised she would report back at a future meeting.  
**(Recommendations Tracker Ref: A42/12 )**

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

- The Recommendations Tracker to be updated to reflect the action point noted above.

**RESOLVED:**

- The Committee reviewed the Leadership Risk Register and determined that there were no matters they wished to draw to the attention of the Chief Executive, Cabinet, specific Cabinet Member or Select Committee.

**Committee Next Steps:**

- To visit the Data Centre.

**74/12 FUNDING STRATEGY UPDATE REPORT [Item 7]**

**Declarations of Interest:**

None

**Officers:**

Sheila Little, Section 151 Officer

Phil Triggs, Strategic Finance Manager – Pension Fund & Treasury

**Key points raised in the discussion:**

1. The Section 151 Officer introduced the item and advised that the Funding Strategy had been developed due to recognition that as a County Council, Surrey has been highly reliant on funding from Council Tax. In order to make the authority more resilient, it was important to diversify where funding came from. The Section 151 Officer was the Strategy's sponsor, but it was noted that it was a corporate initiative.
2. It was reported that a finance lead had been identified in teams across the service, and this was illustrated in the "mindmap" tabled at the meeting (**see Annex A**). Each circle on the mindmap represented a different workstream, and the name accompanying that workstream was the finance lead. It was noted that each workstream had its own programme of work, and the Council Overview & Scrutiny Committee would be looking at these streams in the future.
3. The Section 151 Officer introduced the newly appointed Strategic Finance Manager for Pension Fund & Treasury, who would be the finance lead for the return on investments (treasury management) workstream. An action plan, including timelines was being devised, which would be shared with the Treasury Management Task Group, before more meetings of the Group are set up.

4. In relation to partnership opportunities, a Member queried whether the example of the Strategic Director for Customers and Communities working part-time with Mole Valley District Council would have an impact on the other strategic directors. The Section 151 Officer agreed that this was an area she could explore and report back to Members. **(Recommendations Tracker ref: A43/12 )**
5. Members of the Committee asked when the Audit & Governance Committee Task Group was due to report back. The Chairman advised that the Task Group had been set up around a year ago to respond to the work that the Pension Fund & Treasury team were doing. Progress had been delayed by the departure of the previous manager. As part of the new Strategic Finance Manager's induction, a decision would be made on the future role of the task group. There was no specific deadline for reporting back as it was driven by officer work, however, it was confirmed that the Task Group would report back to the Committee with their findings in due course **(Recommendations tracker ref: A44/12 )**. It was noted that the Task Group had been a PVR working group until recently, but the Group would continue with the scope including a review of the Council's treasury management strategy.
6. The Section 151 Officer advised that a lot of the work illustrated in the mindmap had come out of the PVR and was about making sure that there was an awareness of cash flows across the organisation. Staff awareness was reflected in the training programme that had been set up as part of the PVR.

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

- The Recommendations Tracker to be updated to reflect the action point noted above.

**RESOLVED:**

That the Committee:

- a) Noted the report
- b) Recognised the early progress of the Funding Strategy Programme and rationale for the programme of work
- c) Endorsed the proposal to use the task group of the Committee to provide Member engagement and scrutiny of the programme.

**75/12 FINANCIAL MANAGEMENT PVR UPDATE [Item 8]**

**Declarations of interest:**

None.

**Officers:**

Kevin Kilburn, Deputy Chief Finance Officer

**Key points raised during the discussion:**

1. The Deputy Chief Finance Officer introduced the item and advised that the report concentrated on the part of the Public Value Review that dealt with the closing process. A more general update on the implementation of the PVR findings would be presented to the Council Overview & Scrutiny Committee in December.
2. The PVR included 4 recommendations for the closure of accounts: to perform a hard close quarterly, to configure the capital and allocation modules in SAP and to work with Babcock 4S to identify barriers and help shorten timescales.
3. A hard close had been performed on a quarterly basis since December 2010 and had helped by highlighting and identifying problems at an early stage.

The outcome was that the Committee were able to approve the accounts in early September.

4. It was reported that the capital module in SAP had now been configured. The quarter 2 hard close was the first time using this application, and it was found to provide much better information and require much less data manipulation.
5. The third recommendation was about allocations and how the Council allocated overheads and central costs for external reporting and other government returns. Unfortunately, the module in SAP has been found to not be appropriate for how the Council structures itself and manages its costs. It was reported that changes were being considered as using the module would be highly resource intensive, and it would be more straightforward to continue using spreadsheets.
6. In relation to the fourth recommendation, the Deputy Chief Finance Officer confirmed that he was working with Babcock 4S. Schools not using SAP was a significant barrier for closing the accounts and it was reported that change was necessary to help estimate capital spend in schools. Members suggested that an early close of schools accounts before the yearend might be an effective way forward (**Recommendations tracker ref: A45/12**).
7. Members asked for more information on the 'Dashboard'. The Deputy Chief Finance Officer explained that it would give officers and Members information quickly in an accessible format, using graphics rather than just numbers. It would be available via S-Net and eventually, technology allowing, through portable devices.

**Actions/Further Information to be provided:**

None.

**RESOLVED:**

The Committee

- a) Noted the progress made against the implementation plan so far and recognised the successes and achievements
- b) Determined that there were no issues to refer to Cabinet
- c) Agreed to receive further updates on progress against planned activities at future meetings.

**Committee next steps:**

The Committee to receive further updates on progress at future meetings.

**76/12 PENSION FUND INVESTMENTS [Item 9]**

**Declarations of interest:**

None

**Officers:**

Jon Evans, Senior Accountant (Pension Fund & Treasury)  
Phil Walker, Interim Pension Fund & Treasury Manager

**Key points raised during the discussion:**

1. The Interim Pension Fund & Treasury Manager introduced the report and drew Members attention to the changing composition of the Fund shown in paragraph 5. It was noted that the Fund was in a transitional phase with Equity Investment was being reduced by 10% and moved into Diversified Growth Funds.
2. It was reported that an additional allocation of 2% to Majedie's Global Focus fund had been agreed, however, Majedie were no longer in a position to



accept the additional allocation and therefore that 2% will remain with Legal & General for the time being.

3. It was noted that the volatility of the past 3 years were demonstrated in the figures shown in the report. Western's allocation had been reduced following the transfer of index-linked gilts to Legal & General, however, it was confirmed that they were still underperforming. The Investment Advisor's Group (IAG) felt that the style of Western's approach is not necessarily a good diversifier compared to the other managers in the fund. CRBE's poor performance was based on a decision by their predecessors, ING Real Estate to invest in the European property market five years ago; a new set of staff were looking after the Fund's portfolio and a more active management approach for funds in Europe was being adopted.
4. The Committee were advised that UBS had their allocation reduced from 13% to 8% as part of the strategy review following a period of underperformance.. UBS believe that their performance will recover when markets turn around and value investing returns to favour..
5. It was reported that Newton were 'thematic investors', with a large research backup – a different style to other managers in the portfolio. It was noted that since taking on Newton in 2007 performance had been initially good before a period of underperformance. However, it was noted that performance had now picked up slightly again this year.
6. The Committee Chairman thanked officers for the comments on underperformance and drew Members' attention to the good performance of Marathon, Mirabaud and Majedie.

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

None

**RESOLVED:**

The Committee noted the content of the pension fund report for the quarter to 30 June 2012.

**Committee next steps:**

To receive a further update on Pension Fund investments at the December meeting.

**77/12 COMPLETED INTERNAL AUDIT REPORTS [Item 10]**

**Declarations of interest:**

None.

**Officers:**

Sue Lewry-Jones, Chief Internal Auditor

Pascal Barras, Compliance Auditor (ICS Audit)

Dan Wilson, Auditor (Telecare audit)

**Key points raised during the discussion:**

1. The Chief Internal Auditor introduced the item and advised that there had been 6 audit reports since her last report to the Committee. One audit (Data Quality Review for health and dental checks) had received a rating of major improvement needed and had 3 high priority recommendations.

ICS Audit

2. The Chief Internal Auditor introduced the Compliance Auditor who had completed the Integrated Children's System (ICS) audit report, and invited Members to question. The Committee noted that the recommendations were quite general and wanted to understand more about the risks and what they meant for delivering the service. The Compliance Auditor confirmed that the recommendations were general because the findings grouped together into a theme. He was not confident that the service had a firm grasp on the data that it holds. For example, the recommendation relating to chronologies had been triggered by looking at the Council's existing system and the IT provider and finding that interfaces had not been fully engaged. Risks had been identified about robotics not working (the software interface between ICS and the old Swift system).
3. In relation to the 'migration' section of the audit report, Members queried what kind of data had been involved. The Compliance Auditor advised that it was mostly dates of birth, addresses and practice issues such as meeting notes being put in the wrong place on Swift, making it difficult to transfer information to the new system.
4. The Committee noted that the MAP indicated that all issues should be addressed by the end of the month. The Compliance Auditor confirmed that he had been having conversations with Children's Services in relation to actions and would be monitoring whether the actions were implemented. Members requested an update on this matter as soon as possible.  
**(Recommendations tracker ref: A46/12 )**
5. Members queried whether the auditor felt he had free access to the information required to adequately carry out his work. The Compliance Auditor explained that Children's Services were very cooperative in terms of providing data.
6. Members asked for confirmation of how serious the situation was, in terms of how much of the information had not been transferred across correctly to the new system. The Compliance Auditor agreed to report this data back to the Committee. **(Recommendations tracker ref: A46/12 )**

***Mrs Denise Le Gal left the Committee at 11.35am***

7. The Chief Internal Auditor advised that a further audit to look at the Fostering Module on ICS would look into this issue again. In addition, the Chief Internal Auditor would consider putting a follow up audit in next year's plan. Members asked that they receive comment from the service about how serious the consequences of this matter could be. **(Recommendations tracker ref A46/12).**

Telecare Audit

7. The Chief Internal Auditor introduced the Auditor who had carried out the review of Surrey Telecare Project Management. The Auditor explained that the estimated savings of the Telecare project had been reduced down to £350,000. His concerns were around the fact that the project was still promoted as saving £600,000.
8. The Auditor confirmed that the savings would come from providing people with equipment rather than relying on full-time staff providing care. It was noted that savings could be made by people staying in their own homes for longer; however, this could also increase the number of customers. The Auditor was concerned that the service had based their savings estimate on a total of just 20 case studies.
9. It was agreed that the Committee's surprise at the savings figures reported in the audit report be fed back to the Council Overview & Scrutiny Committee by



Members sitting on both committees. (**recommendations tracker ref: A47/12**)

Other audit reports:

10. Members noted that the targets in the Data Quality Review (Looked after Children Health and Dental Checks) audit were continuously missed and therefore considered that the way that targets were set needed to be looked into.
11. Members commented on the review of Waste Contract Management, noting the slippage in checks on credits to districts and boroughs during 2011/12. Members expressed surprise at these delays given the time the contract has been in place. The Chief Internal Auditor agreed to speak to the auditor involved and report back. (**recommendations tracker ref: A48/12**).
12. Committee Members discussed audit reports circulation to select committee chairmen. It was requested that the Chairman of the Committee write to the Leader of the Council and stress that select committee chairmen attach a greater priority to review of audit reports. (**Recommendations tracker ref: A49/12**). It was noted that all audit report opinions continued to be reported to the Council Overview & Scrutiny Committee where select committee chairmen were sometimes asked for further scrutiny. However, Members were not confident that reports were being looked at in detail. It was agreed that data would be collected about where audit reports have been looked at, where they are considered and what has been done about them. (**recommendations tracker: A50/12**).

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

- Further information to be provided in relation to the ICS audit report
- Information about the consideration of audit reports by select committees to be presented to the committee at a future date
- The recommendations tracker to be updated to reflect the actions agreed during the discussion.

**RESOLVED:**

The Committee noted the report

**Committee Next Steps:**

Members to reconsider the approach to audit reports and select committees.

**78/12 FIGHTING FRAUD LOCALLY [Item 11]**

**Declarations of interest:**

None.

**Officers:**

Sue Lewry-Jones, Chief Internal Auditor

**Key points raised during the discussion:**

1. The Chief Internal Auditor advised that the National Fraud Authority had issued a local government fraud strategy in April 2012, entitled Fighting Fraud Locally. The document set out the background including case studies for good practice and a checklist that local authorities could use to see whether they had a good counter-fraud culture. The findings had been presented to the Quality Board in July, who supported the work Internal Audit were doing

and suggested time was invested in areas where additional work was required.

2. The Chief Internal Auditor explained that the Strategy against Fraud & Corruption had been updated and approved by the Chief Executive. The updates had largely been in response to matters raised in the document, for example, the inclusion of a fraud response plan that sets out what would be done if fraud was suspected or discovered. Further work had been undertaken on fraud risk assessment, a review of the whistle blowing policy, and conversations had been held with HR about the Council's recruitment vetting procedures. In addition, the Chief Internal Auditor had been working with the Risk & Governance Manager on fraud-proofing policies as part of the work supporting production of the Annual Governance Statement; all policy custodians would be asked a question about fraud during their annual assurance questionnaire.
3. It was reported that Ealing Council had been noted as a good practice example, as they make clear that detailed background checks, including credit checks, were carried out for all new appointments. The Chief Internal Auditor was discussing with HR about whether it was appropriate to introduce this kind of vetting for some posts. Members requested feedback at the end of conversations with HR (**Recommendations tracker ref A51/12**).
4. Members requested that the wording of the fraud response plan be updated to say that the Council **will** take civil action (as opposed to 'may consider'). The Chief Internal Auditor agreed to change the wording to read 'the Council will also consider taking civil action to recover the loss'.
5. Members queried the approval process for the strategy, the Chief Internal Auditor said that historically she had obtained Chief Executive sign off of the policy.

**Action/Further information to be provided:**

- The recommendations tracker to be updated to reflect the actions agreed during the discussion.

**RESOLVED:**

The Committee noted the contents of the report and endorsed the work of Internal Audit in countering, and raising awareness of the rise of, fraud across the Council.

**Committee next steps:**

The Committee to receive further updates through the six-monthly Irregularities reports

**79/12 AUDIT & GOVERNANCE COMMITTEE ANNUAL REPORT [Item 12]**

**Declarations of interest:**

None

**Key points raised during the discussion:**

1. The Chairman introduced the item and advised that it was CIPFA best practice to produce an annual report. The Chairman and Regulatory Committee Manager had worked together to put a draft to Members. Comments had subsequently been incorporated and it was intended that the final version be presented to County Council on 16 October.

**Action/Further information to be provided:**

- None

**RESOLVED:**

That the Committee endorse the annual report and COMMEND it to County Council.

**Committee next steps:**

None.

**80/12 PROCESS FOR GRANTING DISPENSATIONS [Item 13]**

**Declarations of interest:**

None

**Officers:**

Helen Rankin, Regulatory Committee Manager

**Key points raised during the discussion:**

1. The Regulatory Committee Manager introduced the report and advised that the Localism Act had abolished the requirement for a local authority to have a Standards Committee. At County Council in July 2012, a new approach to ethical standards was adopted, which included the transfer of some responsibilities of the previous standards committee to the remit of the Audit & Governance Committee. The Committee was now responsible for granting dispensations, and therefore, were presented with an updated process to reflect the changes required through the Localism Act.
2. It was confirmed that if a dispensation was to be considered by Committee, it would be placed on their next agenda or, if more appropriate, an additional meeting of the Committee would be convened. It was anticipated that the process was expected to be invoked only very rarely.

**Action/Further information to be provided:**

None

**RESOLVED:**

The Committee:

- a) Approved the process for granting dispensations
- b) Recommended to County Council that the agreed process be included in the Constitution, under section 6 – Codes and Protocols.

**Committee Next Steps:**

None.

**81/12 DATE OF THE NEXT MEETING: 6 December 2012 [Item 14]**

The next meeting would be held at 10am on 6 December in Committee Room C.

Meeting Closed: 12:10pm

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