

**MINUTES** of the meeting of the **AUDIT & GOVERNANCE COMMITTEE** held at 10.00 am on 24 June 2013 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 Tim Evans  
Mr Will Forster  
Mr Denis Fuller  
Mr Tim Hall

**In Attendance**

Denise Le Gal, Cabinet Member for Business Services - during the morning session

Cath Edwards, Risk & Governance Manager  
Cheryl Hardman, Committee Manager  
Kevin Kilburn, Deputy Chief Finance Officer (Section 151 Representative)  
Sue Lewry-Jones, Chief Internal Auditor  
Sheila Little, Chief Finance Officer (Section 151 Officer) – Items 11 & 13 only

### **29/13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

There were none.

### **30/13 MINUTES OF THE PREVIOUS MEETING [18 MARCH 2013] [Item 2]**

The minutes were agreed as a true and correct record.

A Member requested that it be clarified that point 4 under Minute 22/13 related to the evidence kept for audits.

### **31/13 DECLARATIONS OF INTEREST [Item 3]**

There were none.

### **32/13 QUESTIONS AND PETITIONS [Item 4]**

There were none.

*Tim Evans joined the meeting.*

### **33/13 RECOMMENDATIONS TRACKER [Item 5]**

#### **Declarations of Interest:**

None.

#### **Officers:**

Kevin Kilburn, Deputy Chief Finance Officer

Sue Lewry-Jones, Chief Internal Auditor

#### **Key Points Raised During the Discussion:**

1. In relation to R3/11 (social care debt), the Committee would be able to address this issue when it reviews the draft Statement of Accounts at Item 7.
2. In relation to R1/12 (Annual Governance Statement), the Committee agreed that this action was now complete.
3. In relation to A33/12 (Highways Contract audit report), the Chief Internal Auditor updated the Committee that the Audit report on Highways which was finalised in May 2013 was not the report looking at the recommendations in question. The relevant follow-up audit report would be published shortly.
4. In relation to A43/12 (Strategic Director for Customers and Communities), the Chief Executive would be in attendance for Item 13 'Annual Governance Statement'. He would give his analysis at this stage in the meeting.
5. In relation to A55/12 (Finance Dashboard), the Deputy Chief Finance Officer confirmed that work on the Finance Dashboard was ongoing and would go live in July. The slight delay was due to technical issues.

*Tim Hall joined the meeting.*

6. In relation to A58/12 (Risk Management), the Chairman had received an updated Environment & Transport Directorate Risk Register on 21 June 2013 and would circulate it to the Committee. The Committee expressed concern about the time it had taken to be provided with an updated Risk Register.
7. In relation to A59/12 (Energy Purchasing Contract), the Leader of Surrey County Council had received a response from the Leader of the local authority in question. Surrey County Councillors would be invited to the next scheduled meeting which is in November 2013 but the supplier would be willing to meet Members of Surrey County Council in advance of that meeting.
8. In relation to A3/13 (PAMS), the Chairman requested a progress note to be circulated to the Committee.
9. In relation to A4/13 (purchase cards), the Chief Internal Auditor informed the Committee that the new online approval system had launched at the end of March and a follow-up audit was planned for Summer 2013. The Chairman requested that an updated figure on the acceptance of the new guidelines be circulated.
10. In relation to A6/13 (Babcock 4S), Members clarified that the issue was regarding financial benefits specifically.

**Actions/Further Information to be Provided:**

The recommendation tracker to be updated to reflect the discussion, as noted above.

**Resolved:**

That the recommendations tracker was noted and the committee agreed to remove pages 25-26 of the tracker as the actions were completed.

**Next Steps:**

None.

**34/13 EXTERNAL AUDIT: 2012/13 AUDIT PLAN SURREY PENSION FUND [Item 6]**

**Declarations of Interest:**

None.

**Officers:**

Lynn Clayton, Audit Manager (Grant Thornton)

Phil Triggs, Strategic Finance Manager (Pension Fund & Treasury)

**Key Points Raised During the Discussion:**

1. The Audit Manager (Grant Thornton) introduced the report and suggested that the Audit Plan for the Surrey Fire-fighters' Pension Fund be circulated to Committee Members for information. She confirmed that the fees for the Audit of the Fire-fighters' Pension Fund was included within the fees for the County Council audit and not within the fees for the audit of the Surrey Pension Fund.
2. In response to a query, the Audit Manager (Grant Thornton) explained that the Audit Plan had been delayed because the new standard template had not been signed off by Grant Thornton in time for the previous Committee meeting.

3. Members queried the definition of “management over-ride of controls”. The Audit Manager (Grant Thornton) explained that the external auditors had to consider the possibility of fraud and whether managers were circumventing the usual controls to engage in fraudulent transactions.
4. Members queried the definition of “unusual entries” in journals. The Audit Manager (Grant Thornton) explained that these were journal entries that were out of kilter with normal Council journal entry policies and procedures. For example, if journal entries being processed at midnight is unusual, these would be checked. Grant Thornton’s view is that unusual journal entries are a common way of hiding fraud. However, unusual journal entries which are identified through an audit are usually found to not be due to fraudulent activity. Journal testing is carried out by undertaking a full download of every journal and using the system to identify any entries which are out of the norm.
5. The Chairman asked about administration costs cross-charged from the Council; it was confirmed these were covered by a formal Service Level Agreement (SLA).

**Actions/Further Information to be Provided:**

The Audit Manager (Grant Thornton) would circulate the Audit Plan for the Surrey Fire-fighters’ Pension Fund separately (**Recommendations tracker ref: A15/13**).

**Resolved:**

That the External Audit: 2012/13 Audit Plan Surrey Pension Fund be noted.

**Next Steps:**

None.

***The Audit & Governance Committee adjourned its meeting at 10.30am to join the Armed Forces Week Flag-Raising Ceremony.***

***The Committee reconvened at 11.15am.***

**35/13 RISK MANAGEMENT ANNUAL REPORT [Item 9]**

**Declarations of Interest:**

None.

**Officers:**

Cath Edwards, Risk and Governance Manager  
Kevin Kilburn, Deputy Chief Finance Officer  
Sue Lewry-Jones, Chief Internal Auditor

**Key Points Raised During the Discussion:**

1. The Risk and Governance Manager introduced the item.
2. The Chairman queried why the risk management policy statement which the Committee had approved the previous year had not been implemented and what the consequence of this was. The Risk and Governance Manager explained that the Risk and Resilience Steering Group was co-ordinated by Emergency Management and was mainly focussed on the Olympics. It was difficult to push through corporate

risk issues. In the absence of the policy statement being implemented, officers tried to push the message of a more holistic approach from the bottom to the top of the organisation.

3. Members suggested that some risks on the Leadership Risk Register may be getting worse but that this was hidden by categorising the risks as 'high' without any further sub-divisions of 'high'. The Risk and Governance Manager assured the Committee that Corporate Board has robust discussions on the Register and understood the risk levels. In response to a query about whether Corporate Board has ever changed any risks on the Leadership Risk Register, officers confirmed that it has done so. The Risk and Governance Manager informed the Committee that the Directorate Risk Registers have more detail and therefore will be changed more regularly than the Leadership Risk Register.
4. Members asked whether they could attend officer meetings on risk. It was suggested that this would help the Committee to know how seriously risk management was taken. The Cabinet Member for Business Services informed the Committee that officers did take risk management seriously and arguably were too risk averse. It was agreed that a seminar be arranged to allow the Committee to look in more detail at Directorate Risk Registers, and it was confirmed these were accessible on the intranet.
5. The Chief Internal Auditor informed the Committee that the initial findings of the annual audit of risk management highlight: the absence of an updated Environment & Infrastructure Directorate Risk Register for a long period of time; the non-implementation of the risk management policy statement; the unavailability of up-to-date service risk registers.
6. Members requested more detail on controls to be included within the Leadership Risk Register. Officers pointed out that it would be difficult to put much more detail into a strategic document but agreed to consider this request.

**Actions/Further Information to be Provided:**

A seminar to be arranged for the Committee on risk management.

**(Recommendations tracker ref: A16/13).**

A link to Directorate Risk Registers to be circulated to the Committee

**(Recommendations tracker ref: A17/13).**

**Resolved:**

1. That the Committee is satisfied with the risk management arrangements;
2. That the Risk Management Policy Statement and Strategy be **APPROVED** for inclusion in the Constitution **(Recommendations tracker ref: R1/13)**.
3. That the Leadership Risk Register be **NOTED**.

**Next Steps:**

None.

**36/13 INTERNAL AUDIT ANNUAL REPORT 2012/13 [Item 10]**

**Declarations of Interest:**

None.

**Officers:**

Kevin Kilburn, Deputy Chief Finance Officer

Sue Lewry-Jones, Chief Internal Auditor

**Key Points Raised During the Discussion:**

1. The Chief Internal Auditor introduced the report and highlighted the four key audit findings which the Governance Panel had agreed to take forward into the Governance Statement: Capital Monitoring; Project Management; Commercial Services; and Direct Payments.
2. The Cabinet Member for Business Services informed the Committee that performance on spending in line with the capital programme had improved compared with the previous year. She explained that the year-end investment and economic regeneration property acquisitions had been forecasted for at least six months and that the Cabinet had been aware that this would happen.
3. Members asked for reassurance that cancelled audits had reasonable explanations and were not delaying tactics by services. The Chief Internal Auditor highlighted the comprehensive analysis of completion of the 2012/13 Internal Audit programme of work, shown at Annex E to her report. The Chief Finance Officer had questioned Audit Managers about any audits which had not taken place and was satisfied that cancellations were for the right reasons. Specifically on the Procurement Standing Orders audit, a number of other audits had included checks on compliance with procurement standing orders so that a separate audit was viewed as not necessary. Internal Audit was robust at undertaking audits that needed to happen.
4. Members expressed concern that Commercial Services had been operating with minimal visibility and highlighted the likelihood that more trading services would be provided in future. They asked for reassurance that trading activities would be managed differently going forward.
5. Members expressed concern about data protection breaches and queried how information governance could be further strengthened. The Chief Internal Auditor pointed out that practically speaking, email and dealing with sensitive information was a way of life for council officers. However, there had been a lot of work undertaken to make data more secure over the past few years, with consequent improvements in practice. This work included cleaning up group email accounts, and warning users when draft messages to group email accounts involved recipients external to the County Council.
6. In response to a query, the Chief Internal Auditor explained that a 'n/a' audit opinion is probably the result of an audit providing a position statement.
7. Members queried the audit opinion categories used at Surrey County Council. The Chief Internal Auditor informed the Committee that the Effectiveness Review of Internal Audit had also suggested that the categories be looked at again.
8. Members queried a suggestion that there had been an "unexpected spike in predicted demand for school places" (page 257, paragraph 29). They raised concerns that forecasting was not as robust as it could be and highlighted the need for an additional meeting of the Planning & Regulatory Committee in August to deal with a high number of late planning applications for school expansions in the 2013/14 academic year. It was pointed out that demand for school places was consistently growing and therefore was not unexpected.

The Cabinet Member for Business Services highlighted the various pressures which have implications for demand for school places. The Council was having regular meetings with the Secretary of State for Education to discuss the challenges of forecasting demand. The Chief Internal Auditor informed the Committee that demand was unexpected when compared with previous expectations. Members suggested that the service build in the potential for empty places to avoid last-minute requirements to seek planning permissions. Concern was expressed about the potential for Planning and Regulatory Committee to be faced with retrospective planning applications in August. However, the Cabinet Member for Business Services pointed out that the Council could not build schools that were not required as budgets were tight. Also, the Schools & Learning Service was now having regular meetings with Finance and Property Asset Management to address any problems. The Committee was informed that the Children and Education Select Committee was setting up a sub-group to look at school place planning and that the Chairman of the Select Committee would be meeting the Chairman of Planning and Regulatory Committee to discuss issues.

**Actions/Further Information to be Provided:**

None

**Resolved:**

The Committee noted the work undertaken and performance of Internal Audit in 2012/13.

**Next Steps:**

The Chief Internal Auditor will continue to update Members on the progress of issues within this report that have not been fully concluded.

**37/13 2012/13 ANNUAL GOVERNANCE STATEMENT [Item 13]**

**Declarations of Interest:**

None.

**Officers:**

David McNulty, Chief Executive

**Members:**

David Hodge, Leader of the Council

**Key Points Raised During the Discussion:**

1. The Leader of the Council introduced the item.
2. Members queried how to make the system of school place planning more robust. The Chief Executive informed the Committee that there was a degree of uncertainty about school place planning. Over the past four years, forecasting on a borough level has become more accurate but there is a lack of clarity over demand for particular schools. It is also apparent that not all schools are able to expand. It is unlikely that data can be made any more robust but tolerances can be built in. At present, if any child does not have a place on day one of the school term, they will have been found a place by day two or day three. Teams across the Council are working better together than they had previously.

Members suggested that the cost of potentially empty demountables should be compared with the cost of transport to get children to schools that are far from their home. The Chief Executive informed the Committee that the Schools & Learning service does try to slightly over-provide to avoid the scenario where a child has no school place. He argued that that this was not a badly managed risk but that it was a risk which was difficult to control. He went on to suggest that the Children and Education Select Committee could sensibly debate whether Cabinet was putting enough resource into school place planning.

Members expressed concern that Planning & Regulatory Committee face the possibility of retrospective planning applications. The Chief Executive accepted that this was a risk but stressed that there is only a limited number of schools which could provide additional school places.

Members queried how demand for school places could be unexpected when data is available on birth rates, immigration, enrolment at private schools etc. It was suggested that accessing and using this data may be too costly for the Council. The Chief Executive refuted this and stated that all data sources were utilised, measured and analysed. The forecast is now mostly accurate but there will still be some level of unexpected demand. School place planning is dependent on many independent decisions made across a large county. Negotiations then need to take place with individual schools. There is sufficient resource to undertake this exercise.

3. Members queried how confident the leadership was to deliver savings with additional efficiencies being announced. The Leader of the Council reminded the Committee that the Council had been aware that the earlier years of efficiencies would be the easiest. The Public Value Programme had done well to find savings and to track those savings. The Chief Executive stated that the next three years would be challenging.
4. Members queried whether the Chief Executive and Leader of the Council were happy in their jobs. The Chief Executive had told new staff that the Members and officers of Surrey County Council were the best in public service. The next few years would be tough but he would prefer to do that here than elsewhere. The Leader of the Council informed the Committee that the quality of Members were better than they had ever been. Working through the SE7 would also bring positive change.
5. The Chairman asked for reassurance that governance of trading activities would be strengthened. The Chief Executive accepted Internal Audit's comments about Commercial Services. He stressed how the internal control environment had changed and highlighted the very effective relationships built by the Chief Internal Auditor. As future trading activities were begun, particular attention would be paid to governance structures.
6. Members queried how the Peer Challenge Team comments on Select Committees would be addressed. The Leader of the Council stated that the Chairman of Council Overview and Scrutiny Committee had latitude in how he works with the other Select Committees. Select



Committees were being encouraged to be more adventurous and open and to engage in more cross-committee working. The Chairman of Council Overview and Scrutiny Committee had been meeting with officers to discuss how to take this forward.

7. It was requested that links to other reports such as the Annual Report are made explicitly within the Annual Governance Statement.
8. The Chairman highlighted the absence of an updated Environment & Infrastructure Directorate Risk Register for several months during 2012/13. The Chief Executive assured the Committee that he had discussed risk management with the Chief Internal Auditor and welcomed the support of the Committee.
9. Referring to the Recommendations Tracker under Item 5, in relation to A43/12 (Strategic Director for Customers and Communities), the Chairman asked the Chief Executive to comment on the impact of the Strategic Director for Customers and Communities working part-time with Mole Valley District Council, on her work for Surrey County Council. The Chief Executive responded that Surrey residents received very good value for money from the arrangement. Residents expect two tier Councils to consider where they can share costs. The arrangements have also brought development opportunities in both directions for staff at Surrey County Council and Mole Valley District Council. Surrey County Council is reimbursed pro-rata, including National Insurance and on-costs, for the time the Strategic Director for Customers and Communities spends on Mole Valley District Council work.

**Actions/Further Information to be Provided:**

Links to other reports such as the Annual Report to be made explicit within the Annual Governance Statement (**Recommendations tracker ref: A18/13**).

**Resolved:**

1. That the Committee **AGREED** that governance arrangements are represented correctly within the draft Annual Governance Statement.
2. That the draft Annual Governance Statement be **COMMENDED** to Cabinet for publication with the Council's Statement of Accounts (**Recommendations tracker ref: Ref R2/13**).

**Next Steps:**

None.

**38/13 FULL YEAR SUMMARY OF INTERNAL AUDIT IRREGULARITY INVESTIGATIONS: APRIL 2012 - MARCH 2013 [Item 11]**

**Declarations of Interest:**

None.

**Officers:**

David John, Audit Performance Manager  
Kevin Kilburn, Deputy Chief Finance Officer  
Sue Lewry-Jones, Chief Internal Auditor  
Sheila Little, Chief Finance Officer

**Key Points Raised During the Discussion:**

1. The Audit Performance Manager introduced the item and updated the Committee on the situation with the activities of a school Business Manager, as detailed in the report. The police were confident that charges would be brought this week and that the case would be handled quickly to enable the internal investigation to continue.
2. Further to concerns about governance by a schools' Governing Body, a Member asked for advice on what the Children and Education Select Committee could usefully look at with regard to school governance.
3. The Chairman informed the Committee that the resources to audit every school each year were not available. Instead, schools were audited according to themes. He requested a note on the process of auditing schools to be circulated to the Committee. The Chief Finance Officer informed the Committee that she had to sign the School Financial Value Standard annually to say that schools have effective controls. Internal Audit had completed a piece of work which showed that it was possible for the Chief Finance Officer to have confidence to sign the Standard for the Department for Education. The irregularities identified were not significant enough for her not to sign the Statement.

A Member who sits on Children and Education Select Committee stated that he would raise school audits with that Committee and check that a process was in place to pick up on relevant audit reports.

4. The Audit Performance Manager clarified that Surrey County Council audits Surrey County Council maintained schools but not Academies. The Deputy Chief Finance Officer explained that Academy Schools have to appoint external auditors.
5. In response to a query, officers stated that thefts from safes vary from approximately £30 to £3,000. Fraudulent activity within a school could be a six-figure sum. It was rare to find fraud in excess of 6 figures.

**Actions/Further Information to be Provided:**

A note on the process of auditing schools to be circulated to the Committee  
**(Recommendations tracker ref: A19/13).**

**Resolved:**

The Committee noted the report.

**Next Steps:**

None.

*The Committee adjourned at 1.20pm for lunch.*

**39/13 COMPLETED INTERNAL AUDIT REPORTS [Item 14]**

*The Committee reconvened at 2pm with Bill Barker in the Chair. All Members were present apart from Nick Harrison.*

**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 highlighted that Transport for Education and Commercial Services had both received a 'Major Improvement Needed' audit opinion.

### ***Nick Harrison joined the meeting and took the Chair.***

2. In response to queries, the Chief Internal Auditor highlighted the lack of incentives for education officers to keep transport costs down as they do not hold the budget. SEN officers are not present at the annual review by schools of SEN children, which covers their transport. There is also no incentive for schools to change arrangements. A Member who had sat on Education Select Committee discussed the challenges in encouraging children to attend their local school. Members also suggested that best practice is for transport officers to attend meetings with parents and to encourage parents to provide transport training to older children with SEN. It was agreed that the Chairman would write to the relevant portfolio holders about concerns.
3. With regard to the Follow-up Review of Rental Income, Members queried whether data is in the right format to enable PAMS to work effectively. The Chief Internal Auditor replied that there had been work to reconcile rent deposits. The Chairman requested an update following the end of the first financial quarter of 2013/14.
4. In response to a query, the Chief Internal Auditor clarified that for every Audit Report a Management Action Plan (MAP) is agreed. Internal Audit reviews progress on implementation. If an audit is classified 'Major Improvement Needed' or 'Unsatisfactory', a full follow up audit is undertaken.
5. Members queried how VAT is worked out for Commercial Services. The Chief Internal Auditor offered to provide a written response to this query.
6. The Chief Internal Auditor informed the Committee that a progress report would be provided on the Residential Block Care Contracts MAP in September 2013. Individual actions are not all tracked upon reaching their deadline due to the number of recommendations made by Internal Audit each year. A progress check is made every six months. The Chairman stated that in theory where a service misses a deadline they should inform Internal Audit. The Deputy Chief Financial Officer informed the Committee that the contract with Anchor would be up for review in 2018/19.

### **Actions/Further Information to be Provided:**

1. The Chairman to write to the Cabinet Member for Transport, Highways and Environment and Cabinet Member for Schools and Learning about concerns over Transport for Education (**Recommendations tracker ref: A20/13**).
2. The Chief Internal Auditor to provide an update on the reconciliation of rent deposits following the end of the first financial quarter of 2013/14 (**Recommendations tracker ref: A21/13**).
3. The Chief Internal Auditor to provide a written briefing on how VAT is worked out for Commercial Services (**Recommendations tracker ref: A22/13**).

**Resolved:**

The Committee noted the completed Internal Audit reports.

**Next Steps:**

None.

**40/13 CODE OF CORPORATE GOVERNANCE [Item 12]**

**Declarations of Interest:**

None.

**Officers:**

Cath Edwards, Risk and Governance Manager

**Key Points Raised During the Discussion:**

1. The Risk and Governance Manager introduced the item.

**Actions/Further Information to be Provided:**

None.

**Resolved:**

That the Committee **APPROVED** the updated Code of Corporate Governance and recommended it to County Council for inclusion in the Constitution (**Recommendations tracker ref: R3/13**).

**Next Steps:**

None.

**41/13 STATEMENT OF ACCOUNTS 2012/2013 [Item 7]**

**Declarations of Interest:**

None.

**Officers:**

Kevin Kilburn, Deputy Chief Finance Officer

Nikki O'Connor, Finance Manager (Assets, Investment and Accounting)

Charles Phipp, Senior Finance Officer (Pensions and Treasury)

Phil Triggs, Strategic Manager (Pension Fund and Treasury)

**Key Points Raised During the Discussion:**

1. The Finance Manager (Assets, Investment and Accounting) introduced the item. She informed the Committee that the external auditors had started work the week prior to the meeting and the final Statement of Accounts would come back to Committee in September with the external auditor's report.
2. The Chairman highlighted that members of the Committee had been given a briefing session to ensure that they understand the structure of the accounts and the difference between local authority accounts and company accounts.

3. Members queried how many officers had inputted into the Statement of Accounts. The Finance Manager (Assets, Investment and Accounting) informed the Committee that there were two full-time equivalent staff who work on the Statement of Accounts. There are also contributions from many other areas of Finance, including an officer producing the accounts for the Surrey County Council Pension Fund.
4. Members queried the Earmarked Reserves listed in the Explanatory Foreword by the Chief Finance Officer. The Chairman suggested that the descriptions of the reserves provided in the Annual Report should be included within the Statement of Accounts. The Finance Manager (Assets, Investment and Accounting) felt that this would be appropriate under Note 8 rather than within the Explanatory Foreword.
5. The Deputy Chief Finance Officer informed the Committee that when a school becomes an Academy, any long term borrowing remains as the Council's liability. In this way, Academies were treated differently to previous situations where services moved out of local authority control. For example, when the police moved out of local authority control, Councils did keep the debt but the Home Office provided a grant to pay it off. This could be due to local authorities retaining responsibility for education within their borders but not for policing.
6. The Chairman requested that under Capital Expenditure in the Explanatory Foreword (page 54 of the Committee papers), the significant capital investment agreed as part of the MTFP be explained by reference to the need for more school places rather than stimulation of the local economic recovery.
7. Members asked whether Surrey County Council was in a minority for not undertaking external borrowing at the present time. The Deputy Chief Finance Officer assured the Committee that the Council was not in a minority. He explained that the cost of carrying surplus cash balances was currently not good value for money, and therefore using such balances to fund fixed assets was a cost-effective approach. It was queried whether there was capacity for more short-term borrowing. The Deputy Chief Finance Officer pointed out that this would need to be repaid and this could be at a time when interest rates had risen.
8. Members asked where the Heritage Assets were held. Officers explained that artefacts were held at County Hall and the History Centre. Note 14 explained how heritage assets are valued.
9. Officers assured Members that the Accounts had been prepared in accordance with the International Financial Reporting Standards (IFRS) and that this was clearly stated under General Principles within Note 1 of the Accounts.
10. The Chairman requested that the Fire Fighters' Pension Fund is mentioned under Pensions Liability in Note 5.

*Tim Hall left the meeting.*

11. The Chairman highlighted that in Note 12, 'de-recognition – others' refers to schools being given Academy status.

*Tim Hall re-joined the meeting.*

12. A Member suggested that within Note 13, it be made clear that the Foundation School which transferred to Academy status was already excluded from the balance sheet.
13. Members queried whether the full liabilities of PFIs were included in Note 16. The Deputy Chief Finance Officer clarified that this was an assessment of what will probably need to be paid for the implied lease element as opposed to the debt element of PFIs.
14. The Chairman highlighted the increase in past due debt of less than six months and a decrease in past due debt of more than a year. He queried the position with social care debt. The Deputy Chief Finance Officer stated that, while social care debt had increased to £7.6m during 2012/13, it was down to £7.3m at the end of May 2013. The increase in social care debt is partly due to SWIFT identifying more cases that can be billed for. Therefore, income had increased and this was reflected in the debtors balance at year end. If this had not happened, social care debt would have reduced more significantly. The Deputy Chief Finance Officer confirmed that provision for social services debt which included the health service was £6.8m.
15. Members queried how, if investments are not to be made in banks from countries whose sovereign rating is not AAA, the Council can make investments within the UK. The Finance Manager (Assets, Investment and Accounting) agreed that this reference would need to be re-worded.
16. Members queried where the figure for Council Tax arrears had come from. Officers explained that Borough and District Councils inform us what our share of their respective collection fund provisions for bad debt is. In-year monitoring data had been requested from Borough and District Councils. Members requested an update on Council Tax collection in September.
17. The Deputy Chief Finance Officer clarified that bad debt belonging to PCTs had been transferred to the new CCGs. Provision is being made to secure the debt.
18. The Finance Manager (Assets, Investment and Accounting) agreed that the paragraph on Unequal Pay Claim within Note 23 needed to be updated following the Birmingham City Council court case which determined that pay claims could be made for a further six years.
19. With regard to redundancy costs, explained under Note 23, the Finance Manager (Assets, Investment and Accounting) explained that decisions on redundancies were made in 2012/13 but payment would be made in 2013/14. Therefore a provision is made in the accounts of 2012/13. There is a caveat that some staff may be redeployed and so redundancy payment would not be made.
20. A Member asked why, according to Note 34, the salaries of the Strategic Director of Change & Efficiency and the Assistant Chief Executive had gone down over the past year. Officers suggested that this would be due to salary sacrifice schemes. In relation to this, the Chairman queried whether the Chief Executive's bonus arrangements were included within the Statement of Accounts. The Finance Manager (Assets, Investment and Accounting) informed the Committee that the bonus arrangements were subject to certain conditions which were yet to be met. Therefore, the bonus was not a current liability. Officers were not aware of any other bonus payments but that if there were any they would be budgeted for at the time of payment.

21. The Chairman commented favourably upon the 40% reduction in fees to the external auditor, which had been previously reported to the Committee.
22. A Member suggested that it would be useful to set out the lifetime costs of PFI contracts within Note 41. The Deputy Chief Finance Officer agreed that this was a valid point for long term financial planning but explained that what was included within Note 41 was heavily prescribed. The Finance Manager (Assets, Investment and Accounting) referred him to Note 43 which does set out this information.
23. In response to a query, officers explained that if the Eco Park does not go ahead, the Council may be liable to repay all or some of the Government grant.
24. Members queried the phrasing “employee contributions are matched by employers’ contributions” in the Surrey Pension Fund Statement of Accounts. This suggests that the employer puts in the same amount of funds as the employee. However, this is not the case in the Surrey Pension Fund.
25. Members discussed the terms for the transfer of liabilities from the Local Government Pension Scheme to the Principal Civil Service Pension Scheme for the Magistrates Court Service. It was queried who would pay remaining balance. The Senior Finance Officer (Pensions and Treasury) informed the Committee that the Department of Justice would pay.
26. The Chairman informed the Committee that this was the first time that the Audit & Governance Committee had been asked to comment on the draft Annual Report. It contained similar information to the Explanatory Foreword of the Statement of Accounts.
27. Members raised the cluster of senior officers within the £75,000 to £79,999 salary band. Members also suggested that there needed to be clarity over whether the Annual Report includes or excludes bonus information.

**Actions/Further Information to be Provided:**

1. The descriptions of the reserves provided in the Annual Report to be included within the Statement of Accounts (**Recommendations tracker ref: A23/13**).
2. That under Capital Expenditure in the Explanatory Foreword (page 54 of the Committee papers), the significant capital investment agreed as part of the MTFP be explained by reference to the need for more school places rather than stimulation of the local economic recovery (**Recommendations tracker ref: A24/13**).
3. That the Fire Fighters’ Pension Fund is mentioned under Pensions Liability in Note 5 (**Recommendations tracker ref: A25/13**).
4. That an update on Council Tax collection be provided in September (**Recommendations tracker ref: A26/13**).

**Resolved:**

1. That the Committee **APPROVES** the County Council’s annual statement of accounts, including the fire-fighter’s pension accounts for 2012/13, as approved by the Chief Finance Officer, for audit.
2. That the Committee **APPROVES** the pension fund accounts, as approved by the Chief Finance Officer, for audit.

3. That, pending the completion of the audit and subject to the accounts being represented to the Audit & Governance Committee in September, the accounts be **PUBLISHED**.
4. That the Committee **NOTES** the Annual Report and **ENDORSES** it for publication, subject to comments made.

**Next Steps:**

None.

**42/13 TREASURY MANAGEMENT OUTTURN REPORT 2012/13 [Item 8]**

**Declarations of Interest:**

None.

**Officers:**

Kevin Kilburn, Deputy Chief Finance Officer

Charles Phipp, Senior Finance Officer (Pensions and Treasury)

Phil Triggs, Strategic Manager (Pension Fund and Treasury)

**Key Points Raised During the Discussion:**

1. The Strategic Manager (Pension Fund and Treasury) introduced the item and highlighted the impact of the US Government clarifying its position on quantitative easing. The US Federal Reserve was aiming to have reversed its Quantitative Easing (QE) policy by the middle of 2014. It was possible that the Bank of England would reassess its position with regard to its own QE policy. However, regardless of the policy on QE, it was unlikely that there would be any rise in bank interest rates until mid-2015.
2. Officers assured Members that while £6.6m of deposits was still due to be returned from the failed Icelandic banks, they were confident that payment would be received.
3. The Senior Finance Officer (Pensions and Treasury) confirmed that the UK credit rating was still AAA with two of the three rating agencies.
4. Members requested training on gilt markets.
5. There was a discussion on the inclusion of the Economic Review 'opinion' in the Treasury Management Outturn Report. Officers explained that the annex adds colour and context to the outturn report.

*Tim Hall left the meeting.*

6. There was a discussion about the Risk Register, included at annex 4. The Chairman was satisfied with the high risk score for Interest Rate Risk (Borrowing). There was a view that the financial failure of SCC's main bankers should be rated a higher risk but there was acceptance of the officers' explanation.
7. Members considered the policy of investing in 'safe' counterparties which provide lower interests rates but accepted there was an associated risk of investing in lower-rated counterparties. The Committee would review the Treasury Strategy later in the year.

**Actions/Further Information to be Provided:**

To provide training to the Audit & Governance Committee on gilt markets  
(Recommendations tracker ref: A27/13).



**Resolved:**

1. That the Committee **NOTED** the content of the Treasury Management Annual Report for 2012/13.
2. That the Committee **ADOPTED** the Treasury Management Risk Register.

**Next Steps:**

None.

Meeting ended at: 4.35 pm

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**Chairman**

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