

# Audit & Governance Committee

## Welcome...

Welcome to the Audit & Governance Committee Bulletin.

The purpose of this bulletin is to keep Members and officers up to date with local and national issues relevant to the Audit & Governance Committee.

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## Update from previous Audit & Governance Committee meetings

Surrey County Council Annual Report	<p>The Annual Report has now been published and can be found on the link below:</p> <p><a href="http://www.surreycc.gov.uk/your-council/how-the-council-works/our-performance/our-corporate-strategy/annual-report">http://www.surreycc.gov.uk/your-council/how-the-council-works/our-performance/our-corporate-strategy/annual-report</a></p>
Social Care Services Debt (Tracker Items A20/15 and A43/15)	<p>The Audit and Governance Committee has requested an update on social care debt to come to their meeting in December. The Social Care Services Board is due to receive a report on social care debt on 26 October 2016. This item was originally scheduled for June, but deferred - with the Chairman's consent - due to a full agenda.</p> <p>On discussion with the Chairmen of both the Board and the Committee, it was felt, given the relative proximity of these meetings, that instead of two formal updates the Board would invite the Committee to attend the Board meeting and participate for this item on 26 October. This has the benefit of reducing duplication, and making best use of officer and Member time. To that end, you will have received an electronic invite to SCSB on 26 October.</p>

# Internal Audit update

<p><b>Current Audits</b></p>	<p>The following audits are currently in progress or at the planning stage:</p> <ul style="list-style-type: none"> <li>• Surrey Choices Follow-up</li> <li>• Community Equipment</li> <li>• Carers</li> <li>• No Recourse to Public Funds</li> <li>• Schools - Regulatory Compliance</li> <li>• Highways Contract - Gullies/Drainage</li> <li>• Community Transport</li> <li>• Public Services Transformation</li> <li>• Pensions Administration</li> <li>• Managed Print Service</li> </ul> <p>Members are encouraged to contact the Chief Internal Auditor (sue.lewry-jones@surreycc.gov.uk) if they have insight they wish to contribute to the above audit reviews.</p>
<p><b>Counter Fraud</b></p>	<p><u>Strategy against Fraud and Corruption</u></p> <p>We have undertaken a complete refresh of the Strategy against Fraud and Corruption to ensure our arrangements align with the requirements and good practice set out by CIPFA and the Local Government Fighting Fraud &amp; Corruption Locally Strategy. The council's counter fraud policies and processes are now contained in the new 'Counter Fraud Strategy and Framework', which includes two new policies relating to anti-bribery and sanctions. Key managers in Finance, HR and Legal are currently reviewing the draft document, which will be shared with Audit and Governance Committee in September before being formally presented at the December meeting.</p>
	<p><u>Surrey Counter Fraud Partnership</u></p> <p>The partnership has now been running for over 18 months and has proved effective at preventing and detecting fraud. The cumulative total of fraud and error savings for the partnership is now over £4.8m, this includes over £780k for business rates; and, council tax support and discount savings total over £165k.</p> <ul style="list-style-type: none"> <li>• 43 properties have now been recovered allowing reallocation to families in genuine need.</li> <li>• 37 property allocations have been prevented on the basis that the applicants were not eligible or had lied to enhance their application.</li> <li>• 11 Homeless applications have been rejected on the grounds that the applicants were not in genuine need or had lied on the application.</li> <li>• 29 Right-to-Buy applications have been rejected on the ground that applicants were not entitled to the discount or had lied on the application. This has also resulted in the tenancy being recovered in a number of these cases.</li> </ul> <p>The partnership has recently run an awareness campaign on bus shelters across the county highlighting the social cost of tenancy fraud; and is developing a data hub for partners to share intelligence and coordinate data matching. Discussions are also taking place with a number of suppliers with a view to conducting a countywide review of single person discount.</p>

	<p><u>National Fraud Initiative</u></p> <p>Internal Audit is currently preparing for the latest National Fraud Initiative (NFI) data matching exercise. This is a biennial process coordinated by the Cabinet Office which aims to identify fraud across the public sector. The council is required to provide data including: payroll data and contact information for employees and pensioners; vendor data and payment information; insurance claimant information; and adult social care data about individuals in residential care or receiving direct payments. Internal Audit will ensure the relevant data is available and in the correct format for submission using the secure facility within the NFI website by the October 2016 deadline.</p>
<p><b>Orbis Partnership</b></p>	<p>We held another joint Internal Audit (OrbisIA) team meeting in July, when the SCC Internal Audit team got together with audit colleagues from East Sussex County Council and Brighton and Hove City Council to draft team priorities and objectives for 2016/17.</p> <p>We have agreed the vision for OrbisIA as follows:</p> <p style="text-align: center;"><b><i>A leading public sector provider of high quality audit and counter fraud services.</i></b></p> <p>We have also drafted new Internal Audit opinion categories and definitions, and developed a new Internal Audit report format. These will be shared with key stakeholders over the coming weeks, to seek feedback and agree an implementation timeframe.</p>
<p><b>Staffing News</b></p>	<p>We are sorry to say farewell to Florentin (Flo) Pojoranu, Senior Auditor, who leaves at the end of September to take up a work opportunity outside the council. Flo has recently worked on audits of Contract Monitoring in Children, Schools and Families; and, School Data Analysis.</p> <p>We are pleased to welcome Richard Abigail who joined the team in August as an Auditor. Richard is a qualified Internal Auditor with many years of experience of working within Internal Audit at the Department of Communities and Local Government.</p> <p>Congratulations to Revinder Hothi on passing the Certified Internal Auditor (CIA) Part 2 examination.</p>

## Finance Update

<p><b>External Auditor</b></p>	<p><u>Appointing an External Auditor</u></p> <p>The current external audit contract with Grant Thornton will end after the audit of the 2017/18 accounts. For the 2018/19 financial year, the council is required to appoint its own external auditors, by 31 December 2017 under the Local Audit and Accountability Act 2014. The attached briefing provides more details and outlines the two options that the council has in order to appoint an external auditor. The final decision must be made by full Council but the Audit and Governance Committee are a group of stakeholders that should be informed of the changes and the proposed approach.</p> <p>Please see that <u>attached</u> briefing note that sets out options, considerations and timings.</p>
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## Further information

Local Government Association	<p><a href="#">Business rates inquiry</a></p> <p>The Government must address a range of issues, including problems with appeals and withdrawing Revenue Support Grant (RSG), before bringing in 100 per cent business rates retention for councils, the Communities and Local Government Committee has said in its report.</p>
Local Government Association	<p>Business Rates Retention</p> <p>The joint working between the sector and DCLG is now well under way. All the working groups have met, as has the steering group. All papers are published on our <a href="#">business rates hub</a>.</p>
DCLG	<p><b>Business Rates Retention – <a href="#">Consultation</a> – Ends 12am, 26 September 2016</b></p> <p>This consultation seeks views on the government’s commitment to allow local government to retain 100% of the business rates that they raise locally. Specifically this consultation seeks to identify some of the issues that should be kept in mind when designing the reforms.</p> <p><a href="#">Consultation document link</a></p> <p>The government has announced it will undertake a fair funding review of what the needs assessment formula should be following the implementation of 100% business rates retention. As a first step, alongside this consultation, the government has issued a call for evidence which sets out the key questions that will need to be addressed as part of this review.</p> <p><a href="#">Call for evidence on needs and redistribution</a></p>
LocalGov	<p>The County Councils’ Network (CCN) has found counties raise far less in business rates than their urban counterparts and face a more volatile picture – which could leave them lagging behind when it comes to rate retention.</p> <p><a href="http://www.localgov.co.uk/County-leaders-warn-of-unfair-business-rate-returns/41457">http://www.localgov.co.uk/County-leaders-warn-of-unfair-business-rate-returns/41457</a></p>
Public Finance	<p><a href="#">Public Sector Audit Appointments</a></p> <p>Public Sector Audit Appointments expects to gain government approval to become a body through which local authorities can opt to have their auditors chosen, a workshop at the CIPFA conference has heard.</p>
LocalGov	<p><a href="#">Treasury’s commitment to replace EU funding ‘falls short’, councils warn</a></p> <p>Whitehall’s promise to honour EU funding commitments in the event of a Brexit ‘falls well short’, council chiefs say.</p>

## Updates from other Committees

Listed below are a number of committee reports that may be of interest to the Committee, as they cross into the Committee's remit or they relate to matters recently discussed at Audit & Governance Committee, or that the Committee have shown an interest in:

Cabinet	<p>At its meeting on <a href="#">24 May 2016</a>, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> <li>• Appointment of a Number of Operators for the Provision of Special Education Needs Home-To-School Transport</li> <li>• Approval to enter into Enterprise Agreement for Microsoft Licences</li> </ul> <p>At its meeting on <a href="#">21 June 2016</a>, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> <li>• Annual Report of the Shareholder Board</li> <li>• Annual Governance Statement 2015/16</li> <li>• Finance and Budget Monitoring Report for May 2016</li> </ul> <p>At its meeting on <a href="#">14 July 2016</a>, the Cabinet considered the following reports:</p> <ul style="list-style-type: none"> <li>• Municipal Bond Agency</li> <li>• Business Removal Services Contract Award</li> </ul>
Council Overview Board	<p>At its meeting on <a href="#">1 June 2016</a>, the Council Overview Board considered the following reports:</p> <ul style="list-style-type: none"> <li>• Trust Fund Task Group Report</li> <li>• Annual Report of the Shareholder Board</li> <li>• Investment Strategy: Property Portfolio</li> </ul> <p>At its meeting on <a href="#">6 July 2016</a>, the Council Overview Board considered the following reports:</p> <ul style="list-style-type: none"> <li>• Municipal Bonds Agency</li> <li>• Public Value Transformation Programme</li> <li>• Budget Scrutiny</li> </ul>
Education and Skills Board	<p>At its meeting on <a href="#">8 June 2016</a>, the Education and Skills Board considered the Procurement for Special Educational Needs and Disabilities Transport Services</p>
Economic Prosperity, Environment and Highways Board	<p>At its meeting on <a href="#">9 June 2016</a>, the Economic Prosperity, Environment and Highways Board considered the Revised Asset Management Strategy for Highways and Transport</p>
Surrey Pension Fund Committee	<p>At its meeting on <a href="#">13 May 2016</a>, the Surrey Pension Fund Committee considered the following reports:</p> <ul style="list-style-type: none"> <li>• Choice of Discount Rate Methodology: 2016 Valuation</li> <li>• Pooled Ill Health Retirement Self Insurance</li> <li>• Key Performance Indicators &amp; Administration Update</li> <li>• Pension Fund Business Plan 2015/16: Outturn Report</li> <li>• LGPS Investment Regulations - Consultation Report</li> <li>• Corporate Governance Share Voting</li> <li>• Revised Statement of Investment Principles</li> <li>• Pension Fund Risk Register</li> </ul> <p>At its extra ordinary meeting on <a href="#">11 July 2016</a>, the Surrey Pension Fund Committee considered the following reports:</p> <ul style="list-style-type: none"> <li>• National Pooling: Proposal to Government</li> <li>• Consideration Process: Diversified Growth Manager</li> </ul>

## Upcoming

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The next meeting of the Audit & Governance Committee is on 26 September 2016. The following items are on the agenda:

- External Audit: Annual Audit Letter
- External Audit Performance
- Leadership Risk Register
- Completed Internal Audit Reports
- Statutory Responsibilities Network
- Council complaints
- Property Asset Management System: Update
- Security Group (Tracker item A45/15)
- Accounting for Highway Network Assets 2016/17

## Committee Contacts

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## Appointing an External Auditor

### Introduction

Surrey County Council's current external audit contract with Grant Thornton will end after the audit of the 2017/18 accounts. This will mark the end of the current mandatory system for auditor appointments.

The Local Audit & Accountability Act 2014 established new arrangements for the audit and accountability of local authorities, which include the ability of local authorities to appoint their own auditors from the 2018/19 financial year. Therefore Surrey County Council must have appointed its own external auditors by 31 December 2017.

The council has two options in order to appoint an external auditor:

- Option 1. Opt for a sector-led appointment (no need for an auditor panel); or
- Option 2. Establish an auditor panel.

The final decision on whether the council opts in or establishes an auditor panel must be made by County Council. This will need to be presented to Council on Tuesday 11 October 2016 in order to fit in with the timeframe.

More information on the two options is detailed below.

### Option 1 – Sector led appointment

Surrey County Council can decide to 'opt in' to a sector led appointment provided by Public Sector Audit Appointments Ltd (PSAA) instead of setting up an auditor panel. The process will be similar to the current arrangements whereby a joint procurement process will be undertaken by PSAA and the Council is then allocated an external auditor along with a fee for a fixed period of time.

PSAA is aiming to award contracts to firms by June 2017, and it is therefore expected that authorities will need to commit to 'opting-in' by the end of 2016.

This option transfers the role of procuring and administering the contracts to the PSAA and represents the least resource intensive option in relation to officer time and administrative cost.

### Option 2 – Establish an Auditor Panel

The council can decide to establish an auditor panel in order to advise the authority on:

- maintaining an independent relationship with the external auditor;
- selecting and appointing the external auditor; and
- whether to adopt a policy on the purchasing of non-audit services (and the contents of any such policy).

The composition of the auditor panel is prescribed as a minimum of 3 members (quorum is three), majority of independent members (must meet a number of specific conditions) and an independent chair.

There are 4 ways to establish an auditor panel:

- A. Set up a Surrey County Council auditor panel for only appointing our own external auditor;
- B. Set up a joint panel with other organisations;
- C. Use an existing committee (or create a sub-committee of an existing committee); or
- D. Designate another authority's auditor panel to appoint.

Establishing an auditor panel gives the council full ownership of the auditor appointment process and the opportunity to potentially achieve economies of scale. However, due to the extensive criteria that needs to be adhered to in relation to ensuring the independence of the audit panel members and the requirements of running a formal procurement process, it may prove both difficult and time consuming to administer.

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### Other considerations

There are concerns that the council's freedom to choose its own auditors may be severely limited in practice, due to the availability of potential audit firms. For the majority of authorities, there is currently one active firm in their area who operate at fees so low that they are effectively unchallengeable by anyone who can't duplicate their economies of scale. Also, NHS bodies are required to appoint local auditors by the end of 2016 and therefore audit firms will be selling capacity to the NHS first.

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### Decision timeline



\* Legislation dictates that approval of the final decision (to opt in or establish an auditor panel) must be made by County Council

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### Contacts:

For further information please contact either:

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