

MINUTES of the meeting of the **AUDIT AND GOVERNANCE COMMITTEE** held at 10.00 am on 22 January 2025 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 = *)

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

Members in Attendance

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

The Chairman welcomed some officers from the Corporate Leadership Team (CLT) in attendance in person and online.

1/25 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were none.

2/25 MINUTES OF THE PREVIOUS MEETING - 20 NOVEMBER 2024 [Item 2]

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

3/25 DECLARATIONS OF INTEREST [Item 3]

There were none.

4/25 QUESTIONS AND PETITIONS [Item 4]

There were none.

5/25 RECOMMENDATIONS TRACKER AND WORK PLAN [Item 5]

Key points raised in the discussion:

1. The Chairman noted that he would progress his actions: A20/24, A30/24, A40/24.
2. A Committee member sought an update on the 'to be confirmed' target dates for completion for several actions and for the tracker to be updated. A29/24: the Committee member added that it was meaningless if the Council did not respond to the actions highlighted by Internal Audit. The Deputy Chief Executive and Executive Director - Resources explained that a report on Tree Management would be presented at March's Committee meeting.
3. A35/24: the Deputy Chief Executive and Executive Director - Resources noted that he had met with the Monitoring Officer and the Chief Executive and the Monitoring Officer would arrange that meeting with Committee members.
4. A42/24: the Deputy Chief Executive and Executive Director - Resources noted that he was liaising with the Monitoring Officer to ensure that Committee

members' comments on the Annual Governance Statement - Half Year Update are reflected, particularly concerning Unit 4/MySurrey.

RESOLVED:

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

Actions/further information to be provided:

None.

6/25 TREASURY MANAGEMENT STRATEGY STATEMENT 2025/26 [Item 6]

Speakers:

Nikki O'Connor, Strategic Finance Business Partner (Corporate)
 Andy Brown, Deputy Chief Executive and Executive Director - Resources
 Owen Jenkins, Executive Director - Highways, Infrastructure and Planning

Key points raised in the discussion:

1. The Strategic Finance Business Partner (Corporate) introduced the Treasury Management Strategy Statement (TMSS), which is produced as part of wider reaching Capital, Investment & Treasury Management Strategy as part of the budget planning process each year. She noted that the training session last week with Arlingclose covered the main elements of the TMSS and that there were no fundamental changes proposed to the TMSS compared to the current year strategy.
2. The Strategic Finance Business Partner (Corporate) noted that the Council's borrowing requirement was set to continue to rise over the medium term, driven by the proposed Capital Programme which had been through multiple iterations and scrutinised. The Council would continue to avoid holding large cash balances and manage the cost of carry by optimising internal resources to reduce overall borrowing. The Council currently has a high proportion of its borrowing held as short-term borrowing, this was considered an appropriate strategy given the recent high interest rates experienced and a consensus that they would fall over the next twelve to eighteen months. It was likely that the Council would take out further long-term borrowing over the next year, although this would remain under review and would depend on cash flow forecasts and the prevailing rates of interest.
3. The Strategic Finance Business Partner (Corporate) noted that no changes were proposed to the Investment Strategy, the aim was to keep cash balances low and put liquidity and security considerations before yield achievable. Limits on the duration and amount of investments were set for each counterparty type. It was likely that the Council would continue to utilise Money Market Funds over the next year.
4. The Chairman noted that the Capital Programme could be subject to change due to local government reorganisation and asked whether there was scope for that. The Deputy Chief Executive and Executive Director - Resources noted that the Council should factor that in going forward, the Section 25 statement in the budget set out that local government reorganisation should not detract the Council from setting the budget and delivering the Capital Programme.
5. The Deputy Chief Executive and Executive Director - Resources clarified that as compared with previous reports, the Committee was being asked to comment on

- and note the TMSS, it was not being asked to approve the TMSS as the Cabinet would recommend it to the Council for its approval.
6. A Committee member asked what the actual balance sheet figures were of properties owned by the Council. The Strategic Finance Business Partner (Corporate) confirmed that the Property, Plant and Equipment (PPE) figure was £2.1 billion as at March 2024 and that included the countryside estate, highways, bridges, land and buildings. The Deputy Chief Executive and Executive Director - Resources clarified that many items on the balance sheet did not translate into cash.
 7. A Committee member noted the need to balance short-term and long-term borrowing and asked whether an assessment of that balance was linked to risk or specific criteria, or was it the case that the Council made a judgement on the advice from Arlingclose. The Strategic Finance Business Partner (Corporate) noted that it was more the latter, the Council aimed to not have more than 60% of its total borrowing in short-term borrowing as the exposure to interest rate volatility was higher. However, this was an indicator rather than a set parameter, as the Council did not want to force itself to take on long-term debt to meet such a measure and incur higher interest costs for longer periods as a result. Borrowing was kept under constant review, considering what the market was suggesting regarding forecast changes to interest rates, cash-flow forecasts and the rate of capital spend.
 8. A Committee member queried how the risk associated with relying on Arlingclose was managed. The Strategic Finance Business Partner (Corporate) explained that Arlingclose was an advisor, officers in the Council's Finance team were trained in treasury management and also reviewed the market. The Deputy Chief Executive and Executive Director - Resources noted that it was the Council's choice to follow Arlingclose's advice, when the Council sets the TMSS it could stretch the boundary of risk, for example through investing in property funds, the security of investments was the most prominent factor.
 9. A Committee member noted that when the Communities, Environment and Highways Select Committee undertook a deep dive into the Capital Programme, it recommended that local Members be informed on proposed major changes in their respective areas. The Deputy Chief Executive and Executive Director - Resources clarified that was the intention regarding capital projects. The Executive Director - Highways, Infrastructure and Planning clarified that local Members would be kept informed on changes to the Capital Programme, for example on slippages and removals.
 10. Regarding informing local Members of the changes to the Capital Programme, a Committee member asked whether that process had been followed for a while and if it had he sought evidence of that happening as he noted a case where it had not. The Vice-Chairman noted that the select committee should take up the matter more strongly, he suggested that he and the Committee member could discuss the matter with the select committee chairman.
 11. The Executive Director - Highways, Infrastructure and Planning noted that the Capital Programme had different parts, he would map out the process of what the local Member engagement process should be, that should be uniform across teams and he would communicate that process with all Members and upon the Vice-Chairman's request would provide a report to the Committee. A Committee member noted that the assets within the Capital Programme were broad, he noted that if the process needed to be considered by the select committees he could pick that up with the Resources and Performance Select Committee.
 12. A Committee member asked how the balance between ambition and prudence regarding the Capital Programme was demonstrated. The Strategic Finance Business Partner (Corporate) noted that there were three strategic capital groups: property, infrastructure and IT, those had plans in place to deliver and

reported into a Capital Programme Panel that challenges programme deliverability. Those programmes were complex and there were slippages, as reviewed and reported in the monthly budget monitoring reports to Cabinet. This information was also utilised to inform cash-flow forecasts and treasury decisions.

13. A Committee member noted her concern that the decisions on investments made by the Cabinet and Council now, would be affected by local government reorganisation. The Deputy Chief Executive and Executive Director - Resources noted that the Council must approve the budget which included the Capital Programme and TMSS, that would be considered in February and would take the Council through the next financial year. He referred to the Government's timetable for proposed local government reorganisation and devolution, whereby the earliest that changes would happen would be May 2026 regarding elections to shadow authorities which would then have those powers to make budgetary decisions, until then the continuing authority makes budgetary decisions.
14. A Committee member referred to the long-term liability benchmark and asked how comfortable the Council was with the accuracy of the assumptions used and which assumptions most greatly impacted the benchmark. The Strategic Finance Business Partner (Corporate) explained that the assumptions with the biggest impact related to the Capital Programme spend as that drives the financing requirement and need to borrow. Other assumptions were around the Council's internal resources and borrowing, and changes in the balance sheet.

RESOLVED:

The Audit and Governance Committee commented on and noted the Treasury Management Strategy Statement (TMSS) – Part 4 of the Capital, Investment and Treasury Strategy for 2025/26 including the Prudential Indicators, in advance of being considered by Cabinet and Full Council, as part of the Final Budget Setting papers.

Actions/further information to be provided:

1. A1/25 - The Executive Director - Highways, Infrastructure and Planning will map out the process of what the local Member engagement process should be regarding the Capital Programme, that should be uniform across teams and he will communicate that process with all Members and will provide a report to the Committee.

7/25 STATEMENT OF ACCOUNTS 2023/24 [Item 7]

Speakers:

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

Key points raised in the discussion:

1. The Strategic Finance Business Partner (Corporate) noted that since the draft accounts were presented to the Committee in July 2024, her team had been working closely with EY to finalise the accounts. No significant or material changes were anticipated, EY anticipated that it would issue an unqualified opinion, residual matters to be delegated to the Section 151 Officer in consultation with the Chairman to sign off the accounts once completed.
2. The Partner (EY) noted that the work was almost complete, clearance of final queries on transaction level testing remained, the queries on PPE and investment

- property valuations were complete, the specialists were reviewing the updated valuation of the Eco Park and no concerns had been raised, and final review processes and clearance internally were to be completed.
3. Regarding the key findings, the Partner (EY) highlighted that:
 - In terms of the risk of material misstatement, for most of those areas of focus there were no further issues to raise with the Committee.
 - On pensions, there was an adjustment of £14.99 million in the valuation of one investment and the Council's share was £6.75 million; the Council did not propose to make that adjustment.
 - Significant additional work had been undertaken on Private Finance Initiative (PFI). The waste PFI and Eco Park was reviewed and specialists were needed, the Council had renegotiated the contract and amendments were required. Work had concluded on the street lighting PFI and the Council was recommended to update its model in line with the current service capital and interest costs, more work needed to be done on the charges and liability. Work on the care home PFI had concluded and there were no other issues.
 - Some capital expenditure had been bulked together on the fixed asset register, EY had spoken to officers to tighten up that accounting approach, there was no material misstatement.
 - The data migration work to the new system had impacted the progress of the audit in terms of understanding the data mapping and breaking down data, that created significant additional work; the approach had adapted and there was sufficient assurance.
 - There were several prior period adjustments.
 - A recommendation was made to keep a view on the actual valuation of the Council's investments in subsidiaries and making sure those were kept up to date and reflected market conditions and their future performance.
 - EY had a constructive relationship with the Finance team, both understood what needed to be done to help the Council improve.
 4. The Chairman asked when the outstanding queries would be completed. The Partner (EY) explained that the team was working through finalising the files in line with quality standards over the next fortnight, she anticipated that sign off of the final accounts would likely happen in February and clarified that EY was confident that those final queries should not have any further material impact.
 5. The Chairman asked what the Council's response was to EY's recommendations. The Strategic Finance Business Partner (Corporate) explained that officers had discussed each of the recommendations, some had been resolved and others were in the process of being resolved.
 6. A Committee member asked what EY's conclusions were on the land and building valuation. The Partner (EY) explained that she outlined that in her presentation around the final queries regarding PPE and investment property, there were no further elements to report.
 7. A Committee member asked whether all EY's recommendations would be implemented and how those would be tracked. The Strategic Finance Business Partner (Corporate) noted that the Council had been discussing those recommendations and sought to implement all of those. Some of those recommendations had a larger impact on the accounts than others so would be prioritised. She noted the timing and how close we are to the end of the 2024/25 financial year. In light of this, the Finance team would do its best to implement the recommendations in advance of the next audit, but some may take a little longer to resolve. She added that she could bring an update on the plan and dates for achieving EY's recommendations, alongside the External Audit Plan for the Statement of Accounts 2024/25.

8. The Vice-Chairman queried what the cost was of the additional work. The Strategic Finance Business Partner (Corporate) noted that a significant amount of additional work had been undertaken, the fees were quantified in the report and were in line with the figures presented as ranges in last year's plan.

RESOLVED:

1. Noted the contents of the Audit Results Report (ARR), Annex A.
2. Approved the 2023/24 Statement of Accounts, Annex B, for publication on the council's website, subject to any additional required changes.
3. Noted the Pension Fund Audit Results Report, Annex C.
4. Approved the Executive Director of Resources' letter of representation, Annex D.
5. Approved the group letter of representation and Pension Fund letter of representation, Annex E.
6. The Audit and Governance 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. A2/25 - The Strategic Finance Business Partner (Corporate) will bring an update on the plan and dates for achieving EY's recommendations, alongside the External Audit Plan for the Statement of Accounts 2024/25.

8/25 2023/24 AUDIT REPORTS AND ANNUAL STATEMENT OF ACCOUNTS FOR SUBSIDIARIES OF SURREY COUNTY COUNCIL [Item 8]

Speakers:

Bill Harrow, Senior Finance Business Partner (Commercial)

Key points raised in the discussion:

1. The Senior Finance Business Partner (Commercial) explained that each auditor for the subsidiaries provided unqualified audit reports, to be consolidated into the Council's accounts. For each entity, external audit found management had appropriate procedures in place to prevent an override of internal controls, there was no indication of management bias or significant transactions outside the normal course of business, revenue was recognised correctly and there were no issues in the recoverability of debtors.
2. A Committee member referred to the key audit findings regarding fixed assets additions, assets below £500 were being capitalised, the recommendation deemed the issue as not being resolved and he queried why. The Senior Finance Business Partner (Commercial) explained that concerned the Hendeca accounts, the Hendeca board and team had been advised not to capitalise those items going forward. That would be captured in the next audit and the items should go through the profit and loss account, not the balance sheet.
3. The Chairman noted all the unqualified opinions and no material misstatements.

RESOLVED:

The Audit and Governance Committee considered the contents of the 2023/24 Audit Reports for the entities referred to above. The Financial Statements for each company were shared as background information.

Actions/further information to be provided:

None.

9/25 UNIT 4/MYSURREY STABILISATION BOARD REPORT [Item 9]**Speakers:**

Liz Mills, Strategic Director - Customer Service Transformation
 Karen Telfer, Portfolio Lead - Unit 4 Stabilisation Programme
 Andy Brown, Deputy Chief Executive and Executive Director - Resources

Key points raised in the discussion:

1. The Strategic Director - Customer Service Transformation noted that the report provided an update on the work underway and on the progress made regarding the audit recommendations made over the last year. Good progress was demonstrated in line with the stabilisation plan, going forward at the end of March there would be a move from the stabilisation phase to an optimisation phase.
2. A Committee member highlighted that he had seen a version of the report prior to the Committee in his role as a Vice-Chairman of the Resources and Performance Select Committee.
3. A Committee member noted that it looked like most of the problems were resolved, she commended officers for their hard work.
4. The Chairman queried how things were progressing in response to the Internal Audit findings. The Portfolio Lead - Unit 4 Stabilisation Programme referred to the target completion dates set out in Annex 2 for the audit actions. A few Internal Audit reports had noted Substantial Assurance compared to the Partial Assurance received previously and number of other items had been completed, awaiting a follow-up audit.
5. A Committee member referred to the cover report which noted that there were no direct financial implications arising from the report, he asked whether the financial impact of the remediation activity had been quantified. The Strategic Director - Customer Service Transformation confirmed that over time, the Council had invested additional sums on remediation and to ensure that the teams were resourced to carry out that activity for example needing to have technical expertise. That cost was managed through in-year budget management, making efficiencies elsewhere, the optimisation phase looked to yield the benefits.
6. A Committee member referred to the 41 tickets outstanding with Unit 4 as of 17 December 2024 and three had been open for over a year, he asked whether the processes to deal with those were all listed in the annex. The Portfolio Lead - Unit 4 Stabilisation Programme explained that those were not necessarily listed in the annex, but were referred to in the report, for example there were twice weekly meetings with Unit 4 to review those items and monitor progress, and there were monthly meetings with Unit 4 to hold them to account.
7. The Strategic Director - Customer Service Transformation clarified that progress had been made on those three tickets, the Council was focused on strengthening accountability arrangements with the provider, of those three long-standing tickets there was now one ticket remaining. Regarding the 41 tickets, Unit 4 awaited broader upgrades of the system to resolve those, the Council was driving Unit 4 to provide updates and fixes as necessary in the meantime.
8. The Cabinet Member for Finance and Resources noted the huge amount of work underway on stabilisation and the strong governance in place, the Council was holding Unit 4 to account. He noted that a lot of work was done on the contract management side on what the Council could have expected Unit 4 to deliver and

- what the Council should be paying for, the foundations were being fixed. There was a lot of work to be done in the move to the optimisation phase and the costs attached to that were included in the budget.
9. A Committee member noted that the Resources and Performance Select Committee had picked up the issue of the three tickets being outstanding for over a year. He provided an offer of support to officers on whether there was anything that the Committee could do to help officers in interacting with Unit 4.
 10. A Committee member asked how many people were paid through Unit 4 in Surrey. The Portfolio Lead - Unit 4 Stabilisation Programme noted that it was between 18,000 and 20,000 people.
 11. The Chairman referred to corporate payroll, noting that the reconciliation with general ledger was outstanding, that was a fundamental system and he asked whether that would be completed by the end of January. The Strategic Director - Customer Service Transformation noted that the Council was pushing hard on resolving that. The Portfolio Lead - Unit 4 Stabilisation Programme confirmed that it was targeted for completion by 31 January 2025.
 12. A Committee member referred to the aim of having a stable system environment, he asked what that would look like and how that was defined. The Strategic Director - Customer Service Transformation noted that the focus was the core functionality of the system: payroll, pensions, finance, and procurement; and to have the governance and policies and procedures in place to make sure the operation of the system supports organisational delivery, escalating issues when those arise. One exception was that a release of an upgrade from Unit 4 was pending, that would be in a test environment in March and would not go live until May or June once those tests were completed, those areas being addressed in the upgrade were not issues of high risk or impact but were important.
 13. The Deputy Chief Executive and Executive Director - Resources explained that core functionality concerned paying staff and suppliers correctly, when the system went live it was not doing that, there was a backlog issue to resolve and resources in place to address the issues. Eighteen months after the go live, staff and suppliers were being paid correctly and errors had been minimised via the monthly payroll process. There were more core functionality components implemented that needed to be improved through the stabilisation and optimisation phases. He noted that the minutes of this meeting would be shared with Unit 4 and would prompt them to reflect on their performance. The Council seeks to move forward into the optimisation phase, to realise the benefits predicated from its implementation, those benefits were yet to be delivered due to the resources invested and workarounds and manual processes.
 14. A Committee member noted that given that the Council had a system without core functionality, he asked what claw backs were in place in the contract to seek remediation from Unit 4. The Deputy Chief Executive and Executive Director - Resources noted that the Council signed off the system as a go live product, work was underway on the matter. The Strategic Director - Customer Service Transformation noted that a review had been conducted to ensure a clear understanding of the technical delivery and performance measures in line with the contract, the contract management meetings picked that up.
 15. A Committee member noted the move to the optimisation phase and requested a report on that to be added to the Committee's Work Plan, the Chairman agreed.

RESOLVED:

The Audit and Governance Committee noted the content of the Unit4/MySurrey Stabilisation Board Report.

Actions/further information to be provided:

1. A3/25 - A report on the Unit4/MySurrey Optimisation Phase will be added to the Committee's Work Plan.

**10/25 AUDIT AND GOVERNANCE COMMITTEE - EFFECTIVENESS REVIEW 2024
[Item 10]****Speakers:**

Andy Brown, Deputy Chief Executive and Executive Director - Resources

Key points raised in the discussion:

1. The Deputy Chief Executive and Executive Director - Resources noted that going forward the Committee should put the next steps into practice.
2. The Chairman welcomed the positive report.

RESOLVED:

The Committee reviewed the outcomes of the effectiveness self-assessment, based on the results from the following exercises:

- Self-assessment of good practice, and
- Evaluating the impact and effectiveness of the audit committee.

Actions/further information to be provided:

1. A4/25 - The identified areas for improvement and suggested actions will be implemented by the Committee and officers, to be reported in a progress update.

11/25 DATE OF NEXT MEETING [Item 11]

The date of the next meeting of the Committee was noted as 12 March 2025.

Meeting ended at: 11.17 am

Chairman

This page is intentionally left blank