

Audit & Governance Committee

Annual Report 2016



Introduction

I am pleased to present this year's Annual Report of the Audit & Governance Committee. 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. I hope that this Annual Report aids the Council in this task.

This report covers the work of the Audit & Governance Committee during the period **January – December 2016**. In addition to a summary of work undertaken, the report includes details of committee membership, officer support to the committee and how the committee has engaged with others. In particular, I would like to draw attention to the work of the committee on raising the profile of Internal Audit with Members, while highlighting the findings of individual audits and tracking progress with actions coming out of those audits. The report ends with a look forward to 2017 and the committee would welcome any feedback from Members of the Council on the themes identified.

Stuart Selleck
Chairman
Audit & Governance Committee

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The role of the Audit & Governance Committee

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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.”¹

Therefore, 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 that appropriate systems are in place 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 the arrangements.

An audit committee should be independent of the Cabinet and Scrutiny functions of the authority, have clear reporting lines and rights of access to other committees (primarily the Cabinet and County Council), and its members should be properly trained to fulfil the role. The committee's terms of reference is listed below with a summary of work undertaken:

¹ CIPFA (2013) Audit Committees: Practical Guidance for Local Authorities and Police

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.

Terms of Reference	Summary of work and outcomes
<p>Regulatory Framework</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> • 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 Plan; the Code of Corporate Governance; the Governance Strategy and the Annual Governance Statement. • Regularly reviewed the development and operation of the Council's risk management and corporate governance arrangements. Also, regularly monitored the Leadership Risk Register. • The committee received six monthly reports from the Statutory Responsibilities Network which were presented by, and discussed with, the Chief Executive. • Reviewed the work of Internal Audit in countering and raising awareness of fraud risk. • Conducted an annual review of the effectiveness of the system of internal audit.

Terms of Reference	Summary of work and outcomes
<p>Audit Activity</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> • Approved the Internal Audit Plan 2016/17 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, Scrutiny Boards and service officers, including: Property Asset Management System, Trust Funds, Social Care Debt. • The committee was careful to ensure that it worked in collaboration with Scrutiny Boards, avoiding duplication and referring issues on when appropriate. • Reviewed a number of reports from the external auditor Grant Thornton.

Terms of Reference	Summary of work and outcomes
<p>Accounts</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> • Considered and approved the Statement of Accounts for the Council and the Surrey Pension Fund. • Considered the Statement of Accounts for Babcock 4S. • Considered the audited Statement of Accounts for SE Business Services. • Considered the audited Statement of Accounts for Halsey Garton. • Reviewed treasury management activity.
<p>Ethical Standards</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> • Reviewed complaints handling performance for the Council. • Reviewed an update on whistleblowing activity. • No dispensations were requested or granted in 2016. • Reviewed the online gifts and hospitality procedure.

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. A Knowledge & Skills Assessment (based on CIPFA's knowledge and skills framework), undertaken by committee members in 2014 shows that they bring to the committee broad experience and knowledge of audit, risk management, relevant legal issues, project management and relevant service and local governance knowledge.

Full committee training has been provided this year on local authority accounts, treasury management and risk culture.

Current Membership:



Stuart Selleck, a member of the Residents' Association/Independent Group of councillors, became Chairman of the committee in May 2015, taking over from outgoing Chairman Nick Harrison. 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 recommends 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, Stuart Selleck is not a member on any of the Council's scrutiny committees. He is a member of the Surrey Pension Fund Committee.

Denis Fuller, a member of the Conservative Group, has been a member of the Audit & Governance Committee since 2009 and became Vice-Chairman in May 2015. Denis Fuller is also a member of the Education & Skills Board.





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 2009 to May 2015. Bill Barker is also a member of the Surrey Pension Fund Committee and the Wellbeing and Health Scrutiny Board.

Will Forster, a member of the Liberal Democrat Group, has been a member of the Audit & Governance Committee since May 2013.



Tim Hall, a member of the Conservative Group, has been a member of the Audit & Governance Committee since May 2013. Tim is also Chairman of Planning & Regulatory Committee and a member of the Wellbeing and Health Scrutiny Board.



Saj Hussain, a member of the Conservative Group, joined the committee in May 2015. Saj is also a member of the Social Care Services Board and the Resident Experience Board.



Attendance:

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

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Member	Total expected attendances	Total attendances	Percentage
Stuart Selleck	6	5	83%
Denis Fuller	6	6	100
Bill Barker	6	6	100
Will Forster	6	4	67%
Tim Hall	6	6	100
Saj Hussain	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 Strategy & Performance Service and reports to the Assistant Director, Strategy & Performance.

Risk & Governance Manager

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

Pension Fund & Treasury Manager

Phil Triggs 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 Local Audit & Accountability Act 2014 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.

Engaging with others

Engaging with the Leadership

The Chairman of Audit & Governance Committee has had regular meetings with senior managers across the Council during 2016.

Page 179 The Chief Executive attended the Audit & Governance Committee meetings on 22 February and 26 September 2016 to give updates on the Statutory Responsibilities Network.

The Leader of the Council and the Deputy Chief Executive attended the Audit & Governance Committee on 26 May 2016 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 Deputy Chief Executive and Senior Principal Accountant also attended the committee on 25 July 2016 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.

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 in the [online library](#).

Working with Select Committees

During 2016, 52 internal audit reports were issued. The working protocol with Scrutiny Boards is that all reports categorised as Unsatisfactory or Significant Improvement Needed, or those with High Priority recommendations are considered by the relevant Scrutiny Board. 16 (31%) of the reports were categorised as such. Scrutiny Boards have engaged well with this process and have either formally considered the Internal Audit Report and Management Action Plan progress at their meetings or informally monitored progress with Internal Audit recommendations. In October 2016 members of the Audit & Governance Committee attended the Social Care Services Board to take part in the scrutiny of Social Care Debt and feeding in the concerns of the committee.

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 2017. It will also focus on Members knowledge and skills assessment with appropriate training of new Members of the Committee following the County election in May 2017.