

# Audit & Governance Committee Annual Report 2014

## Introduction

I am pleased to present this year's 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 2013 – December 2014**. In addition to a summary of work undertaken, the report includes details of committee membership, officer support to the Committee, the results of a self-assessment of the committee's effectiveness, and how the Committee has engaged with others. The report ends with a look forward to 2015 and the committee would welcome any feedback from Members of the Council on the themes identified.

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

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# 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 to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.<sup>1</sup>”*

Therefore, 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 were amended slightly this year following the self-assessment of the committee's effectiveness (discussed later). The committee's terms of reference is listed below with a summary of work undertaken:

## Statement of Purpose

The Council recognises the importance of undertaking scrutiny of the management of the internal control systems and the Audit & Governance Committee provides an independent and high-level focus on audit, governance and financial accounts matters.

## Regulatory Framework

- a) To monitor the effective development and operation of the risk management and corporate governance arrangements in the council.
- b) To monitor the effectiveness of the council's anti-fraud and anticorruption strategy, including the assessment of fraud risks.
- c) To monitor compliance with the council's corporate governance framework and advise or make recommendations to the Cabinet or County Council as appropriate.
- d) To review the Annual Governance Statement and commend it to the Cabinet.
- e) To conduct an annual review of the effectiveness of the system of internal audit.
- f) To provide oversight to the Annual Report of the Council.
- g) To make proposals to appropriate Select Committees on suggested areas of scrutiny.

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<sup>1</sup> CIPFA (2013) Audit Committees: Practical Guidance for Local Authorities and Police

**Summary of work & outcomes**

- Reviewed and commended the Council's key risk management and governance policy papers, including: the Council's Annual Report; the Risk Management Policy Statement and Strategy; the Code of Corporate Governance; and the Annual Governance Statement.
- Regularly reviewed the development and operation of the Council's risk management and corporate governance arrangements, including the structure, membership and procedures of the new Investment Panel. Also, regularly monitored the Leadership Risk Register.
- Reviewed the work of Internal Audit in countering and raising awareness of fraud risk. Recommended and implemented the inclusion of a more robust reference to dealing with fraud in Babcock 4S' guidance to schools, highlighting the role of the police.
- Conducted an annual review of the effectiveness of the system of internal audit.

**Audit Activity**

- a) 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.
- b) To approve the annual Internal Audit & Inspection plan and monitor its implementation.
- c) To approve the Internal Audit Charter.
- d) To consider periodic reports of the Chief Internal Auditor and internal audit activity.
- e) That the Chairman (or in his/her absence, the Vice-Chairman) be consulted upon the appointment or removal of the Chief Internal Auditor.
- f) To consider and comment upon the reports and plans of the external auditor, including the annual audit letter.

**Summary of work & outcomes**

- Approved the Internal Audit Plan 2014/15 and Internal Audit Charter.
- Regularly reviewed the work and performance of Internal Audit.
- Considered internal audit reports and management responses. Followed up on a number of internal audit reports and progress against the management actions plans with Cabinet Members, Select Committees and service officers, including: progress with the Property Asset Management System; progress with the Citrix project; Operation Horizon; Transport for Education actions; and performance of Children in Care Health & Dental Checks. The committee was careful to ensure that it worked in collaboration with Select Committees, avoiding duplication and referring issues on when appropriate.
- Reviewed a number of reports from the external auditor Grant Thornton.

**Working with Select Committees**

During 2014, 57 internal audit reports were issued. The working protocol with Select Committees is that all reports categorised as Unsatisfactory, Significant Improvement Needed or Some Improvement Needed with High Priority recommendations are considered by the relevant Select Committee. 16 (28%) of the reports were categorised as such. Select Committees have reviewed or are scheduled to review 12 of the eligible reports.

**Accounts**

- a) To consider and approve the annual statement of accounts and the Surrey Pension Fund accounts.
- b) To review the Council's Treasury Management strategy and consider periodic reports of treasury management activity.
- c) To undertake statutory functions as required on behalf of the fire fighters' pension schemes.

**Summary of work & outcomes**

- Supported and adopted an approach to streamlining and simplifying the Statement of Accounts.
- Considered and approved the Statement of Accounts for the Council and the Surrey Pension Fund.
- Considered the Statement of Accounts for Babcock 4S.
- Reviewed treasury management activity and informally scrutinised the draft Treasury Strategy.

**Ethical Standards**

- a) To monitor the operation of the Members' code of conduct.
- b) To promote advice, guidance and training for Members and co-opted members on matters relating to the code of conduct.
- c) To ensure the Council's complaints procedures operate effectively.
- d) To grant dispensations to Members (including co-opted members) from requirements relating to interests set out in the Members' Code of Conduct.

**Summary of work & outcomes**

- Conducted an annual review of ethical standards and requested refresher training for Members on the Code of Conduct and a reminder to be circulated regarding gifts and hospitality.
- Reviewed complaints handling performance for the Council.
- Reviewed an update on whistleblowing activity.

## Membership of the committee

The Audit & Governance Committee is composed of six elected Members from across the political spectrum.

It is 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 and the actuarial profession. Members also bring with them business experience of audit, risk management, project management and relevant service and local governance knowledge.

During the self-assessment of the committee's effectiveness, Members and officers acknowledged the skills and knowledge of the Audit & Governance Committee. Also, all six members of the Audit & Governance Committee have completed a Knowledge and Skills survey, based on CIPFA's knowledge and skills framework. The analysis confirmed that the committee has a good level of skills and knowledge within its membership. Regular training is provided to develop specialist knowledge further.

### **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. 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. 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 and the Surrey Pension Fund Board.

**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.



## Attendance:

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

Member	Total expected attendances	Total attendances	Percentage
Nick Harrison	6	6	100%
Bill Barker	6	5	83%
Tim Evans	6	6	100%
Will Forster	6	3	50%
Dennis Fuller	6	5	83%
Tim Hall	6	6	100%

# 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. During the second half of 2014, Cath has been on maternity leave and her role has been taken by Verity Royle (Risk Management) and Alex Moylan (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 is the Council's Strategic Manager - Pension Fund and Treasury. 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.

## **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.

## Effectiveness review

In May 2014, the committee agreed that a task group should undertake a self-assessment of the committee's effectiveness in line with CIPFA's revised and updated 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police*. The task group consisted of the Chairman and Vice-Chairman of the committee (Nick Harrison and Bill Barker), and Tim Hall.

While an audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the local authority's business, it can be difficult to clearly identify a contribution that is characterised by 'influence' and 'support'. An assessment tool which can help to evaluate the impact of the committee was included with the CIPFA Guidance and was adapted for use by the task group.

The CIPFA Guidance went on to suggest that a good standard of performance against recommended practice, as well as a knowledgeable and experienced membership, are essential requirements for delivering effectiveness. The Guidance included a tool which was adapted to support an assessment of the committee against recommended practice. However, the task group was aware that good practice should not be regarded as a tick-box activity and that achieving recommended practice does not mean necessarily that the committee is effective.

To gather evidence in order to complete the assessments of effectiveness and good practice, the task group undertook an online survey of senior Members and officers as well as undertaking direct interviews with a number of stakeholders. It also compared the committee's terms of reference with CIPFA's recommended terms of reference for local authority audit committees to assess if any changes should be made and analysed the results of a knowledge and skills survey of the committee's membership.

The committee was found to have a knowledgeable and balanced membership, a high degree of performance against CIPFA's good practice principles and is generally effective in supporting improvements within the Council. A number of recommendations were proposed and agreed to assist the committee to keep improving and adapt to the changing local government environment. A progress chart against the recommendations is included as **Annex 1**.

## 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 2013/14. This included 6-monthly meetings with the Head of Communications and meetings with the Section 151 Officer before each Audit & Governance Committee meeting. The Chairman has also met with the Chief Executive and the Leader of the Council on a regular basis.

The Leader of the Council and the Council's Chief Executive attended the Audit & Governance Committee on 29 May 2014 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. It is signed and jointly owned by both the Chief Executive and Leader. The Chief Executive also attended the committee on 31 July 2014 to present the Annual Report of the Council.

## 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.

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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.

The Committee also includes information on its activities in the quarterly Regulatory Committee Bulletin, emailed to all Members of the Council.

## Next year's focus

The Audit & Governance Committee will continue to review and challenge the Council's arrangements with regards to risk management, corporate governance, internal and external audit and treasury management throughout 2015. It will also focus on ensuring that there is effective governance and risk management in partnership arrangements and major projects.

# Annex 1 - Effectiveness Review Recommendations: Progress

Recommendation	Comment	Status
1. That the Committee recommends to Council that its terms of reference be amended [as detailed in report].	The Council approved all amendments to the terms of reference on 14 October 2014.	Completed
2. That a communications plan be prepared and implemented to raise the committee's profile and the profile of control systems with officers and backbench Members.	A communications plan has been drafted in consultation with the Chairman of the committee and circulated to all members of the Committee and relevant officers. Implementation will take place as part of business as usual.	Completed
3. That work be undertaken to improve working arrangements between Audit & Governance Committee and the Select Committees.	Discussions have been held between officers supporting Audit & Governance Committee and Select Committees with regard to task group findings. Work Plans have been shared to help Select Committees with their agenda planning. The approach to audit reports is being actively coordinated by officers and Committee Chairmen.	Ongoing
4. That the committee develops a protocol for working with the newly established Statutory Responsibilities Network.	The committee is receiving a report on the Statutory Responsibility Network from the Chief Executive at its February 2015 meeting and will consider how to work with the Network going forward.	Ongoing
5. That the committee develops a map of partnership arrangements and negotiates its role alongside those arrangements with the Leader, according to their type and the risk attached.	The committee is holding a workshop on partnerships in February 2015 and will discuss how it could get involved in a way that was proportionate, risk-based, relevant and timely. The Chairman and Scrutiny Officers of COSC are also invited to ensure that Select Committees are involved when useful.	Ongoing
6. That the number of committee meetings be increased to six per year, while the committee continues to adopt innovative ways of working outside formal committee meetings.	The numbers of meetings have been increased to six per year and workshops/training events are continuing to be planned, including: regular meetings with the Internal Audit team; a workshop on partnerships; a workshop on counter-fraud activity; a presentation on the Audit Plan to senior Members; training on treasury management, local authority financial statements, and risk management; and an informal meeting in the Autumn with Babcock 4S to scrutinise its accounts.	Completed.
7. That the committee scrutinises the Assurance Framework upon completion of the assurance mapping process.	This was scrutinised at the February committee meeting.	Completed.

<b>Recommendation</b>	<b>Comment</b>	<b>Status</b>
8. That Grant Thornton provides information on its performance to the committee, in a format agreed with the Chairman.	A performance management framework was agreed with Grant Thornton on 1 December 2014.	Completed
9. That the Chairman (or in his/her absence, the Vice-Chairman) be consulted upon the appointment or removal of the Chief Internal Auditor.	Council agreed this amendment to the committee's terms of reference on 14 October 2014.	Completed
10. That the committee consider how to develop its involvement in major projects such as the New Models of Delivery project.	The Chairman is reviewing a list of projects and considering how to take this forward.	Ongoing
11. That the Chairman discuss with the Chairman of Adult Social Care Select Committee the possibility of joint scrutiny with that Committee as to whether robust arrangements are in place to achieve savings in Adult Social Care.	Audit & Governance Committee members were invited to attend a meeting on 27 November 2014 at which the Adult Social Care Select Committee's performance and finance task group reported its findings. Committee members reported back on their views at the meeting on 1 December 2014 and will continue to focus attention on the Adult Social Care budget in conjunction with Adult Social Care Select Committee.	Ongoing
12. That the committee improve its approach to ensuring that the council has effective arrangements for countering fraud and corruption risks.	The committee participated in a workshop on counter-fraud on 13 January 2015. Future six-monthly reports to committee on irregularity investigations are to include information on: the Council's counter-fraud strategy; review of the strategy against recommended practices; and fraud risks.	Completed
13. That the full committee continues with its regular training covering all areas of its work, while individualised training programmes are agreed with Members as requested.	Training for the full committee on all the areas in the terms of reference continue to be organised. Individualised training programmes have been agreed with Members.	Completed

The committee will continue monitoring progress against recommendations which have not been completed at each meeting.

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