

MINUTES of the meeting of the **AUDIT AND GOVERNANCE COMMITTEE** held at 10.00 am on 13 March 2024 at Surrey County Council, Council Chamber, 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
- r Ayesha Azad
- * Helyn Clack
- * Terry Price (Independent Member)

Members in Attendance

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

11/24 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Ayesha Azad (remote).

12/24 MINUTES OF THE PREVIOUS MEETING - 17 JANUARY 2024 [Item 2]

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

13/24 DECLARATIONS OF INTEREST [Item 3]

Regarding item 6: Internal Audit Progress Report - Quarter 3, Terry Price declared a non-pecuniary interest noting that he was an examiner for a set of school accounts for a voluntary school.

14/24 QUESTIONS AND PETITIONS [Item 4]

There were none.

15/24 RECOMMENDATIONS TRACKER AND WORK PLAN [Item 5]

Witnesses:

Nikki O'Connor, Strategic Finance Business Partner (Corporate)
 Paul Evans, Director of Law and Governance, and Monitoring Officer
 Amelia Christopher, Committee Manager
 David John, Audit Manager

Key points raised in the discussion:

1. The Chairman asked for a verbal update on completed action A5/24, he understood that one Member had not signed the requisite documentation. The Strategic Finance Business Partner (Corporate) explained that the External Audit Plan 2023/24 ideally would have come to March's Committee meeting, it would however be brought to

June's Committee meeting. She noted that the new external auditors Ernst & Young (EY) had to delay the beginning of their audit planning work by a month as they could not start that work until they had a complete set of independence questionnaires from all Members and senior officers. She was actively chasing the outstanding questionnaire from a Member.

2. The Chairman referred to action A16/23 noting that the target date for completion was still outstanding. The Strategic Finance Business Partner (Corporate) explained that Grant Thornton had responded that Public Sector Audit Appointments (PSAA) had approved a series of 'bake in' variations which had been included on the audit plan for 2022/23, they do not however approve any additional variations on top of that until after the accounts are signed. The Strategic Finance Business Partner (Corporate) noted that they were close to signing off the 2022/23 Statement of Accounts. Final checks were underway, and it was hoped that it would be signed by early next week; once signed off the fee variation would be formally approved.
3. Regarding action A38/23 the Director - Law and Governance, and Monitoring Officer referred to the report going to March's Health and Wellbeing Board which outlined how health integration was improving. The Committee Manager noted that she sent the update to Committee members yesterday afternoon attaching that report titled: Health and Wellbeing Board and Surrey Heartlands Integrated Care Partnership/Integrated Care Board Governance Review.
4. A Committee member referred to action A1/24 which was scheduled to be deleted, he noted ongoing concerns about the issue of late payments to members of staff; he welcomed the response provided and the progress being made, however he had not had a response to confirm that the issue had been resolved. From his research he found that there were many outstanding issues and having asked a question on the website, the answer given was that a response would be provided in three months. He requested an up-to-date response as to how all the complaints around late payments concerning the new Unit4/MySurrey system were being progressed. The Audit Manager noted that an audit was planned to start in March/April looking at the schools' payroll function and it was hoped to be completed within quarter one, an audit was currently underway on the corporate payroll system.
5. The Cabinet Member for Finance and Resources explained that the issues around payroll had been well publicised, and a lot of work had been done and was underway to resolve the issues concerning Unit4/MySurrey, the current data showed that progress was being made. He suggested that the Committee member awaits the outcome of the deep dive by the Resources and Performance Select Committee's Task Group. The Committee member noted that he was concerned that there were many employees who were in difficulties due to the failings of Unit4/MySurrey, he noted that it would be useful for the Committee to receive a report before the summer about the progress being made. The Cabinet Member for Finance and Resources noted that it was incorrect to say that there were large numbers of employees with problems. A Committee member noted that he was the Chair of the Digital Business & Insights (DB&I) Task and Finish Group, which would produce the report to the select committee in May, that could be shared with the Committee for it to review alongside Internal Audit's report.
6. The Chairman referred to completed action A2/24 asking when the Greener Futures Team would take an annual carbon report to the Cabinet. A Committee member suggested that the action be reinstated and for a date to be included around when the report would be taken to the Cabinet; the Strategic Finance Business Partner (Corporate) would find out the timing, a Committee member noted that the Cabinet Forward Plan might include that report.
7. Regarding action A10/23 whereby the SharePoint site was now up and running, a Committee member asked whether that link would be shared with Members by the end of the month. The Committee Manager noted that she had been advised that the link would be available to all by the end of March and would follow that up.

8. Regarding action A33/23 a Committee member noted that the Committee should have received the report which sets out the parameters of the Complaints Task and Finish Group in March and asked when it would be shared. The Chairman noted that the report had been delayed to June's Committee meeting.

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. A6/24 - The Committee will receive the report from the Resources and Performance Select Committee's DB&I Task and Finish Group, for it to review alongside the later report from Internal Audit; ensuring that the Committee member gets an up-to-date response as to how all the complaints around late payments concerning the new Unit4/MySurrey system were being progressed.
2. Regarding completed action A2/24, it will be reinstated and the Strategic Finance Business Partner (Corporate) will find out when the Greener Futures Team would take an annual carbon report to the Cabinet.
3. Regarding action A10/23, the Committee Manager will follow up with officers around the SharePoint link being made available to all Members by the end of March.

16/24 INTERNAL AUDIT PROGRESS REPORT - QUARTER 3 [Item 6]

Witnesses:

David John, Audit Manager
 Paul Evans, Director of Law and Governance, and Monitoring Officer
 Simon White, Audit Manager - Counter Fraud
 Paul Fielding, IT Audit Manager

Key points raised in the discussion:

1. The Audit Manager outlined the breakdown of the twenty completed assignments in the last quarter, the level of assurance was fairly high. He referred to the two Partial Assurance audits: Schools Alliance for Excellence (SAfE) Contract and Unofficial School Funds (USFs). Regarding the SAfE Contract there were no issues with the quality of the service being delivered, the issues were around internal contract management processes and due to Covid-19, an insufficient level of input from procurement. The service had been responsive in agreeing actions to address the weaknesses identified, a follow up audit would take place in next year's plan. Regarding USFs, the audit had been scheduled in response to the £500,000 fraud case at Hinchley Wood Primary School, to ensure that the process set out in the Schools Finance Manual is transparent, robust, and followed good practice. The problem was the low level of assurance to the Council that schools had got the funds properly under control and that schools finance colleagues know what the balances being held were and how they were examined. Actions had been agreed and once schools are up to speed with that guidance, a follow up audit would be undertaken late in the next financial year.
2. The Audit Manager highlighted the Surrey Fire & Rescue Service (SFRS) Contract Management Arrangements Follow-Up audit which had an upgraded opinion from Partial to Reasonable Assurance. SFRS had been responsive to the agreed actions and the area would be kept under review.

3. The Audit Manager noted that nine schools audits had been undertaken in the quarter, one had Partial Assurance although there was no fundamental weaknesses of grave concern just a cumulative level of findings within the control environment.
4. The Audit Manager noted that the performance of the Productivity and Process Efficiency aspect delivered by the Internal Audit Service was rated at Amber with a delivery of 67.5% for the Audit Plan - completion to draft report stage indicator against the 90% target, the service was striving to meet that by the end of March.
5. A Committee member welcomed the USFs audit being carried out as there was a reputational risk in terms of the Council not knowing the balances held by schools. Being an examiner himself, he was not totally surprised by some of the findings and it would take time to embed the changes, it was important that inspection certificates are provided to the Council as well as the details about how much money has been held as it varied by school. The Audit Manager agreed regarding the reputational risk, noting the time and effort that went into the fraud case against a Council employee concerning Hinchley Wood Primary School, employees should be clear about what they should do and that the processes are fit for purpose. He noted the governor and bursar briefings to communicate messages widely, as well as the bulletin and talking to people to identify the key risks.
6. A Committee member welcomed that all except one of the school audits were given Reasonable Assurance. Referring to common themes being identified in paragraph 1.42, he would prefer that the wording 'encouraged' be changed to 'required' in the first bullet point: 'School staff should be encouraged to declare any relevant interests', if that was in line with the Council's Constitution. The Audit Manager agreed noting that he would make sure to reword that appropriately going forward. The Director - Law and Governance, and Monitoring Officer noted that the Council's Officer Code of Conduct requires officers to declare interests, he would confirm if it applied to school staff. The Audit Manager - Counter Fraud noted that the leadership group and business managers could have an influence on a decision-making process so would be required to make a declaration, whereas teachers for example without that influence on procurement would be encouraged to declare interests.
7. A Committee member referred to the SAfE Contract audit key findings around contract monitoring where there seemed to be little control or assurance, he asked for detail on contract segmentation. The Audit Manager noted that contract segmentation was a tool endorsed by the procurement team to break down the contracts into specific areas such as cost, quality and delivery and then to put in place proportionate management and oversight into the areas that need it the most. The Committee member noted that as it was implied that it originated from the Council's procurement team, the fact that it was not in place was a concern since the SAfE Contract was established in 2019. The Audit Manager understood that it was not a mandated approach, it was a tool that helped contract managers, in this case the services were unaware that they could use the tool.
8. Regarding the SAfE Contract audit key findings, the Committee member sought clarity on the secure transfer of data between the Council and the provider, why was Partial Assurance provided if data was being transferred insecurely and what would the reputational impact be to the Council. The Audit Manager referred to the finding that the transmission of data between the supplier and the Council was challenging due to the supplier not having a commercial email address, however all sensitive data is uploaded to the data sharing platform: Nexus, which is operated by the Department for Education. Once the service addresses that through a revised communications protocol with the supplier, the risk of a data breach was minimal and commercially sensitive information was protected.
9. A Committee member referred to the USFs noting concern about the Partial Assurance opinion given, and the three actions for management; asked whether the Council has adequate control over schools in this area, or whether its role was to encourage better practice and was there a good practice guide. The Audit Manager

noted that the Council sets out the framework for how the fund should be administered, the responsibility for its governance was the schools' through their Governing Board. The Council had sought to improve the framework set out in the Schools Finance Manual, but relied on that being followed by the schools and governors for example asking to see the inspection certificate; work was underway to relay that message.

10. The Committee member noted concern that school governors might put themselves at risk for example around the funding of a project in a local school where the contractor used is related to a staff member or a parent. Regarding the risks around collusion, the Council set out the requirement to declare an interest for those in a decision-making leadership role; using known contractors was legitimate so long as the decision-making process was transparent and was ratified by independent people such as the chair of governors.
11. Responding to the Chairman, the Audit Manager clarified that the USFs accounts were donations that schools receive whether from parents or from a school fete for example. A Committee member noted that local charities such as the Henry Smith Charity or local villages with large trust funds might for example make a significant donation to a school. Her concern was around ensuring that schools have the ability and resources to be accountable for spending USFs and to be transparent, and whether the governance process was robust and governors were properly aware of their responsibilities and what documents they should be requesting.
12. The Chairman asked whether examiners would be asked to formally follow the Schools Finance Manual as part of the recommendations. The Audit Manager confirmed that a section of the Schools Finance Manual would be redrafted and communicated to schools over the next few months to be effective from the new academic year, evidence of compliance would be gathered subsequently. He noted that the approach must be proportionate to the size of the fund.
13. Responding to the Chairman, a Committee member explained that he had not dealt with the Schools Finance Manual himself as that was followed by the School Business Manager and any issues that came up during the year they would liaise with him for example on how best to handle donations within the USF. The Audit Manager responded to the Chairman around whether School Business Managers or governors were required to confirm that they had followed the Schools Finance Manual, noting that Internal Audit would determine the best approach to ensure it gets the right level of assurance when it does the follow up. Assurance was also provided via the schools audit programme through inspection certificates. He stressed that many school bursars do follow the Schools Finance Manual, it was just not providing the right level of assurance.
14. Responding to the Vice-Chairman, a Committee member who had been a governor a while ago noted that governors were offered training as they were responsible for the decisions taken at their school. The chairs work hard overseeing the school and the bigger the school the larger the financial responsibility.
15. A Committee member referred to the Surrey Fire & Rescue Service (SFRS) Contract Management Arrangements Follow-Up audit where the opinion had improved to Reasonable Assurance over the controls, sought confirmation that the three high priority actions had been implemented; if that was the case why was that assurance level not higher. The Audit Manager explained that within the follow-up audit, Internal Audit checks that all agreed actions have been implemented including the high and medium priority actions, it did not give Substantial Assurance because it did not look across all contract managers and contracts, and there was residual training to do for the people managing the less significant contracts.
16. A Committee member referred to the SFRS Customer Relationship Management (CRM) System and asked whether SFRS was using the Council's project management governance framework or its own. The IT Audit Manager noted that the procurement of the system was not covered by the audit, the audit looked at the

governance around the project and the implementation of the system. Regarding the identification of the areas for improvement, the Committee member asked whether SFRS was following the Council's Risk Management Strategy. The IT Audit Manager assumed that SFRS was following that strategy as it formed part of the Council, the finding was that although the project had a risk register with risks highlighted in line with the Council's risk management framework, in some cases the responsible officers nor mitigations were being recorded.

17. A Committee member referred to the Adult Social Care (ASC) Data Handling audit whereby an area for improvement was to identify a responsible officer to delete data held digitally at the end of its retention period, he deduced that the Council might be holding data past its retention period, was there an action plan and did that impact the Council's General Data Protection Regulation (GDPR) responsibilities. The IT Audit Manager understood that there was a project underway looking at the deletion and holding of records, a lot of the ASC records had significant retention periods, he could not comment on retention periods about certain files and whether the Council was holding those past GDPR legislation. The Chairman requested that written responses be provided to the questions asked in key points 16 and 17.

RESOLVED:

That the Committee noted the report.

Actions/further information to be provided:

1. A7/24 - The Audit Manager will in future reports reword 'encouraged' to 'required' regarding school staff declaring any relevant interests.
2. A8/24 - The Director - Law and Governance, and Monitoring Officer will confirm whether the Council's Officer Code of Conduct applied to school staff.
3. A9/24 - The IT Audit Manager will provide written responses to the questions asked in key points 16 and 17 concerning the SFRS Customer Relationship Management (CRM) System and Adult Social Care (ASC) Data Handling audit.

17/24 INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2024/25 [Item 7]

Witnesses:

David John, Audit Manager
 Russell Banks, Chief Internal Auditor
 Simon White, Audit Manager - Counter Fraud

Key points raised in the discussion:

1. The Chairman highlighted that the Committee had a training session on the plan.
2. The Audit Manager explained that the content of the plan was drawn from consultation with management and Members and takes a risk-based approach, sought the Committee's endorsement that the approach and the content seem reasonable and fit for purpose. Noted that due to the implementation of Unit4/MySurrey this year some of the key financial systems would be assured next year as a priority. Reiterated that Internal Audit undertakes follow-up audits given Minimal or Partial Assurance, to check management has actioned what they agreed to and that the controls have improved. Highlighted that the plan adapts to emerging issues whereby there were 400 days of contingency time, and any audits not completed in the year would be rolled over. Noted that the number of audit days increased back to the 2022/23 amount, that includes 225 dedicated days of schools audit time equating to 30 to 35 schools audits.

3. A Committee member noted the discussion last March about staffing and the difficulties in recruiting to fill vacancies, sought an update on the current situation. The Chief Internal Auditor noted that there were some vacancies within the service, recruitment was ongoing and some successful appointments had been made. Due to the national challenges of recruiting experienced qualified auditors, the approach taken was to hire entry level people and invest heavily in their professional development. The gap at senior principal auditor level was being filled through external contractor resource, the ambition was to not have to use that external resource going forward. Noted confidence in having the resources to deliver the plan, hence the increased number of audit days.
4. The Chairman asked whether there had been many identified cases from the National Fraud Initiative (NFI). The Audit Manager - Counter Fraud noted that the Pensions Administration team had updated all the mortality matches, the savings in concessionary travel were lower compared to the previous exercise which cleared off many cases, it would be a biennial exercise going forward. Results using the new Unit4/MySurrey system were uncertain regarding creditors and preventing duplicate payments, and some payroll matches were being looked at.
5. The Audit Manager - Counter Fraud responded to the Chairman noting that Blue Badge fraud was still being looked at, that was administered by a national body and the Council received matches, referrals concerning misuse were infrequent.
6. The Audit Manager - Counter Fraud responded to the Chairman noting that 150 days were set aside for counter fraud, if needed more days could be allocated if other areas in the plan are reprioritised. Hinchley Wood Primary School fraud case had exceeded that allocation over the past few years, however large scale cases were not frequent, investigations were usually 10 or 15 days. Every two years there was a peak when collating and submitting the NFI data. The Chief Internal Auditor clarified that counter fraud was not a function of Internal Audit and some local authorities keep it separate, the Council maintained a close relationship between the two as in most fraud cases there is found to be an internal control management role implication that needs to be strengthened. The level of counter fraud resource was proportionate to the fraud risk and the size of the organisation.

RESOLVED:

Members considered the contents of the report and appendices, and approved:

- (i) The Internal Audit Strategy (Annex A);
- (ii) The Internal Audit and Corporate Fraud Plan (Appendix A);
- (iii) The Internal Audit Charter (Appendix B).

Actions/further information to be provided:

None.

18/24 ETHICAL STANDARDS ANNUAL REVIEW 2023-24 [Item 8]

Witnesses:

Paul Evans, Director of Law and Governance, and Monitoring Officer

Key points raised in the discussion:

1. The Director of Law and Governance, and Monitoring Officer explained that the annual report on the operation of the Member Code of Conduct had expanded to include sections on declarations of interest, and gifts and hospitality. Members

received induction training on the Code with ongoing development throughout the year such as on social media and refresher training on the Member-Officer Protocol. Noted that ten complaints had gone through the complaints process, none were formally investigated and no breach of the Code was found. Noted the importance of Members being aware of how their comments are perceived by others, particularly on social media. Members were required to register their interests and a reminder was sent every six months to update it. There were nine declarations last year at decision-making meetings, officers were not aware of any issues where a Member has not declared an interest at a meeting when they should have done. Noted that Members must register any offers of gifts or hospitality over £50, whether accepted or refused; there were 18 entries last year mainly relating to the Leader. Noted the suggestion that a more targeted reminder be sent to those roles more likely to be offered gifts and hospitality. At present, the suggestion of requiring a nil return by all Members was considered disproportionate based on the entries.

2. The Chairman agreed that it would at present be disproportionate to ask all Members to submit a nil return regarding the gifts and hospitality register.
3. A Committee member agreed that it would be disproportionate, noting that even as former Chair of the Council she paid her own way; it was vital to remind Members to declare their gifts and hospitality, the Director of Law and Governance, and Monitoring Officer noted that the last reminder was sent in December 2023.
4. A Committee member welcomed the annual report which covered the Member Code of Conduct and queried whether there should be a similar report covering senior officers alongside the report on Members. The Director of Law and Governance, and Monitoring Officer explained that a report was monitored on a quarterly basis for gifts and hospitality, interests and whistleblowing at an officer level. The proposal for some time had been to report it to the Committee, he understood that the Unit4/MySurrey system generated those reports and once those declarations were coming through reliably, the report would be brought to the Committee.

RESOLVED:

1. Noted the Monitoring Officer's report on recent activity in relation to the Members' Code of Conduct, including Registration of Interests and Gifts and Hospitality, and complaints made in relation to Member conduct.
2. Noted the further training and development planned for the coming year at paragraph 14.

Actions/further information to be provided:

1. A10/24 - The Committee will receive the report on gifts and hospitality, interests and whistleblowing at a senior officer level alongside the annual report on Members.

19/24 APPOINTMENT OF INDEPENDENT MEMBER TO THE AUDIT AND GOVERNANCE COMMITTEE [Item 9]

Witnesses:

Paul Evans, Director of Law and Governance, and Monitoring Officer
Amelia Christopher, Committee Manager

Key points raised in the discussion:

1. The Director of Law and Governance, and Monitoring Officer noted that the date for the recruitment panel to interview the suitable candidates would be confirmed in the next few weeks; there had been six applicants.

2. The Committee Manager confirmed that Group Leaders had been consulted and the four Committee members that formed the recruitment panel would be: Victor Lewanski, Richard Tear, Steven McCormick, Stephen Cooksey.

RESOLVED:

Noted the recruitment process being undertaken and following an interview process, will recommend the preferred candidate to County Council to be appointed as the Independent Member to the Audit and Governance Committee.

Actions/further information to be provided:

1. A11/24 - The Committee Manager will send out an email to the recruitment panel noting the next steps.

20/24 RISK MANAGEMENT [Item 10]

Witnesses:

David Mody, Head of Strategic Risk

Key points raised in the discussion:

1. The Head of Strategic Risk outlined the progress made in 2023 as set out in the report, covering: Risk Management Strategy, risk 'intranet', Local Working Instructions, Risk Management training, completed Risk Management actions, Grant Thornton's review of Risk Management, and welcomed the two nominations to Risk Management for the Council's Stars in Surrey 'Team Award for Outstanding Customer Service'. Compared to the previous year, 2024 was more outwardly focused with best practice being sought from other councils' risk managers to see what they were doing and what could be applied to the Council, and would look at benchmarking against their Corporate Risk Registers; progress had been made.
2. A Committee member congratulated the officer for receiving those nominations. He highlighted ST.34 and asked why that risk regarding Home to School Travel Assistance had been removed from the Corporate Risk Register. The Head of Strategic Risk noted that over the last few years there had been 37 corporate risks and there were currently 22 corporate risks; areas which had improved were removed and new priorities were added in. Regarding Home to School Travel Assistance, improvements had been made over the past year so it was decided that it be removed as it did not need to be monitored from a corporate level, it continued to be monitored at directorate level and a report went to Informal Cabinet last year.
3. The Chairman noted a typo regarding ST.27 which had an overall score of 10 and it says that it 'was 2', should that be 'was 12' as the score had decreased. The Head of Strategic Risk clarified that 'was 2' was an error in the old version of the report, the published agenda correctly noted that the overall score is 10 and 'was 15'.

RESOLVED:

Noted the update on risk management.

Actions/further information to be provided:

None.

21/24 VOTE OF THANKS TO RETIRING INDEPENDENT MEMBER [Item 11]**Witnesses:**

Anna D'Alessandro, Director - Corporate Finance and Commercial, and Interim Section 151 Officer

Key points raised in the discussion:

1. The Chairman noted that the Committee's Independent Member, Terry Price, was retiring and he thanked him for all his contributions over the past two years; he wished him all the best for the future and noted that it had been a pleasure to have him on the Committee. The Independent Member noted that he was leaving to do fewer things, he thanked the Chairman, Committee members, and Cabinet Member for Finance and Resources, and officers for addressing his queries; noting that he had enjoyed his time as a Committee member.
2. The Chairman echoed the Committee member's comments about the officers thanking them for all their hard work in preparing the Committee's reports. The Director - Corporate Finance and Commercial, and Interim Section 151 Officer welcomed that thanks.

RESOLVED:

That a vote of thanks was given to the retiring Independent Member.

Actions/further information to be provided:

None.

22/24 DATE OF NEXT MEETING [Item 12]

The date of the next meeting of the Committee was noted as 5 June 2024.

The Chairman noted that Paul Evans, Director of Law and Governance, and Monitoring Officer would be leaving the Council, he thanked him for all his exemplary legal advice provided to the Committee. The Director of Law and Governance, and Monitoring Officer welcomed the Committee's thanks.

Meeting ended at: 11.24 am

Chairman