**MINUTES** of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 6 December 2012 at Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

**Elected Members:**

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

* Present

**In Attendance**
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 (for items 1 – 7)
Helen Rankin, Regulatory Committee Manager

## 82/12 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

## 83/12 MINUTES OF THE PREVIOUS MEETING: 3 OCTOBER 2012 [Item 2]

The minutes were agreed as a true and correct record.

## 84/12 DECLARATIONS OF INTEREST [Item 3]

There were none.

## 85/12 QUESTIONS AND PETITIONS [Item 4]

There were none.

## 86/12 RECOMMENDATIONS TRACKER [Item 5]

**Declarations of Interest:**

None.

**Officers:**
Sheila Little, Section 151 Officer

**Key Points Raised During the Discussion:**

1. It was noted that Adult Social Care Select Committee had considered a report on 30 November 2012 related to Social Care Debt. An update was provided in the Committee Bulletin (at Annex A to the tracker). Mel Few, who was also a member of the Adult Social Care Select Committee, advised that there had been unexpected rise in unsecured debt, which may had been a result of staffing resource issues. The select committee would continue to be kept updated on progress.
2. In relation to R3/12 (direct payments), Members noted that a recent audit report showed that although progress had been made, the audit opinion was still 'major improvement needed'. This was in part because so many assessments still needed to be completed, that even with the significant progress, there was still some way to go.
3. In relation to A58/11 (pension payments), the Chairman confirmed he had discussed the item with the Pensions Manager and the legal officer handling the case. The Chairman had seen the latest email correspondence between the Council and the Borough Council and while the matter had not been fully concluded, an agreement had been accepted in principle. It was expected that the payment would be made at the beginning of January 2013 and the Section 151 Officer clarified that the only reason it was not happening in December was due to payroll being run earlier than normal. It was agreed that the Section 151 Officer would circulate a note to the Committee when the matter was concluded. **(Recommendations tracker Ref: A58/11).**
4. In relation to A14/12 (internal audit reports on S-Net), the Regulatory Committee Manager confirmed that a new committee management system (ModernGov) had now been purchased and was being used. There were some technical issues uploading documents to the system at the moment. As soon as the problems were resolved internal audit reports would be uploaded, as agreed.

5. In relation to A34/12 (vacancy review), Mel Few (also Chairman of the Council Overview & Scrutiny Committee - COSC), advised that the report on vacancies had been presented at the last COSC meeting. As there had been some clear differences on the conclusions of the item, he had agreed to withdraw that item until the next meeting so that recommendations could be reassessed.
6. In relation to A42/12 (waste contract), the Section 151 Officer advised that she had spoken to the Strategic Director for Environment & Transport and could confirm that the risk should remain 'high' on the leadership risk register. This was because of the significant implications should the contract fail in anyway; however, it was stressed that there was no indication that the contract would fail.
7. In relation to A43/12 (partnership working), the Section 151 Officer advised that she still had as much access to all of the strategic directors as required and as before this arrangement was put in place. The Strategic Director for Customers and Communities, who was working part time as the Chief Executive of Mole Valley District Council in a partnership arrangement had also been present at all Corporate Leadership Team meetings. Some of her responsibilities had been taken on by other directors, but the Section 151 Officer confirmed that they were working together as a team to manage the interim arrangements.

*Mr Tony Elias joined the meeting at 10.15am.*

8. In relation to A44/12 (treasury management task group), the Chairman advised that the Task Group had a joint meeting with the Finance Sub Group of COSC. The Strategic Finance Manager for Pension Fund & Treasury had taken Members through the basic foundation of the funding strategy including major drivers. The Section 151 Officer explained that the revised treasury management strategy would be approved as part of the budget process and therefore it would go to COSC ahead of the budget meeting in January. It was agreed that consideration should be given to holding a joint meeting of COSC and Audit & Governance Committee to consider the strategy **(Recommendations tracker ref: A52/12)**. The Section 151 Officer also explained that the strategy would be more prominent in the Cabinet report than in previous years.
9. In relation to A45/12 (schools early close), the Finance Manager (Assets & Accounting) advised that a mini project on schools accounts closing was underway. There were 3 main areas where delays were being caused: 1) recharges by the Council or Babcock 4S, 2) Capital closing impacting on revenue, 3) Easter holidays. The Finance Manger pointed out that Easter falls early in 2012/13, so this should not cause a problem. The project team were looking at what other authorities were doing, including Kent County Council who were having a degree of success in running "closing" workshops with schools.
10. In relation to A47/12 (Telecare), Members heard that one year ago it was projected that the Telecare project would generate £1million savings in the Adult Social Care Directorate. This projection had now fallen to £200,000, however matters were progressing.

11. In relation to A48/12 (Waste contract management audit report), the Chief Internal Auditor agreed to circulate a written update **(Recommendations tracker ref: A48/12)**.
12. With regards to A49/12 (select committee review of audit reports), the Chairman confirmed that he had spoken to the Leader about this matter. He suggested that if the Audit & Governance Committee considers the findings of an audit report to be of such significance it should be reviewed by the relevant select committee, then the Audit & Governance Committee should be making that recommendation. Members agreed that a letter from the Chairman of the Audit & Governance Committee to select committee chairmen, about the importance of internal audit reports would be helpful. **(Recommendations tracker ref: A53/12).**
13. In relation to A51/12 (recruitment vetting procedures), the Chief Internal Auditor explained that her team were working closely with HR on vetting procedures. The CIPFA Better Governance Forum had also recently issued a publication on recruitment practices, which had been shared with HR, so that they could look at best practice related to the fighting fraud locally agenda.

**Actions/further information to be provided:**
That the recommendations tracker be updated to reflect the action points noted above.

**RESOLVED:**
The Committee noted the report and agreed that the items on pages 25 and 26 were complete and would be removed.
**Committee next steps:**
To continue to monitor the outstanding actions on the tracker at their next meeting.

## 87/12 BABCOCK 4S - HALF YEARLY REPORT [Item 6]

**Declarations of interest:**
There were none.

**Officers:**
Michelle DeBeer, Finance Manager at Babcock 4S
Amanda Fisher, Managing Director at Babcock 4S
Steve West, Finance Director at Babcock 4S
PJ Wilkinson, Assistant Director for Schools & Learning

**Key points raised during the discussion:**
1. Members noted that funds could be moved around for liquidity purposes and asked whether there was audit control on this. The Finance Director explained that cash that sits within Babcock 4S's (4S) remit stays within the 4S bank account and was not moved without Board approval.
2. The Committee requested further information about £10million which was loaned within the Babcock Group. The Finance Director advised that during 2011 a project had been championed by Peter Martin (then Cabinet Member for Children & Learning) to look at how spare cash

could be invested. It was eventually put on a one year loan with Babcock Treasury at a 1.5% business rate. The loan commenced on 1 February 2012 and would be repaid on 31 January 2013. Members probed for more information about the security around this arrangement and the Finance Director explained that there was no formal legal charge over it, however, the actual cash was situated in a sister company within his control.

3. Members asked for more information about the risks facing the organisation moving forward. The Finance Director explained that the current economic climate and the increasing pressure on government budgets remained the biggest risk. As Surrey was in the middle of its Medium Term Financial Plan (MTFP), 4S had taken a £4million cut to the main service delivery agreement – the Managing Director advised that this had been the biggest risk in terms of the delivery of the Surrey contract.
4. It was noted that 4S generated surplus cash and Members asked whether Surrey could take a reduction in receipts over the following months. The Managing Director explained that the Board had had long debates about the surplus cash, including consideration of whether it could be loaned to Surrey County Council, but this course of action was deemed inappropriate. The Finance Director advised that much of that cash within the business was from customers who paid in advance such as Surrey schools.
5. It was confirmed that Susie Kemp (Assistant Chief Executive) had recently replaced Julie Fisher (Strategic Director for Change & Efficiency) as the Council's representative on the 4S Board.
6. Members noted that the financial statements showed that there was £6million cash at the end of the year and asked why the £2.1million in the profit and loss account had not been distributed as dividends. The Finance Director explained that paying the dividend had been debated at the last Board meeting. He reported that policy dictated that 90% of profits generated were paid as dividends within 6 months after the financial year had finished. The FRS17 basis for valuing the pension fund deficit in the accounts had been reviewed – although this had reduced the estimated deficit, the deficit was still too high to be able to pay out the full dividend. However, a dividend would be paid that was not greater than the balance on the P&L account.
7. It was noted that in the 2011/12 accounting year 4S had started to pay some of the agreed pension deficit.
8. Members suggested that if 4S were generating more profit than expected they should work together with the Council to share dividends with those who took the initial risk. The Assistant Director for Schools & Learning explained that when the partnership had been set up the economic situation was not as challenging as the current climate. Since 2008, the financial regime had been much tighter and it had been more important than ever to think about priorities. Changing priorities would be carefully considered during the budget setting process. When looking at the future with 4S, the original purposes of the partnership would be considered, but the strategic aim would continue to be to spread excellence through Surrey schools.
9. The Managing reported that Surrey had been given a budget £100,000 to find innovative ways of delivering service. Following a recent meeting between the Surrey County Council Chief Executive, representative on the 4S Board, the divisional Managing Director and the Managing Director, a joint venture was agreed to try and deliver

more with less. It was noted that in the previous year the focus had been on schools that were on the verge of requiring intervention. There had been some great success by pushing the limited funding to support poorly performing schools with the aim of fulfilling the long-term educational plan that every school would be a 'good' school by 2017. The Managing Director felt that Surrey, 4S and Surrey schools were working together in a strong partnership. The Assistant Director for Schools & Learning advised that he worked with 4S officers on a daily basis, but remained a critical friend of the relationship so that he could evaluate it.

10. In terms of redundancy costs, Members queried what impact restructuring had on the service provided. The Finance Director advised that the restructure was necessary due to cuts to the Surrey County Council contract. The level of staffing was revised to meet the Council's requirement in terms of educational outputs. The Managing Director explained this had been done in consultation with partners.
11. It was confirmed that the Council accounted for approximately 60% of business.
12. Members asked whether costs had been cut enough to support lower levels of turnover. The Finance Director advised that from an accounting perspective they recognised revenue based on delivery. For schools this was on a 'school days' basis and consultancy days on a work 'completed' basis. With the loss of two contracts and the cuts to the Surrey contracts, as well as the difficulties in terms of growth of facilities with schools, the Finance Director confirmed that added some pressure.
13. With reference to related party disclosures, Members queried how Babcock International came to be dealing with the Council. The Finance Director explained that there were a number of work streams such as payroll and IT that were provided on a corporate/central level. The Assistant Director for Schools & Learning advised that he dealt essentially only with Babcock 4S and not with Babcock or any other subsidiaries.

**Actions/Further information to be provided:**
None.

**RESOLVED:**
The Committee noted the report.

**Committee next steps:**
The Committee to receive a further update in 6 months.

**88/12 EXTERNAL AUDIT: ANNUAL AUDIT LETTER AND FEE LETTERS [Item 7]**

**Declarations of interest:**
None.

**Officers:**
Paul Grady, District Auditor, previous audit years (Grant Thornton)
Andy Mack, District Auditor (Grant Thornton)
Kathryn Sharp, Audit Manager (Grant Thornton)

**Key points raised during the discussion:**

1. The new District Auditor, Andy Mack, was introduced to the Committee.
2. The Annual Audit Letter (AAL) was presented to the Committee. It was noted this year's AAL was more brief and succinct, as much of the information that had previously been reported through the AAL had been reported in the Annual Governance Report.
3. Paul Grady advised that it was his last report to the Committee as the external auditor. He thanked everyone he had worked with since 2008 and noted that the Council had been through a number of changes during that time. He had served the normal maximum 5 year period, and noted that only organisations facing disarray were allowed to continue with the same district auditor for a further period of 2 years. Before concluding, Paul Grady said that he had experienced an open and constructive relationship with officers and Members. The Chairman thanked the Audit Commission staff on behalf of the Committee.
4. The external audit fee letters were introduced and showed the audit plan for the next year. It was confirmed that under Grant Thornton the audit opinion would continue to be delivered before the end of September. The only significant difference was the reduction in fee. Members asked how the external auditors were confident they could make a 40% fee reduction without reducing the amount or quality of their audit work. The Committee were informed that Grant Thornton had modern audit systems with programmes that would take over some of the 'back office' functions that had previously been undertaken by staff. Secondly, there would be better management of time in terms of recognising where there were peaks and troughs in workload levels. As Grant Thornton had workstreams across all sectors, staff could be utilised fully and efficiently throughout the year, meaning that during peak times extra staff could be brought in. Finally, the reduced fee was based on the high quality of the last set of accounts.
5. During the discussion, one Member pointed out that previous fees were set by the Audit Commission based on a scale. Members were concerned that the reduced fee confirmed that the Council had paid too much, without producing any tangible benefits. It was confirmed that there would also be efficiencies made in terms of the work produced by the external auditor. For example, the Audit Commission used to produce national reports, a service which would not continue under the new regime. In terms of the previous fees, it was noted that the Council had been on a journey towards improving its governance and the reduced fee was recognition of that. If the Council had not produced such strong accounts in the previous year, the fee would not have been reduced by as much.
6. It was reported that the relationship between internal and external audit would be different moving forward, to ensure proper governance arrangements and internal control.
7. The District Auditor advised that the fee had been set by the Audit Commission, but that Grant Thornton had the right to come back to discuss it during the year if there were concerns about internal control. However, it was stressed that the external auditor accepted that controls were in place and working and therefore the Council should fully benefit from the reduction. It was noted that the 40% reduction was agreed across the country.

8. Members queried whether the 40% would be a applied as a floor. The District Auditor confirmed that it would be, based on the assumption that the Council would continue to perform well.
9. The Section 151 Officer concluded the item by thanking Paul Grady and his team. She advised that she had met with Andy Mack and stressed the importance of continuing a strong relationship. She informed the Committee that she had also challenged the fee and would be meeting with the Chief Internal Auditor to discuss how she could rely on the financial controls provided by the Internal Audit team.

**Actions/Further information to be provided:**
None.

**RESOLVED:**
The Committee:
a) noted the contents of the Annual Audit Letter
b) reviewed the fee letters.

**Committee next steps:**
None.

**89/12 PROGRESS REPORT ON CREDITOR BALANCE [Item 8]**

**Declarations of interest:**
None.

**Officers:**
Kevin Kilburn, Deputy Chief Finance Officer
Nikki O'Connor, Finance Manager (Assets and Accounting)

**Key points raised during the discussion:**
1. This report provided the Committee with an update on the creditor balance that had been highlighted in the 2011/12 accounts. During closing period it had been agreed that the balance would not be written off and instead a fuller investigation would be undertaken.
2. The Finance Manager (Assets and Accounting) explained that the investigation had already looked at the top 20 vendors who had balances over £50,000. She was confident that it would be resolved by the current year end, although the smaller balances were likely to be more complicated. The next update would be presented to the Committee in February **(Recommendations tracker ref: A54/12)**.
3. Members queried why credit balances had not been cleared. The Finance Manager (Assets and Accounting) explained that it would be if a payment had gone through a non-standard arrangements such as a CHAPS payment.
4. Members asked whether funds would be used to balance overspends in the case that a large amount of this balance turned out to be overstated credit. The Deputy Chief Finance Officer explained that in the case that there was an established amount to be written off, the decision would be put back to Cabinet as to how to reflect the budgeting impact. It was confirmed that if liabilities had been over recorded, the accounts would be corrected before dealing with the favourable budget varience.

5. Members asked how, at the end of the financial year, if the money was not needed, it would be reported in the outturn report and which budgets. The Deputy Chief Finance Officer explained that in the budget outturn report it would be highlighted as a 'global figure' and not as an underspend for any particular service. In addition, it needed to be recognised that any favourable budget varience did not reflect in the current financial year.
6. Members asked how similar situations would be avoided in the future. The Finance Manager (Assets and Accounting) explained that changes had already been made, including regular monitoring of the balance sheet. In addition, an automatic clearing process was being carried out more regularly and monitoring undertaken of anything that was not clear. It was clarified that there was not a real likelihood of this reoccurring.
7. The Chairman felt that this was an important challenge for Internal Audit and Finance – to ensure that the whole population of suspense clearing and special accounts were identified and had appropriate controls around them.

**Actions/Further information to be provided:**
None.

**RESOLVED:**
The Committee:
a) noted the progress to date
b) agreed to receive further updates on progress and proposed treatment in the 2012/13 statement of accounts

**Committee next steps:**
The Committee to receive a further update in February 2013.

**90/12 PENSION FUND INVESTMENTS - SEPTEMBER QUARTER [Item 9]**

**Declarations of interest:**
None.

**Officers:**
Phil Triggs, Strategic Manager (Pensions & Treasury)
Jon Evans, Senior Accountant (Pensions & Treasury)

**Key points raised during the discussion:**
1. The Strategic Manager introduced the item and advised that the report presented the Pension Fund portfolio position. The value of the fund was £2.20 billion at the end of the September quarter, however, had subsequently risen to £2.67 billion at the time of print (9 November). It was noted that November had been a good month for the Pension Fund, with rising markets reflecting a growing confidence in the stock market.
2. The Strategic Manager talked the Committee through the report, highlighting paragraph 7 where terminated mandates were detailed. Paragraph 10 highlighted one of the areas that the Investment Advisor's Group (IAG) had discussed at their last meeting, regarding the UK gilts portfolio. Following the discussion at the IAG it was agreed to allocate 50% of the UK gilt portfolio to return to an absolute

return strategy.  On 17 December the IAG would be meeting with, and interviewing, prospective Fund managers.

3. Attention was drawn to paragraph 14, where individual performances were recorded.  It had been a good quarter for the Fund, with only one fund manager underperforming against benchmark.  Over the year the portfolio had performed at 15.1%, above the benchmark return of 14.4%.  Members were pleased to see so many managers performing above the benchmark, however asked for more information about the reason that one manager, Mirabaud, had underperformed, particularly as they had traditionally been a higher performer.  The Strategic Manager explained that there had been a recovery by the banking sector in terms of share prices during the quarter.  Mirabaud had been underweight with regards to banks, but officers were not overly concerned as they were a long term investor with a good long term performance record.
4. The Cabinet Member for Change & Efficiency expanded on paragraph 10 of the report and advised that IAG had considered that there was too much risk associated with the exposure to UK Gilts. Consideration was given to investing away from the UK via a global absolute return product.  She confirmed that sophisticated absolute return bond managers would be interviewed on 17 December.
5. Members asked for more information about why short term periods of underperformance were expected.  The Chairman advised that there were different styles of manager, and the market did change.  The Strategic Manager expanded by explaining that there was diversity in the style of managers used in the fund portfolio.  It was good practice to have a range of manager styles.  The Cabinet Member for Change & Efficiency felt it was important not to rely entirely on one type of manager due to the large equity exposure and levels of volatility. However, moving toward an absolute return strategy could reduce volatility by around 6%.  It was important to recognise that markets recover and that in some quarters performance would be lower for some managers.
6. Tony Elias, who sat on both Audit & Governance Committee and the IAG, commented that not changing approach involved more risk than constantly reviewing as the market was changing all the time.
7. Before concluding, the Strategic Manager explained that more had been put in to diversified growth since the end of the September Quarter, with £200 million being the current figure.

**Actions/further information to be provided:**
None.

**RESOLVED:**
The Committee noted the report.

**Committee next steps:**
None.

**91/12 TREASURY MANAGEMENT HALF YEAR REPORT 2012/13 [Item 10]**

**Declarations of interest:**
None.

**Officers:**

Phil Triggs, Strategic Manager (Pensions & Treasury)

**Key points raised in the discussion:**

1. The Strategic Manager introduced the item and drew Members attention to Table 1 in the report, which set out the overall treasury position as of 30 September 2012. Investments in the 6 month period to September stood at £312million, and net borrowing at £8million. This was below the Council's authorised borrowing limit of £662million.
2. It was reported that the strategy to not borrow up to the requirement would continue in the short term. It was noted that new loans could be taken out at a rate of 4.1% for 50 year borrowing, and therefore it was advantageous to borrow internally.
3. Member's attention was drawn to table 6, which set out the long term borrowing position. No new borrowing had been taken out during this financial year.
4. The chart in paragraph 18 of the report set out the debt maturity profile. The period of most concern was September 2013, when a £68million repayment was due. The treasury management strategy would consider how to deal with that peak. The next significant peaks were not until beyond 2050, allowing time to reprofile debt to make repayment more manageable.
5. The investment position was set out in paragraph 19. It was noted that there was little prospect of any rise in the base rate until at least 2014.
6. It was expected that the Council could expect 100% of what was invested in Icelandic Banks back in instalments. A number of instalments had already been made, with a further £6.6million still outstanding.
7. Members asked what impact the UK losing its AAA rating could have on the Council. The Strategic Manager advised that losing the AAA rating could make UK debt more expensive and therefore markets would reflect that in how they price gilts and therefore PWLB rates.
8. Members asked whether the Council had to money to reduce borrowing. The Strategic Manager explained that there was around £300million in the cash portfolio for investments.
9. Members commented on the very cautious nature of the strategy and considered whether it would be the right time to adopt a slightly less cautious approach. The Strategic Manager explained this would be looked at when reviewing the 2013/14 treasury management strategy.
10. The Cabinet Member for Change & Efficiency advised that work was underway to retain property assets, rather than always sell them. She said that the impact of the UK losing its AAA rating could mean that the cost of borrowing could rise; however, the Chinese rating agency had downgraded the UK last year without a detrimental effect.

**Actions/further information to be provided:**
None.

**RESOLVED:**
The Committee NOTED the report.

**Committee next steps:**
The Committee to receive the treasury management annual report in June 2013.

**92/12 WHISTLE-BLOWING UPDATE [Item 11]**

**Declarations of interest:**
None.

**Officers:**
Matthew Baker, Deputy Head of HR&OD
Abid Dar, Equality Inclusion & Wellbeing Manager

**Key points raised during the discussion:**

1. The Deputy Head of HR&OD introduced the item and advised that there had been a recent increase in calls using the Expolink service. Officers considered the increase in calls as a positive development as it demonstrated that people were using the service.
2. There had been a number of efforts to publicise and highlight the benefits of the service. Pages on the intranet had focussed on what whistleblowing is about and how staff should feel confident and protected when calling the whistleblowing hotline. The SNet pages also linked to a number of policies and procedures.
3. It was reported that Expolink was advertised as part of the employee benefits package. In addition, with the Council taking on public health responsibilities, more work was being done to link to the new Department for Health free whistleblowing hotline.
4. The Deputy Head of HR&OD advised that a recent 'mini-survey' of staff opinion in the Change & Efficiency Directorate had been undertaken. The mini survey included sections on bullying and harassment and linked to whistleblowing. The results were based on qualitative information and were being used to encourage people to get involved with focus groups to help tackle issues.
5. Meetings were held regularly between Babcock 4S and HR&OD. The Deputy Head of HR&OD said that they were building stronger relationships with bursars and teachers and used mechanisms such as the Schools Finance newsletter to publicise whistleblowing options.
6. One Member advised that a school bursar had recently told him she understood that the whistleblowing policy would be released in March. The Deputy Head of HR&OD confirmed that the policy was already in place and was on the Babcock 4S website.
7. It was noted that the contract with Expolink had recently been renewed at the same price for the next 5 years.
8. The Deputy Head of HR&OD agreed to talk directly with Babcock 4S about ensuring that governors were adequately equipped to know how to raise whistleblowing type issues.
9. Members asked what protection was offered to the whistleblower when making a call. The Deputy Head of HR&OD advised that the whisteblower would be able to remain anonymous. In addition the fact that staff have legal protection when making a whistleblowing claim is highlighted on the SNet. It was acknowledged that there was some risk associated with making a complaint, but that staff should be encouraged to do so and congratulated for coming forward about concerns.
10. It was noted that the statistics in the report showed that no calls to Expolink had come from school staff. The Deputy Head of HR&OD explained that while some calls were received from school staff (for example under those listed as 'no incidents arising); the majority came from corporate staff. Members queried whether this indicated that the

relationship with Babcock 4S needed to be strengthened so that staff knew how they could raise concerns. The Deputy Head of HR&OD felt that the relationship with 4S was strong, and that they met regularly. He said the service offered to schools was as comprehensive as that offered to corporate staff. The Equality Inclusion & Wellbeing Manager advised that he had recently met with 4S to talk about how messages could be spread wider through schools, without necessarily needing to go through governors or headmasters. He explained that schools had been asking for posters from Expolink, which were then rebranded for particular schools. Messages in printed payslips was another method that was being used to publicise the service in schools – it had been found that printed material had the greatest impact on calls coming in.

11. The Deputy Head of HR&OD suggested that Glenn Bishop (Babcock 4S) be invited to a future meeting of the Committee to give an account of what was happening in terms of publicity of the Expolink service in schools. (**Recommendations tracker ref: A54/12)**.
12. The Chief Internal Auditor advised that the Internal Audit team also did some work around raising awareness of fraud in schools through the school's bulletin and at bursar conferences, for example.

**Actions/Further information to be provided:**
A Babcock 4S representative be invited to a future meeting to talk about whistleblowing in schools.

**RESOLVED:**
The Committee noted the progress made.

**Committee Next Steps:**
The Committee to receive a further update in June 2013.

**93/12 HALF YEAR IRREGULARITIES REPORT [Item 12]**

**Declarations of interest:**
None.

**Officers:**
David John, Audit Performance Manager
Sue Lewry-Jones, Chief Internal Auditor

**Key points raised during discussion:**

1. The Audit Performance Manager introduced the item. It was reported that some problems in terms of irregularities and fraud were anticipated at an organisation the size of the Council, the report outlined a summary of investigations under taken in the half year period to September.
2. It was noted that statistically, the year had been fairly consistent in comparison with other years. As well as examples of investigations that had been undertaken, the report covered some of the proactive work that Internal Audit had been doing to help prevent fraud. The Audit Performance Manager explained that often whistleblowing calls would come directly to the Internal Audit team, instead of via the Expolink service.
3. The Audit Performance Manager provided an update on a number of the cases detailed in the report. With reference to the misuse of

school funds by a former head teacher in paragraph 17, it was confirmed that the police had found insufficient evidence in terms of criminal charges. The case of theft, detailed in paragraph 18, had been concluded with arrangements in place to recover the money at no loss to the Council.

4. The Committee were informed that the updated Strategy Against Fraud and Corruption would be going to Cabinet in February 2013.
5. Members queried whether the investigation into residential money in care homes had been connected to the recent audit report on the same subject. The Audit Performance Manager explained that the investigation had run in parallel to the audit work. It was noted that Adult Social Care had approached Internal Audit and asked them to help them with a safeguarding investigation that they were handling.
6. Members asked why the Strategy had been deferred to February's Cabinet. The Chief Internal Auditor advised that a wider report that reviewed what anti-fraud activity had been happening across the Council would now sit alongside the Strategy when reported to Cabinet.
7. The Committee asked whether officers felt that more resources should be put into irregularities. The Audit Performance Manager explained that there were more cases of opportunistic fraud and theft as a result of the current economic climate. He felt that it was important to work with services to ensure that there were appropriate controls in place to prevent fraud and theft. It was also noted that the police were more commonly involved, which, when publicised acted as a deterrent. The Committee recalled having strengthened the wording in the Strategy around police involvement at their last meeting in October 2012.

**Actions/Further information to be provided:**
None.

**RESOLVED:**
The Committee noted the report.

**Committee next steps:**
The Committee to receive a further update in June 2013.

## 94/12 INTERNAL AUDIT HALF YEAR REPORT [Item 13]

**Declarations of interest:**
None.

**Officers:**
Sue Lewry-Jones, Chief Internal Auditor

**Key points raised during the discussion:**

1. The Chief Internal Auditor introduced the item and explained that the report contained a performance summary for the half year period to September 2012.
2. It was reported that at the half year point 45% of audit days had been spent. This was compared positively to the previous year, when 39% of audit days had been spent at the six month mark. The Chief

Internal Auditor advised that this was partly down to the fact that there had been no vacancies in the team this year.

3. 16% of the total number of audits had been rated either 'Major Improvement Needed' or 'Unsatisfactory'. This compared to 6% in the same period last year. The Chief Internal Auditor felt that this might be because Internal Audit had been closely focussing on areas where it was expected there might be problems.
4. It was reported that all customer satisfaction questionnaires had been returned with positive comments; 5 out of 8 had classed the Internal Audit review as 'very useful'.
5. The Chief Internal Auditor advised that select committees were encouraged to scrutinise reports that drew an opinion of 'major improvement needed' or 'unsatisfactory'. In addition, follow up reviews were undertaken of all reports that attracted one of these opinions.
6. While Members noted the increase in reports rated 'major improvement needed' or 'unsatisfactory', they also noted the increase to 33% receiving an 'effective' audit opinion, versus 18% last year.
7. During the discussion, it was pointed out that the Education select committee chairman was keen to scrutinise Babcock 4S, and Members queried whether they should be looking at more audit reports. The Chairman of the Council Overview & Scrutiny Committee suggested that his Committee looked at Education select committee and Children & Families select committee working together on this.
8. It was confirmed that the Council Overview & Scrutiny Committee had reviewed Annex C at their meeting the previous week.

**Actions/Further information to be provided:**
None.

**RESOLVED:**
Members noted the Content of the report.

**Committee next steps:**
None.

**95/12 COMPLETED INTERNAL AUDIT REPORTS [Item 14]**

**Declarations of interest:**
None.

**Officers:**
Sue Lewry-Jones, Chief Internal Auditor

**Key points raised during the discussion:**

1. The Chief Internal Auditor introduced the item and advised there had been 9 audit reports completed since the last Committee. Of those reports, one, on residential care homes, had received a rating of 'major improvement needed'.
2. The Chief Internal Auditor had attended Adult Social Care select committee on 30 November for an item on residential care homes. The auditor that had undertaken the review provided assurance that there was an agreed Management Action Plan (MAP) in place, with actions being rigorously implemented. The auditor had gone to individual care homes and tailored training for staff around the specific findings of the audit report. The Chief Internal Auditor reported that

she was very encouraged by the response of the service to this audit report and that the service had specifically requested the audit be undertaken.

3. Members asked whether the auditor had found more incidences of bad management of money at particular care homes, rather than across all. The Chief Internal Auditor was not aware of any fraud that had been discovered when working on this report.
4. The Chief Internal Auditor advised that a lot of work was being done to help prevent fraud and protect workers.
5. With regards to the Overtime audit report, Members asked why the first recommendation regarding reports for budget holders was not a high priority. The recommendation asked that HR Information and Finance staff continue to develop reports for budget holders and corporate reporting that analyse all additional payroll costs. Members considered this should be high priority as it was something that could save the Council money. The Chief Internal Auditor agreed to report back further on this matter **(Recommendations tracker ref: A55/12).** The Deputy Chief Finance Officer advised that reports did not go automatically to budget holders because of the technology currently used, however, when the new Dashboard was introduced this would be rectified.

**Actions/further information to be provided:**
The recommendations tracker to be updated to reflect the action noted in paragraph 5 above.

**RESOLVED:**
The Committee noted the report.

**Committee next steps:**
None.

**96/12 RISK MANAGEMENT HALF YEAR REPORT (INCLUDING LEADERSHIP RISK REGISTER) [Item 15]**

**Declarations of interest:**
None.

**Officers:**
Cath Edwards, Risk & Governance Manager

**Key points raised during the discussion:**

1. The Risk & Governance Manager reported that risk management arrangements were generally working well. The Leadership Risk Register continued to be reviewed and updated on a regular basis. Strategic Director risk registers were regularly updated, with the exception of the Environment & Infrastructure directorate, which was still incomplete following the directorate restructure.
2. There had been some recent changes to the Council Risk & Resilience Forum to ensure that there was both formal meetings and interactive workshops where information was shared and key issues discussed in a more informal setting.
3. A risk network event had recently been held for all risk representatives across the Council. It was noted that around half of the total

representatives had turned up. The event included an interactive risk challenge and training session. The feedback following the event had been positive and resulted in the Risk & Governance Manager being invited to meet with management teams to help with risk registers.

4. An expectation set has been produced for risk and resilience service representatives, which had been circulated for comment. This has provided clarity on the role of risk reps and the role of corporate business continuity and risk management officers.
5. There had been no significant changes to the Leadership Risk Register since the last meeting.
6. The Risk & Governance Manager agreed to circulate the one page summary of directorate risk registers, referenced in her report, to the Committee **(Recommendations tracker ref: A56/12).**
7. During the discussion one Member asked whether flu epidemic amongst staff was on a risk register. The Deputy Chief Finance Officer advised that each service had its own business continuity plan.
8. Members asked what could be done to improve turnout at risk meetings. The Risk & Governance Manager explained that agendas and meetings will be more carefully tailored, led bythe Risk and Resilience Steering Group. The Committee agreed to invite the Assistant Chief Executive (chair of the Risk and Resilience Steering Group) to a future meeting of the Committee to talk about the risk managementarrangements. **(Recommendations tracker ref :A57/12 ).**
9. The Chairman advised the Committee he would be writing to the Cabinet Member for Environment & Transport to raise his concerns about the outstanding Strategic Director for Environment and Infrastructure Risk Register. **(Recommendations tracker ref: A58/12 ).**

**Actions/Further information to be provided:**
The recommendations tracker to be updated to reflect the discussion.

**RESOLVED:**
The Committee noted the report.

**Committee next steps:**
The Chairman to write to the Cabinet Member for Environment & Transport about how the directorate deal with their Strategic Risk Register.

**97/12 GOVERNANCE UPDATE REPORT [Item 16]**

**Declarations of interest:**
None.

**Officers:**
Cath Edwards, Risk & Governance Manager

**Key points raised during the discussion:**

1. The Risk & Governance Manager introduced the item and advised that this was the latest update on the 2011/12 Annual Governance Statement (AGS). There had not been a formal action plan coming out of the AGS as there were no significant governance issues.
2. Members asked what controls were in place regarding social media. The Chief Internal Auditor referred Members to the recent audit report

on social media. There was currently no guidance around employee's personal use of social media.
3. The Risk & Governance Manager advised that she had recently submitted an entry for the LGC awards under the corporate governance category. She was pleased to report that the Council had been shortlisted and the winner would be announced in March.

**Actions/Further information to be provided:**
None

**RESOLVED:**
The Committee noted the update.

**Committee next steps:**
None.

**98/12 EXCLUSION OF THE PUBLIC [Item 17]**

**RESOLVED:** That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act.

**THE FOLLOWING ITEM OF BUSINESS WAS CONSIDERED IN PRIVATE. HOWEVER THE INFORMATION SET OUT BELOW IS NOT CONFIDENTIAL.**

**99/12 ENERGY PURCHASING CONTRACT [Item 18]**

**Declarations of interest:**
None.

**Officers:**
Sue Lewry-Jones, Chief Internal Auditor

**Key points raised in the discussion:**
1. The Chief Internal Auditor talked the Committee through the Part 2 report, which had been requested by the Leader of the Council.
2. During the discussion the Chairman recommended that the Committee urge the Leader to write to the Council involved to offer his support for amending the terms of reference and membership of the Governance Panel. **(Recommendations tracker ref: A59/12 ).** After further discussion it was agreed that the Leader should also raise the issue of when monies would be returned.

**Actions/further information to be provided:**
The recommendations tracker to be updated to reflect the action point raised during the discussion.

**RESOLVED:**
The Committee noted the report.

**Committee next steps:**
None.

**100/12 PUBLICITY FOR PART 2 ITEMS [Item 19]**

It was agreed that there would be no publicity for the Part 2 Item.

**101/12 DATE OF NEXT MEETING: 11 FEB 2013 [Item 20]**

Meeting ended at: Time Not Specified

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**Chairman**

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