

**MINUTES** of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.30 am on 26 July 2018 at Members Conference Room, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

**Elected Members:**

Mr David Harmer (Chairman)\*  
Mr Edward Hawkins\*  
Dr Peter Szanto\*  
Mr Will Forster\*  
Mr Stephen Spence

\*= Present

**Substitute Members:**

Mr Nick Harrison

**36/18 MINUTES OF THE PREVIOUS MEETING - 24 MAY 2018 [Item 2]**

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

**37/18 DECLARATIONS OF INTEREST [Item 3]**

Edward Hawkins declared a non-pecuniary interest as he was the Surrey County Council (SCC) appointed Director of Halsey Garton Property Investment Ltd.

**38/18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies were received from Stephen Spence. Nick Harrison acted as a substitute for Stephen Spence.

**39/18 QUESTIONS AND PETITIONS [Item 4]**

There were none.

**40/18 RECOMMENDATIONS TRACKER & BULLETIN [Item 5]**

**Witnesses:**

David John, Audit Manager

**Key points raised during the discussion:**

1. Action A2/18 - the Chairman highlighted that he intended to request a report on business continuity and emergency management towards the end of the Council's transformation. A Member highlighted that times of change could lead to higher potential risks. In response to this, it was suggested that business continuity plans should be considered by the Corporate Overview Select Committee when scrutinising the transformation plans.

2. Action A8/18 - the Audit Manager highlighted that he had previously circulated information outside of the meeting which noted that the service did not specifically consider schools non-adherence to Schools Travel Plans to be a risk. Members felt that this did have a place on the risk register and discussed the possibility of further referring concerns on to the Chairman of the Planning and Regulatory Committee or the relevant Select Committee. Members also considered requesting an internal service audit on the implementation of the plans.
3. Further to discussion, the Chairman stated that he would write to the Member of Parliament for South West Surrey to highlight his concerns around the Council's lack of power to enforce terms of school planning applications.

**Action/Further information to note:**

Members requested that the response from the Chief Executive on her position on the Audit & Governance Committee's role when considering the Governance Strategy and Code of Corporate Governance be circulated.

**RESOLVED:**

That the Committee noted the report.

**41/18 STATEMENT OF ACCOUNTS 2017/18 [Item 6]**

Will Forster left the meeting at 11:28am

**Witnesses:**

Nicola O'Connor, Finance Manager  
 David John, Audit Manager  
 Russell Banks, Chief Internal Auditor  
 Marcus Ward, Grant Thornton  
 Ciaran McLaughlin, Grant Thornton

**Key points raised during the discussion:**

1. The Finance Manager introduced the report and highlighted that Members had previously attended a briefing session on the Surrey County Council (SCC) Accounts. Members noted that there had been changes to Annex A following the publication of the agenda. These were as follows:
  - Page 44 onwards – 'Notes to the Accounts' was replaced with 'Notes to the Financial Statement'
  - Page 125 – 'Firefighters' Pension Scheme' was replaced with 'Firefighters' Pension Scheme Financial Statement'.
  - Page 69 – Note 7 – highlighted that the Section 151 Officer had been replaced with an Interim Section 151 Officer.
2. Annex B was published in a supplementary agenda on 23 July 2018. An amended Annex C was tabled at the meeting and is attached to these minutes as Appendix A.
3. Members sought clarification on why the Value for Money (VFM) Conclusion had not yet been submitted. Representatives from Grant Thornton explained that work was delayed as SCC had separately

requested the Chartered Institute of Public Finance and Accountancy (CIPFA) to carry out a review of the Council's financial resilience that would have had considerable overlap with Grant Thornton's work. It was then understood that the review was unlikely to overlap and that work would have to continue as previously planned. Due to this Grant Thornton was not in a position to issue the VFM conclusion on time. It was confirmed that the VFM conclusion would be issued in the coming weeks.

4. Members requested that the recent CIPFA review be circulated to Committee Members once available.
5. Members discussed the various figures in the Comprehensive Income & Expenditure Statement where it was requested that officers circulate an analytical review for more information.
6. Members requested clarification on why income in relation to Place, Development & Waste had decreased, particularly as Community Recycling Centres (CRCs) had started charging some fees. Officers agreed to provide a response outside the meeting.
7. In the narrative report to the statement of accounts it was noted that it was estimated that over 23,000 children in Surrey are living in poverty. Some Members felt this could be further clarified to give better understanding around the definition of poverty. Officers noted Members comments and agreed to pass them on to the Communications Team.
8. Officers highlighted that the Council continued to use short-term borrowing to cover short-term cash flow requirements, rather than borrowing long term.
9. Members noted that the service had resolved an outstanding issue o in the firefighters' pensions fund relating to injury awards.
10. Members requested a clear copy of the 2017/18 Council income and expenditure graph on page 33 of the agenda. It was also asked if Members could receive a similar graph for the 2018/19 figures.
11. Representatives from Grant Thornton provided a short summary of audit findings report. It was highlighted that they anticipated issuing an unqualified opinion on the accounts, following outstanding queries being resolved as outlined on page 3 of the supplementary agenda.

**Actions/ further information to be provided:**

1. A10/18 - Members requested that the recent CIPFA review be circulated to Committee Members once available – Chief Audit Manager
2. A11/18 - For officers to circulate an analytical review of the Comprehensive Income & Expenditure Statement.
3. A12/18 - For officers to provide clarification on why the income in relation to Place, Development & Waste had decreased, given that the recycling centres had started charging fees.
4. A13/18 - Members requested a clear copy of the 2017/18 Council income and expenditure graph and a similar graph for the 2018/19 figures.

**Resolved:**

Subject to the revisions/corrections agreed at the meeting, the Audit and Governance Committee:

1. Approved the 2017/18 Statement of Accounts, as attached in Annex A, for publication on the Council's website and in a limited number of hard copies;
2. Considered the contents of the 2017/18 Audit Findings Report in Annex B;
3. Agreed the officer response to recommendations of the external auditor;
4. Noted the amended Director of Finance's letter of representation, which was tabled at the meeting as Annex C;
5. Determined that no issues in the Audit Findings Report needed to be referred to the Cabinet.
6. Noted the revised Annual Governance Statement, as approved by Cabinet on 17 July 2018.

**42/18 SURREY PENSION FUND - LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2017/18 AND GRANT THORNTON EXTERNAL AUDIT FINDINGS REPORT [Item 6a]**

**Witnesses:**

Mamon Zaman, Senior Accountant  
 Marcus Ward, Grant Thornton  
 Ciaran McLaughlin, Grant Thornton

**Key points raised during the discussion:**

1. The Senior Accountant introduced the report and provided a brief summary of its details. It was noted that report presented the audited financial statements of the Pension Fund for the year ended 31 March 2018. The report and annexes were published in a supplementary agenda on 23 July 2018.
2. Members requested further information on why the pension administration services spending had raised from £1,250,000 in 2016/17 to £1,626,000 in 2017/18. Officers agreed to provide a response outside the meeting.
3. Members highlighted an error on paragraph XXI of Annex 3 which stated there had been no contact with The Pensions Regulator concerning matters of non-compliance with any legal duty. Officers agreed to amend the document to confirm that there had been contact with The Pensions Regulator.

**Actions/ further information to be provided:**

1. A14/18 - Members requested further information on why the pension administration services spending had raised from £1,250,000 in 2016/17 to £1,626,000 in 2017/18.
2. A15/18 - Officers to amend paragraph XXI of Annex 3 to confirm that there had been contact with The Pensions Regulator.

**Resolved:**

Subject to the revisions/corrections agreed at the meeting, the Audit and Governance Committee:

1. Approved the 2017/18 Pension Fund financial statements in Annex 1.

2. Considered the content of the Audit Findings for Surrey Pension Fund Report in Annex 2.
3. Determined that no items needed to be referred to Cabinet in relation to the external auditor's conclusions and recommendations.
4. Considered the content of the draft representation letter as set out in Annex 3 and
5. authorised the Deputy Chief Finance Officer to sign it on the Council's behalf.

**43/18 INTERNAL AUDIT & COUNTER FRAUD ANNUAL REPORT AND OPINION 2017-18 [Item 8]**

The Chairman considered item 8 before item 7

**Witnesses:**

David John, Audit Manager

**Key points raised during the discussion:**

1. Officers introduced the report and explained that report summarised the work of Orbis Internal Audit and Counter Fraud for the period 1 April 2017 to 31 March 2018. It was noted that the report also highlighted irregularities which had not previously been directly reported to the Audit and Governance Committee.
2. Members requested further information on the audit of Pensions Administration. Officers stated that the follow-up actions had not yet been completed and that they would continue to be monitored.
3. Members raised concern over that length of time the Police were taking to investigate the misuse of prepaid credit cards in one service, as detailed in paragraph 5.21 of Annex A. Officers explained that there were various reasons for the prolonged investigation but that officers were keen for its conclusion. Officers agreed to follow up on the Police investigation regarding the misuse of pre-paid credit cards.

**Actions/ further information to be provided:**

A16/18 - Officers agreed to follow up on the Police investigation regarding the misuse of pre-paid credit cards.

**Resolved:**

The Audit & Governance Committee:

1. Noted the work undertaken and the performance of Internal Audit in 2017-18 and the resultant annual opinion of the Chief Internal Auditor; and
2. Determined that there were no matters that the Committee wished to draw to the attention of the relevant Select Committee.

**44/18 PSIAS EXTERNAL ASSESSMENT OF INTERNAL AUDIT [Item 7]**

**Witnesses:**

Russel Banks, Chief Internal Auditor

**Key points raised during the discussion:**

1. Officers introduced the report and provided Members with a short summary. It was highlighted that there were two main requirements for assessing compliance with the Public Sector Internal Audit Standards (PSIAS); an annual self-assessment and a five-yearly external assessment to be conducted by a qualified, independent assessor or assessment team, from outside the organisation.
2. Officers highlighted that a recommendation for improvement was made relating to updating the Internal Audit Charter to cover responsibilities for the appointment and removal of the Chief Internal Auditor. An updated Internal Audit Charter would therefore be submitted for consideration at the next Audit and Governance Committee meeting.
3. Members discussed the advantages of obtaining an external assessment where it was determined that there was a commercial advantage.

**Resolved:**

It was agreed that the Committee note the report and in particular the external assessor's conclusion that Orbis Internal Audit has achieved the highest level of conformance with relevant professional standards.

**45/18 DATE OF NEXT MEETING [Item 9]**

The date of the meeting was noted as 27 September 2018.

Meeting ended at: 12:25

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**Chairman**

Annex C

Grant Thornton UK LLP  
30 Finsbury Square  
London  
EC2A 1AG

26 July 2018

Dear Sirs

Surrey County Council  
Group Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Surrey County Council and its subsidiary undertakings shown in Appendix 1 of this letter for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Group Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi Except as disclosed in the group and parent Council financial statements:

- a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the group and parent Council has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
  
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
  
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
  
- ix All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
  
- x We have considered the misclassification and disclosures changes schedule included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misclassification and disclosure changes and are free of material misstatements, including omissions.
  
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
  
- xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.
  
- xiii We believe that the group and parent Council's financial statements should be prepared on a going concern basis, as required by the Code. This is based on the assumption that a council will continue to operate for the foreseeable future. This assumption is based on the fact that local authorities carry out functions essential to the local community, exist by statute and are themselves revenue-raising bodies. If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. Whilst, like all local authorities, the Council is currently operating in a challenging financial environment, we do not have reason to conclude that the assumption to report on a going concern basis is no longer valid or that there is any evidence to suggest that the going concern assumption should be rebutted. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

- xiv We are satisfied that the significant assumptions used when measuring the Council's investment in share capital of Halsey Garton Property Ltd reasonable
- xv We are satisfied that the key judgements made in ensuring the carrying value of non-current assets, not revalued in the current year are not materially different to their current value, had a full revaluation taken place at the reporting date are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

### Information Provided

- xvi We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvii We have communicated to you all deficiencies in internal control of which management is aware.
- xviii All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
- xix We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.
- xx We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the group and parent Council financial statements.
- xxi We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.
- xxii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

**Annual Governance Statement**

xxvi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

i The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

**Approval**

The approval of this letter of representation was minuted by the Audit and Governance Committee at its meeting on 26/07/18

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

**Appendix 1****List of subsidiaries:**

S E Business Services Ltd  
Surrey Choices Ltd  
Halsey Garton Ltd  
Henrietta Parker Trust

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