

MINUTES of the meeting of the **AUDIT AND GOVERNANCE COMMITTEE** held at 10.00 am on 17 January 2024 at Surrey County Council, Committee Room, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

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

Elected Members:

(Present = *)

(Remote Attendance = r)

- * Victor Lewanski (Chairman)
- * Richard Tear (Vice-Chairman)
- * Stephen Cooksey
- * Steven McCormick
- * Ayesha Azad
- * Helyn Clack
- * Terry Price (Independent Member)

Members in Attendance

David Lewis (Cobham) - Cabinet Member for Finance and Resources

The Chairman:

- Welcomed the new Committee member: Steven McCormick, and thanked the outgoing Committee member Joanne Sexton for her contributions.

1/24 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

2/24 MINUTES OF THE PREVIOUS MEETING - 22 NOVEMBER 2023 [Item 2]

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

The Chairman noted that a key agenda item discussed was the complaints handling procedure, Committee members raised several key points due to be reported on at January's Committee; the item has now been deferred to March's Committee.

3/24 DECLARATIONS OF INTEREST [Item 3]

There were none.

4/24 QUESTIONS AND PETITIONS [Item 4]

There were none.

5/24 RECOMMENDATIONS TRACKER AND WORK PLAN [Item 5]

Witnesses:

Amelia Christopher, Committee Manager
Ade Oyerinde, Grant Thornton

Key points raised in the discussion:

1. The Chairman referred to Appendix 1 to the recommendations tracker, response to action A37/23 and noted the error in the table for 2022/23, third column second row which states that there are two Assistant Managers in the Adult Services Customer Relations Team; officers have clarified that there is only one.
2. A Committee member referred to action A7/23 where the last update was provided on 9 January 2024 that the Customer Relations Team Manager and the team are working on an update and asked whether that would be received in March as part of the item; the Committee Manager confirmed that was the case.
3. A Committee member referred to action A8/23 where the last update was provided by the Audit Manager - Counter Fraud on 2 January 2024, he sought clarity on what that means going forward and whether the Committee would receive an update and when would that further work be picked up. The Committee Manager would liaise with the Audit Manager - Counter Fraud. Another Committee member stressed that there were serious issues that had not been resolved, he had received a recent letter from a school in his division that several staff members still had payments outstanding. He hoped that concern could be taken seriously and would provide details of that complaint to the Committee Manager to follow up with officers.
4. A Committee member referred to action A10/23 whereby the target date for completion was the next few months and asked for that to be more specific, regarding the link to be circulated to members as soon as it is set up. The Committee Manager would follow that up with officers.
5. A Committee member referred to the action A15/23 whereby the Value for Money assessment was nearing completion and would be included in the Audit Findings Report for 2022/23 to the Committee in January. The Chairman confirmed that was included under item 7.
6. A Committee member referred to action A16/23 whereby the target date for completion was to be confirmed and asked for that date to be more specific. Another Committee member noted that Grant Thornton was to provide an update at January's Committee and asked for that update. The Grant Thornton representative noted that they were still waiting for Public Sector Audit Appointments (PSAA) to approve the proposed 2022/23 audit fee, that was done on a quarterly cycle.
7. The Grant Thornton representative referred to the work plan noting corrections on pages 34 (June) and 36 (November) that going forward the external auditors would not be Grant Thornton. The Committee Manager would make that change.

RESOLVED:

1. Monitored progress on the implementation of recommendations from previous meetings (Annex A).
2. Noted the work plan and the changes to it (Annex B).

Actions/further information to be provided:

1. A1/24 - The Committee Manager will provide to officers the letter/details of the complaint from the school in the Committee Member's division where serious issues had not been resolved such as several staff members with payments still outstanding.

6/24 TREASURY MANAGEMENT STRATEGY STATEMENT 2024/25 [Item 6]

Witnesses:

Nikki O'Connor, Strategic Finance Business Partner (Corporate)

Key points raised in the discussion:

1. The Chairman thanked the Strategic Finance Business Partner (Corporate) and officers for the useful training session on the Treasury Management Strategy (TMS) Statement last week.
2. The Strategic Finance Business Partner (Corporate) noted that the Committee was asked to approve the TMS Statement which formed Part 4 of the Capital, Investment and Treasury Strategy for 2024/25. The full document was to be scrutinised by the Resources and Performance Select Committee and would be considered by the Cabinet with a recommendation for Council to approve it in February as part of the 2024/25 Final Budget and Medium-Term Financial Strategy to 2028/29.
3. The Strategic Finance Business Partner (Corporate) explained that the TMS Statement outlined the Council's approach to managing cash flows and related risks, specifically in respect of the Council's borrowing strategy and the safeguarding of cash investments. The TMS Statement for 2024/25 continues the Council's strategy to maximise internal borrowing and to balance the long-term and short-term debt portfolio to manage the 'cost of carry'. The Minimum Revenue Provision Policy was in line with current guidance. The investment strategy was to keep cash investments low and to utilise Money Market Funds for short term investments, to ensure liquidity and security.
4. A Committee member referred to Annex 1, paragraph 2.25 on Environmental Sustainability and welcomed that expertise being brought in but asked where the information could be accessed on the reporting of carbon impacts of the Capital Programme, as that could impact the Council's decision-making process around its investments. The Strategic Finance Business Partner (Corporate) explained that formed part of the work by the Greener Futures team around ensuring that the Council was moving towards that net zero target and would find out where that work is shared.
5. A Committee member referred to Annex 1, paragraphs 4.25 - 4.27 around the Local Context and asked how the Capital Financing Requirement (CFR) was used regarding balancing internal and external borrowing. The Strategic Finance Business Partner (Corporate) explained that the CFR was a measure of the Council's underlying need to borrow in relation to the historic capital spend and forecast future capital spend funded from borrowing. It does not represent what the Council's actual borrowing is or take into account any internal borrowing. Regarding actual borrowing, decisions were based on the TMS and the cash flow forecasts. Table 13 takes that CFR and looks at the Council's ability to internally borrow - or use its short to medium term cash balances - and tries to maximise that to reduce the revenue cost of actual external borrowing.
6. The Chairman referred to table 13 mentioned above, querying whether the projected additional external borrowing requirement does not necessarily mean that the Council would be investing more heavily. The Strategic Finance Business Partner (Corporate) explained that the table demonstrates the Council's ongoing commitment to capital expenditure, the Capital Programme - to be approved - remained ambitious and significant in terms of its capital investment over the next five years and that resulted in an anticipated increase in borrowing. The level of borrowing and the associated borrowing costs are assessed in terms of proportionality to the size of the Council's revenue budget, to ensure costs remain proportionate. Before borrowing, the actual spend would be reviewed compared to the forecast and as previously mentioned cash flow forecasts and internal borrowing would inform actual borrowing decisions.
7. A Committee member referred to Annex 1, paragraph 3.18 around the Security, whereby the value of property owned by Halsey Garton Property Ltd was assessed as being £81 million lower than cost which shows a 25% reduction. Concerning the pressures on the retail environment, she asked what risk that posed overall for the

portfolio and what was the estimated direction of travel, was it a short, medium or long term trend. The Strategic Finance Business Partner (Corporate) noted that it was only a risk until the point the Council sought to sell those assets, as opposed to when those were owned and were generating an investment return. It was difficult to estimate the direction of travel, it was unusual for property to decrease in value over the longer term, yet post-pandemic there had been many fluctuations. The Cabinet Member for Finance and Resources was unsure how long the market would remain at a low point. Regarding the Halsey Garton portfolios, the exposure to retail was relatively small and the portfolio had performed slightly better than the market overall. Work was underway on options for the old Debenhams site in Winchester and that would likely increase its valuation. The Strategic Finance Business Partner (Corporate) noted that the Council monitored the level of investment income as a proportion of its overall net revenue budget and currently it was less than 2%, demonstrating that it was not overly exposed to risk of fluctuations.

8. The Chairman referred to Annex 1, paragraph 3.8 around Commercial Investments: Property and specifically Table 7 where the expected gain for Retail was £23 million, compared to the £4 million loss reported last year. The Strategic Finance Business Partner (Corporate) would review the figures in Table 7.
9. A Committee member suggested that the numbering and lettering of the various annexes be reviewed as it was confusing. The Strategic Finance Business Partner (Corporate) acknowledged that and would review.

RESOLVED:

That the Committee approved the Treasury Management Strategy Statement (TMSS) – Part 4 of the Capital, Investment and Treasury Strategy for 2024/25 including the Prudential Indicators.

Actions/further information to be provided:

1. A2/24 - Regarding Annex 1, paragraph 2.25 on Environmental Sustainability, the Strategic Finance Business Partner (Corporate) will find out where that work is shared regarding the reporting of carbon impacts of the Capital Programme.
2. A3/24 - Regarding Annex 1, paragraph 3.8 around Commercial Investments: Property, the Strategic Finance Business Partner (Corporate) will review the figures in Table 7 around the expected gain for Retail.
3. A4/24 - The Strategic Finance Business Partner (Corporate) will review the numbering and lettering of the various annexes.

7/24 STATEMENT OF ACCOUNTS 2022/23 [Item 7]

Witnesses:

Barry Stratfull, Chief Accountant (Corporate)
 Ade Oyerinde, Grant Thornton
 Nikki O'Connor, Strategic Finance Business Partner (Corporate)
 Paul Dossett, Grant Thornton

Key points raised in the discussion:

1. The Chief Accountant (Corporate) noted that the report included Grant Thornton's Audit Findings Report. In respect of the Statement of Accounts 2022/23 there were a few last-minute audit checks and reviews being undertaken. It was expected that Grant Thornton would issue an unqualified opinion on both the Council and the Pension Fund accounts, to be signed in the next week or two. It was not expected

that anything material would result from the final checks, if that did arise then the accounts would be brought back to the Committee.

2. The Grant Thornton representative noted that:
 - The work was substantially complete, the main outstanding areas were around the valuation of Property, Plant and Equipment (PPE) and investment properties; since the report was issued the work on investment properties was substantially complete, final queries were being addressed regarding the valuation of PPE.
 - To date, there were no material amendments to the Council accounts or Pension Fund accounts, it was anticipated that they would issue an unqualified opinion on both accounts in the next few weeks. Final work was underway on the Pension Fund accounts around the journals and testing on benefits paid.
 - The materiality was set out in the report.
 - There were no issues identified in respect of their independence as auditors.
 - The appendices set out the recommendations identified, the majority were IT related issues that had not resulted in the identification of any material errors. Most of the recommendations were assessed as low or medium and were being followed up, including those from last year's accounts.
 - The audit adjustments were being worked through to ensure consistency with what had been audited and the agreed expected changes.
 - Once the audit is completed the estimated audit fee would be reviewed, to be approved by PSAA.
3. The Strategic Finance Business Partner (Corporate) clarified that the Committee's approval was sought as it was expected that it was the last time the Committee would see the 2022/23 Statement of Accounts with final sign off to be provided by the Chairman and Section 151 Officer. Noted that the delay in completing the audit was due to several reasons and lessons learnt were being incorporated going forward, the delays to the previous year's audit impacted this year's audit and there were national issues affecting local authority audit sign offs in many authorities. Noted that if the accounts were to be signed off in the next few weeks, the Council would be one of only a handful of local authorities to do so to date.
4. A Committee member referred to Appendix B - Action Plan around the recommendations concerning the IT system and asked whether Grant Thornton had discovered cases where someone had breached the segregation of duties or had user access when they should not have; what was the cause of those issues, were they related to the new IT system or had those issues not been picked up previously. The Grant Thornton representative noted that work was under the remit of the IT audit team, however concerning the segregation of duties, testing had been undertaken around journals and no issues had been identified. He noted that Grant Thornton's approach was cyclical in terms of a detailed IT review every two to three years. It had not resulted in material changes required to the accounts. The Strategic Finance Business Partner (Corporate) noted that the audit for 2022/23 looked at controls within the old SAP system, some cases related to incorrect user access to specific functions or reports within the system but that had not materialised into wrongdoing and had been addressed. The issues that were relevant to the new system were being incorporated going forward as useful learning points.
5. A Committee member referred to the lateness of the report and wondered whether it would be helpful for the Committee to receive a report analysing the reasons for those delays and a timetable for next year's audit. The Strategic Finance Business Partner (Corporate) noted that regarding the timetable for next year, the Council's new auditors took over on 1 April 2023 and the Committee would receive their audit plan. The deadlines remained the same: draft accounts by the end of May and

audited accounts by the end of September. Regarding the reasons for the delay, whilst a separate report could be produced those reasons were contained in the report and had been detailed in previous progress reports.

6. In addition to the above, the Grant Thornton representative explained that nationally, there had been an increase in the workload for auditors particularly around increased testing, issues around infrastructure assets had delayed sign off by a year and delays due to the triennial pension update. The Council faced challenges in 2021/22 with multiple changes to the accounts, and staffing issues, that delayed the sign off. Good progress had been made on the 2022/23 accounts and noted optimism for next year around the Chartered Institute of Public Finance and Accountancy (CIPFA) code update that might reduce the time spent on asset valuations. The Government would be consulting on the backstop arrangements - 30 September - it was anticipated that no more than 50% of accounts up to and including 2022/23 would be signed off. The profession needed to return to the sign off of audits within the same calendar year to make them useful. The Cabinet Member for Finance and Resources noted that his regular Briefing to Council meetings noted the status of signing off on the Statement of Accounts.
7. A Committee member asked if the Committee would receive the audit plan from the new external auditors at the March Committee meeting, otherwise it would come after the end of the financial year that it was addressing. The Strategic Finance Business Partner (Corporate) would share that request with the new external auditors.
8. The Chairman queried the final audit fee for the Council Group which was £300,729 for 2021/22 and asked whether that included the additional fee, if so was the original fee of around £200,000 set too low. The Grant Thornton representative explained that the original audit fee was an estimate at the time, that fee was set by PSAA in 2019 and that had not been updated annually so did not account for the changes to the International Standards of Auditing (ISA) or the additional requirements from the CIPFA code. For 2023/24, PSAA was reviewing that and would set a more realistic fee.

RESOLVED:

1. Noted the contents of the Audit Findings Report (AFR), as attached at Annex A.
2. Approved the 2022/23 Statement of Accounts, as attached in Annex B, for publication on the council's website.
3. Approved the Executive Director of Resources' letter of representation, which is attached in Annex C.
4. Noted that the Pension Fund Audit Finding Report will be circulated to Committee for consideration, before the Statement of Accounts are formally signed.
5. Approved the group letter of representation and Pension Fund letter of representation attached at Annex D.
6. The Committee delegated any residual matters relating the audit of the accounts, the Group accounts and/or the pension fund accounts to the Section 151 Officer.

Actions/further information to be provided:

1. A5/24 - The Strategic Finance Business Partner (Corporate) will share with the external auditors the request for the Committee to receive the audit plan from them at the March Committee meeting.

8/24 EXTERNAL AUDIT: AUDITOR'S ANNUAL REPORT 2022/23 [Item 9]

Item 9 was taken before item 8.

Witnesses:

Paul Dossett, Grant Thornton
 Nikki O'Connor, Strategic Finance Business Partner (Corporate)

Key points raised in the discussion:

1. The Grant Thornton representative noted that under the National Audit Office (NAO) Code of Practice regulations they were required to provide a Value for Money (VfM) assessment which considered whether the arrangements were adequate to facilitate that.
2. The Grant Thornton representative noted that the three arrangements reviewed were: financial sustainability, governance, and improving economy, efficiency and effectiveness:
 - Financial sustainability was rated Amber, it was Red in many other local authorities with more Section 114 notices likely to be issued; Grant Thornton recognised the huge challenges ahead around the medium-term financial plan, but due to the Council's understanding of the risks and willingness to take some difficult decisions the Council was in a lower risk category compared to others.
 - Governance included arrangements for risk management, internal audit and counter fraud; that was rated Amber as the Council was in a strong position with embedded arrangements.
 - Improving economy, efficiency and effectiveness contained two aspects: the work of external inspectors such as Ofsted, and internal arrangements and processes to ensure VfM, such as how the Council works in partnership with others. It was rated Green and was an outlier compared to many councils, the Council was in the top quartile.
3. A Committee member presumed that the recommendations relevant to the Committee were being factored into its work plan. She asked who the Council could be compared to in the top quartile. The Grant Thornton representative noted that Surrey's position was strong, towards the top of the group compared to other counties in the area which had significant financial challenges such as: Kent, West and East Sussex, Essex, Hertfordshire, Hampshire. However, no council was more than a few bad decisions away from an issue particularly around financial sustainability and demand pressures in children's services. The Committee member noted that was useful for Surrey to benchmark itself against.
4. The Chairman noted the hard work and in terms of Surrey ever achieving a Green rating for financial sustainability he noted that the Council would have to eliminate the risks around the budget gap which would be almost impossible with the financial challenges it faced. The Strategic Finance Business Partner (Corporate) was pleased with the report noting the hard work undertaken over several years to improve the Council's financial sustainability and financial management arrangements and stressed that the challenging financial environment should not be underestimated. The Cabinet Member for Finance and Resources agreed with the comments made, he believed that the Council had both the processes and the governance in place to deal with those challenges ahead; the transformation programme would help address that.
5. A Committee member welcomed the report which was transparent containing a detailed level of information, he thanked Finance officers and Grant Thornton.
6. The Chairman thanked Grant Thornton for all their work over the years.

RESOLVED:

Noted the report and considered the improvement recommendations outlined in Grant Thornton's Annual Report on Surrey County Council for 2022/23 (page 14, 21 & 27 of the Annex).

Actions/further information to be provided:

None.

9/24 2022/23 AUDIT REPORTS AND ANNUAL STATEMENT OF ACCOUNTS FOR SUBSIDIARIES OF SURREY COUNTY COUNCIL [Item 8]**Witnesses:**

Bill Harrow, Senior Finance Business Partner (Commercial)

Key points raised in the discussion:

1. The Senior Finance Business Partner (Commercial) noted the unqualified audit opinions for the 2022/23 external audit reports of each subsidiary, the results were consolidated to the Council's accounts. Findings included: management had appropriate procedures in place to prevent overrides of internal controls, found no indication of management bias or significant transactions outside the normal course of business, revenue was found to be recognised correctly across all the entities, no issues were found with the recoverability of debtors and reasonable assurance was obtained.
2. The Chairman welcomed the positive report for all the subsidiaries, there were no material misstatements.
3. A Committee member welcomed the collated report and useful pointers concerning the value of properties. He queried why the various subsidiaries used different external auditors. The Senior Finance Business Partner (Commercial) explained that each subsidiary decides who their external auditors were.

RESOLVED:

That the Committee considered the contents of the 2022/23 Audit Reports for the entities referred to in the report. The Financial Statements for each company were shared as background information.

Actions/further information to be provided:

None.

10/24 DATE OF NEXT MEETING [Item 10]

The date of the next meeting of the Committee was noted as 13 March 2024.

Meeting ended at: 11.04 am

Chairman