

MINUTES of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 7 December 2015 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

Mr Stuart Selleck (Chairman)
Mr Denis Fuller (Vice-Chairman)
Mr W D Barker OBE
Mr Will Forster
Mr Tim Hall
Mr Saj Hussain

In Attendance

Cath Edwards, Risk & Governance Manager
Cheryl Hardman, Regulatory Committee Manager
David John, Audit Performance Manager
Sheila Little, Director of Finance (Section 151 Officer representative)

76/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were no apologies for absence but Will Forster had notified the Chairman that he would be late. The Director of Finance and Risk & Governance Manager had also notified the Chairman that they would be late to the meeting.

77/15 MINUTES OF THE PREVIOUS MEETING: 28 SEPTEMBER 2015 [Item 2]

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

78/15 DECLARATIONS OF INTEREST [Item 3]

There were none.

79/15 QUESTIONS AND PETITIONS [Item 4]

There were none.

80/15 RECOMMENDATIONS TRACKER [Item 5]**Declarations of interest:**

None.

Key points raised during the discussion:

1. In relation to A20/15 (record keeping in Adult Social Care), the Chairman reported that he had spoken to the Head of Resources in Adult Social Care. He was persuaded that responsibility for record keeping should remain with Adult Social Care, citing previous interference which had caused confusion about where responsibility lies. He had been given assurance that changes were being put in place to reduce the problems identified and would meet the Head of Resources again in the new year for a further update. The Cabinet Member for Business Services and Resident Experience was in agreement with this approach.

Denis Fuller joined the meeting at 10.10am.

Members raised concerns that assurances had been given previously on this issue but that problems had continued. The Chairman responded that responsibility had been passed back and forth and that he had been persuaded that it should stay with Adult Social Care.

2. In relation to A18/15 (SEND Strategy), the Vice-Chairman stated that he wouldn't give an update on the Education and Skills Board's findings at this stage.
3. In relation to A30/15 (meeting room chairs), it was agreed to mark this as completed.

Action/Further information to note:

None.

RESOLVED:

That the committee NOTES the report.

81/15 BABCOCK 4S LIMITED - ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 [Item 6]

Declarations of interest:

None.

Witnesses:

Nicola O'Connor, Finance Manager (Assets & Accounting)

Key points raised during the discussion:

1. The Chairman introduced the report and informed the committee that the meeting with Babcock 4S had been a good one.
2. The Finance Manager informed the committee that Jason Russell had been appointed to the Babcock 4S Board by the Shareholder Board on 19 November 2015.

Action/Further information to note:

None.

RESOLVED:

- i. That the committee NOTES the Annual Report and Statements;
- ii. That the committee NOTES the findings of the informal meeting of the Audit & Governance Committee.

82/15 GRANT THORNTON: AUDIT & GOVERNANCE COMMITTEE UPDATE [Item 7]

Declarations of interest:

None.

Witnesses:

Thomas Ball, Manager – Grant Thornton

Key points raised during the discussion:

1. The representative of Grant Thornton introduced the update and confirmed that the audit of the financial statements 2014/15 had been formally concluded after the Pension Fund Annual Report had been finalised, and the audit certificate had been issued on 30 November 2015.
2. Members queried why 3-5 members were being proposed as an ideal size for an audit committee given the different size and responsibilities of local authorities. The Grant Thornton Manager suggested that this was a proposed average size and that committees will vary depending on the size and complexity of the local authority. Surrey County Council' audit committee would be at the top of that range, if not bigger.
3. The Chairman queried what Grant Thornton's response was to the National Audit Office's consultation. The Grant Thornton Manager did not know the details of the response but was able to confirm that the response had been positively incorporated into the final guidance that was issued.
4. Members requested that Grant Thornton met informally with the committee to discuss its effectiveness in the context of the cross-sector review of audit committee effectiveness (**Recommendation Tracker ref: A39/15**).

Action/Further information to note:

Grant Thornton to meet informally with the committee to discuss its effectiveness in the context of the cross-sector review of audit committee effectiveness.

RESOLVED:

That the committee NOTES the external auditor's progress report.

83/15 EXTERNAL AUDIT: 2014/15 AUDIT FINDINGS REPORT FOR S.E. BUSINESS SERVICES LTD [Item 8]**Declarations of interest:**

None.

Witnesses:

Thomas Ball, Manager – Grant Thornton

Nicola O'Connor, Finance Manager (Assets & Accounting)

David John, Audit Performance Manager

Key points raised during the discussion:

1. The representative of Grant Thornton introduced the Audit Findings Report and suggested that overall it was a good outcome for SE Business Services Ltd.
2. Members thanked Grant Thornton for bringing the issue of the unsigned contract to their attention and queried Grant Thornton's views on carrying on business with an unsigned contract. The Grant Thornton Manager stressed that First Community Health and Care was paying the fees in accordance with the draft contract. With regard to audit, the unsigned contract did not have a big impact although it had been raised as a control point. If it is not dealt with by the end of December it becomes a bigger problem.

In response to a further query about risk, the Grant Thornton Manager agreed that in theory the unsigned contract was a risk as SE Business Services Ltd may not be paid in accordance with the draft contract. However, SE Business Services Ltd had made a risk-based decision to continue. As part of the audit, Grant Thornton had checked that SE Business Services Ltd was being paid in accordance with the draft contract. Correspondence was also noted which showed this issue being followed up.

In response to a question on why the contract remained unsigned, the Grant Thornton Manager assured the committee that SE Business Services Ltd had done everything it could to resolve the issue. Members queried whether Grant Thornton's relaxed attitude could lead to them being held responsible if the unsigned contract does lead to a problem. It was clarified that Grant Thornton had raised this as a point in its Audit Findings Report and would follow up with the management at South East Business Services Ltd. The responsibility to resolve the situation lies with them.

The Finance Manager (Assets & Accounting) assured the committee that this was a one off situation and a measured commercial risk was being taken to act on an unsigned contract. To date, there had been no problems and the contract should be signed soon.

The Audit Performance Manager suggested that contracts should be signed as best practice as otherwise it can lead to uncertainty. However, legal advice had allowed for tacit acceptance of contractual requirements.

The Chairman proposed writing to the Director of Legal and Democratic Services to query the legal view on unsigned contracts. This was agreed (**Recommendations Tracker ref: A40/15**).

Action/Further information to note:

Chairman to write to the Director of Legal and Democratic Services to query the legal view on unsigned contracts.

RESOLVED:

That the committee NOTES the contents of the 2014/15 Audit Findings Report for SE Business Services Ltd.

84/15 GRANT THORNTON: 2015/16 KEY PERFORMANCE INDICATORS [Item 9]

Declarations of interest:

None.

Witnesses:

Thomas Ball, Manager – Grant Thornton

Nicola O'Connor, Finance Manager (Assets & Accounting)
Sheila Little, Director of Finance

Key points raised during the discussion:

1. The representative of Grant Thornton introduced the proposed Key Performance Indicators (KPIs) for 2015/16 and highlighted the three new indicators.

The Director of Finance joined the meeting at 10.45am.

2. The Chairman requested that where targets are not reached, further detail is provided on where problems lie. The Grant Thornton Manager confirmed that issues can be flagged throughout the year.
3. Members queried whether a fuller set of KPIs could be proposed. The Director of Finance and Finance Manager (Assets & Accounting) suggested that the proposed KPIs were set at the appropriate level and assured Members that since the external auditors have a mature relationship with Surrey County Council and hold regular discussions with its officers, the KPIs did not need to be expanded upon. If the relationship was more difficult, performance would need to be managed more carefully.

Action/Further information to note:

None.

RESOLVED:

That the committee APPROVES the proposed Key Performance Indicators for 2015/16.

85/15 TREASURY MANAGEMENT HALF YEAR REPORT 2015/16 [Item 10]**Declarations of interest:**

None.

Witnesses:

Phil Triggs, Strategic Manager (Pensions & Treasury)
Alex Moylan, Senior Accountant

Key points raised during the discussion:

1. The Strategic Manager (Pensions & Treasury) introduced the report. He updated the committee that the treasury management advice contract was out to tender and the tendering process would be complete by 1 January 2016. Two advisors had been shortlisted for interviews. Members queried whether a new advisor would be able to get to grips with their role given the short time between interviews and signing of a contract. The Strategic Manager (Pensions and Treasury) confirmed that due diligence would take place if the appointment was to change but stressed the large amount of information provided by the Council during the tender process and the experience of both shortlisted companies.
2. The Strategic Manager (Pensions and Treasury) confirmed that the Office of the Police and Crime Commissioner for Surrey is satisfied with the council's management of its cash and that regular discussions take place.
3. In response to a question about capital borrowing, the Director of Finance confirmed that £90m had been borrowed this year in three lump sums. This was to address anticipated need at times when interest rates were at historic lows.
4. The Chairman requested that schools with cash balances incorporated within the council's balances be informed again that they would receive 0% interest under present arrangements (**Recommendations Tracker ref: A41/15**).
5. The Chairman suggested that investment returns were too low and could reflect an overcautious investment strategy. The Strategic Manager (Pensions & Treasury) confirmed that the failure of Icelandic banks had reduced the risk appetite but pointed out that the rate of return had increased this year. Discussions will be taking place on increasing the risk appetite of the Treasury Management Strategy for 2016/17. Options would be shared with the Chairman of the Committee before the Strategy is to be determined by Council in February 2016 (**Recommendations Tracker re: A42/15**).
6. In response to a previous request from the Chairman, officers tabled a list of outstanding investments (**attached as Annex 1 to the Minutes**). The Chairman requested that this be included in future reports.
7. Members queried whether the risk rating of Aberdeen had increased given recent news stories about it. The Strategic Manager (Pensions & Treasury) gave feedback from a recent conference at which the Chief Executive for Aberdeen had spoken.

Action/Further information to note:

- a) Officers to write to schools with cash balances incorporated within the council's balances to explain that they would receive 0% interest under present arrangements.
- b) Options for the redrafted Treasury Management Strategy to be shared with the Chairman of Audit & Governance Committee, before it is presented to Council in February 2016.

RESOLVED:

That the committee NOTED the content of the Treasury Management Half Year Report for 2015/16.

86/15 INTERNAL AUDIT HALF YEAR REPORT 2015/16 [Item 11]**Declarations of interest:**

None.

Witnesses:

David John, Audit Performance Manager

Key points raised during the discussion:

1. The Audit Performance Manager introduced the report.
2. In response to a query about the increase in the proportion of audits receiving opinions of 'significant improvement needed', the Audit Performance Manager suggested that there wasn't a single answer. He highlighted that the Audit Plan was risk-based, so it was looking at areas which may be more likely to receive that audit opinion. However, the Audit Plan had been risk-based for a number of years. There did not appear to be any pattern as to where the 'significant improvement needed' opinions were being received. There may be some pattern associated with the auditor assigned to an audit. It may also be that by the end of the financial year, the proportion of audits receiving 'significant improvement needed' will have fallen. Members noted that they still had concerns about the half year figure of 23% of audits receiving 'significant improvement needed'.
3. The Audit Performance Manager clarified that the audit opinions listed for 2015/16 under paragraph 7 were new for this year. Audits receiving follow up reviews were not listed in this table.
4. The Audit Performance Manager informed the committee that the Internal Audit team had shrunk over the past 15 years. However, it had also developed a more comprehensive and targeted Audit Plan. Vacancies had been covered with good agency staff. 280 days were also set aside as a contingency to deal with any special investigations in-year. The Audit Performance Manager confirmed that the Chief Internal Auditor would be able to provide an audit opinion at the end of the year.
5. **Financial Assessment and Benefits** – There was concern at the management response to the recommendation for monthly reporting to committees and management teams on the number of clients that have been referred to the service but are waiting for a financial assessment. It was felt that the service should understand what its demand is before it can plan to address it. Members also queried how long into 2016 the IT system would be operational. Officers confirmed that this was being proposed for mid-2016. The committee agreed that the Chairman should write to the new Strategic Director of Adult

Social Care and Public Health, copying in the Cabinet Member and Scrutiny Board Chairman (**Recommendations Tracker ref: A43/15**).

6. **Fire Station Capital Project Management** – The Audit Performance Manager informed the committee that Audit had now assessed progress against the Management Action Plan (MAP) to be Green, following information being received from the service. Internal Audit does not usually conduct a follow-up audit for medium priority recommendations but as discussions are held regularly with Surrey Fire and Rescue Service, auditors will know informally if there are any further problems.

Saj Hussain left the meeting at 11.27am.

7. **Members' Interests** – It was suggested that consideration of whether the Members' Code of Conduct should include a requirement to disclose non-pecuniary interests should be undertaken by Audit & Governance Committee as it has responsibilities for ethical standards.

Saj Hussain rejoined the meeting and Tim Hall left the meeting at 11.31am.

8. **Direct Payments (Children)** – The Audit Performance Manager suggested that preventing any reviews from becoming overdue was possibly over-ambitious.
9. **Accounts Receivable** – The Audit Performance Manager suggested that the assessment of action responding to the recommendation that the service should change the overpaid salaries invoicing process with a view to separating the customer information upload from the invoice upload should have been amber as the meeting had been scheduled. He was not aware of the outcome of the meeting but clarified that the assessment was Amber not Red.

Tim Hall rejoined the meeting at 11.35am.

10. **Surrey Arts** – The Audit Performance Manager explained the insurance in place for accidental damage, vandalism or theft of musical instruments. Members asked for further detail on insurance excess for theft from Surrey Arts and the total value of instruments owned by Surrey Arts (**Recommendations Tracker ref: A44/15**).

Action/Further information to note:

- a) The Chairman to write to the new Strategic Director of Adult Social Care and Public Health, copying in the Cabinet Member and Scrutiny Board Chairman, regarding the management response to an Internal Audit recommendation regarding outstanding assessments.
- b) Further detail to be provided on insurance excess for theft from Surrey Arts and the total value of instruments owned by Surrey Arts.

RESOLVED:

The committee NOTED the report.

87/15 HALF YEAR SUMMARY OF IRREGULARITY INVESTIGATIONS AND COUNTER FRAUD MEASURES APRIL - SEPTEMBER 2015 [Item 12]

Declarations of interest:

None.

Witnesses:

Reem Burton, Lead Auditor

David John, Audit Performance Manager

Key points raised during the discussion:

1. The Lead Auditor introduced the report and highlighted the increase in the number of irregularity investigations which she suggested was due to the promotion work that had been undertaken. Many of the investigations were relatively quick and focused on the provision of advice to improve controls.
2. The committee was informed that in the case of the payment of £97k made in response to a fraudulent letter claiming a change of bank details for a council supplier, £70k had been recovered.
3. Members asked if officers could give any assurance that other large frauds had not happened. The Lead Auditor stressed the fraud prevention work undertaken and the annual audits of key financial controls. She pointed out that a list of all suppliers is publicly available due to transparency rules, making it easy for fraudsters to create invoices. Reasonable assurance could be given that controls are in place. In response to a suggestion that demands for payment be made both electronically and in paper, the Director of Finance stated that this would not prevent fraud. However, a new invoicing system was being implemented. Officers informed Members that this particular fraud had highlighted that counter-fraud activities had been focussing on the more sophisticated ends of the process rather than the basics. Counter-fraud work would now go back to basics and not assume knowledge.
4. Counter-fraud officers would be working with schools to improve their controls. It was confirmed that governing bodies have to take responsibility for any loss through fraudulent activity.
5. In response to a query about the investigation in the Chief Executive's Office, officers confirmed that the case had not been proven.

Action/Further information to note:

None.

RESOLVED:

The committee NOTED the report.

88/15 COMPLETED INTERNAL AUDIT REPORTS [Item 13]**Declarations of interest:**

None.

Witnesses:

David John, Audit Performance Manager

Key points raised during the discussion:

1. The Audit Performance Manager introduced the report.
2. **Nursery Education** – The Audit Performance Manager clarified that the sample of nursery settings audited were those which caused the most concern. Therefore the audit opinion of “significant improvement needed” does not necessarily apply across all nursery settings.

3. **Highways Communications** – the committee was assured that Economic Prosperity, Environment and Highways Board would be looking at this report on 10 December 2015.

Action/Further information to note:

None.

RESOLVED:

The committee NOTED the report.

89/15 HALF YEAR RISK MANAGEMENT REPORT [Item 14]

Declarations of interest:

None.

Witnesses:

Cath Edwards, Risk & Governance Manager

Key points raised during the discussion:

1. The Risk & Governance Manager introduced the report and confirmed that risk arrangements continue to work well. She highlighted wording changes on some of the risks in the Leadership Risk Register, as well as two new risks.
2. The Director of Finance informed the committee that the Statutory Responsibilities Network had begun a strategic review of the Leadership Risk Register to ensure that it contains only the key risks that could cause significant disruption to the council. The outcomes of the review would be reported to the committee and to Cabinet.
3. Members highlighted security risks to staff, particularly on the front desk at County Hall. The Director of Finance confirmed that terrorism risks had been discussed by the Statutory Responsibilities Network. It had been agreed to note national guidelines and make sure that staff were also aware of those guidelines. All Business Continuity Plans were also being revisited. The Chairman proposed to raise the issue of front desk security with the Chief Executive (**Recommendations Tracker ref: A45/15**).
4. With regard to **L13 Safeguarding – Adult Social Care**, a Member raised the risk inherent in partnership working, for example hospital referrals for social care assessment and the need to ensure domiciliary care was in place when patients are discharged from hospital. The Director of Finance explained that she could not respond for Adult Social Care but confirmed that this risk did have a high residual risk level and would always be a high risk. The value of the Leadership Risk Register was to ensure that the right people were having discussions. The Audit Performance Manager explained that Adult Social Care and Children's Services has its own Quality Assurance processes but that Internal Audit had recently audited Quality Assurance in Children's Services.
5. The Director of Finance confirmed that she, along with the Director of Legal and Democratic Services and the Chief Internal Auditor, had input into the Children's Improvement Board on governance issues. The Governance Plan for the Children's Improvement Plan had been to the Statutory Responsibilities Network twice. The Deputy Chief Executive also provides monthly updates to the Statutory Responsibilities Network on the Improvement Plan.

Action/Further information to note:

The Chairman to raise the issue of front desk security with the Chief Executive.

RESOLVED:

The committee NOTED the report.

90/15 ETHICAL STANDARDS ANNUAL REVIEW [Item 15]**Declarations of interest:**

None.

Witnesses:

Ann Charlton, Director of Legal and Democratic Services/Monitoring Officer

Key points raised during the discussion:

1. The Director of Legal and Democratic Services introduced the report, explaining that as the report had been delayed there was 15 months of data.
2. Members noted the importance for Members to attend one of the scheduled training sessions on interests.
3. In response to a request, the Director of Legal and Democratic Services agreed to find and share some comparative statistics on ethical standards (**Recommendations Tracker ref: A46/15**). She pointed out that this was a more difficult task with the abolition of the Standards Board and adoption of local codes of conduct.
4. The Director of Legal and Democratic Services confirmed that she had clerked the appointment panel for the Independent Person but that Members had made the appointment.

Action/Further information to note:

The Director of Legal and Democratic Services to find and share some comparative statistics on ethical standards.

RESOLVED:

The committee NOTED the report.

91/15 OPERATION HORIZON: UPDATE ON SAVINGS [Item 16]**Declarations of interest:**

None.

Witnesses:

Jane Young, Carriageway Team Leader

David Harmer, Chairman of Economic Prosperity, Environment and Highways Board

Key points raised during the discussion:

1. The Carriageway Team Leader introduced the report.
2. The Chairman asked why it had taken so long to get the payments transferred. The Carriageway Team Leader explained that it takes some to get tickets in and review them to finalise material tonnages. It had been agreed now to do this quarterly and this had been diarised with the Kier team.

3. In response to a question about underperformance clawbacks, the Carriageway Team Leader explained that there are Key Performance Indicators in place and underperformance against these can affect monthly profits. However, this has not been an issue.
4. The Carriageway Team Leader agreed with Members that access to the Chertsey Depot was not easy and informed them that discussions were underway with Property Services to make it easier for aggregate industries to access the depot.
5. The Carriageway Team Leader explained the process for extraction and use of tar from roads. The amount of tar being found in roads was normal for the age of the roads and the Council has a duty to deal with it as a contaminant.
6. Concern was expressed that planning permission was not fully in place for the site at Hithermoor. The Carriageway Team Leader assured the committee that conversations were taking place with the Planning Service.
7. The Carriageway Team Leader confirmed that a further payment of £150,000 was anticipated in the December bill batch. The rest of the savings would be part of the opportunity pot.
8. The Carriageway Team Leader explained that chemical testing of materials on lorries was undertaken to prevent fraudulent activity.
9. The Chairman of Economic Prosperity, Environment and Highways Board agreed that there were risks in any project of this nature but that all due diligence had been undertaken. He suggested that the service could only be vigilant to try and prevent fraudulent activity. He assured the committee that his Board was able to keep supplier performance under review through regular Member Reference Group meetings.

Action/Further information to note:

None.

RESOLVED:

The committee NOTED the report.

92/15 GOVERNANCE UPDATE REPORT [Item 17]

Declarations of interest:

None.

Witnesses:

Cath Edwards, Risk & Governance Manager

David John, Audit Performance Manager

Key points raised during the discussion:

1. The Risk & Governance Manager introduced the report.
2. The Audit Performance Manager assured the committee that administration of looked after children's personal finances had improved.
3. The Chairman queried who was ultimately responsible for the delivery of the Children's Improvement Plan. It was agreed that this would be the Deputy Chief Executive as Statutory Director of Children's Services and the Cabinet Member for Schools, Skills and Educational Achievement as the Statutory Lead Member for Children's Services.

Action/Further information to note:
None.

RESOLVED:
The committee NOTED the report.

93/15 DATE OF NEXT MEETING [Item 18]

The date of the next meeting was noted.

The Chairman expressed thanks to the Regulatory Committee Manager, who was attending her last meeting of the committee, on behalf of himself and Audit & Governance Committee.

Meeting ended at: 12.50 pm

Chairman

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Short-Term Treasury Deposits as at: 31/11/2015

Counterparty	Deposit Type	Amount	Interest Rate
LLOYDS - 32 Day Notice Call Account	Call Account*	£45,000,000	0.57%
LLOYDS - Fixed Deposits Call Account	Fixed Deposit	£10,000,000	0.70%
GS INTERNATIONAL BANK	Fixed Deposit	£20,000,000	0.76%
Nationwide Building Society	Fixed Deposit	£20,000,000	0.75%
SANTANDER	Fixed Deposit	£20,000,000	0.62%
Insight - MMF	Money Market Fund	£17,800,000	0.40-0.50%
Aberdeen - MMF	Money Market Fund	£25,000,000	0.40-0.50%
Morgan Stanley - MMF	Money Market Fund	£1,800,000	0.40-0.50%
JP Morgan - MMF	Money Market Fund	£25,000,000	0.40-0.50%

*Call Account requires 32 day notice

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