

Regulation, Audit and Accounts Committee

20 November 2020 – At a virtual meeting of the Regulation, Audit and Accounts Committee held at 10.30 am.

Present: Cllr N Dennis (Chairman)

Cllr Waight, Cllr Baldwin, Cllr J Dennis, Cllr Lea and Cllr Sparkes

Apologies were received from Cllr Bradford

Also in attendance: Cllr Hunt

Part I

19. Declarations of Interest

19.1 Cllr Sparkes declared a personal interest as the Executive Member for Resources at Worthing Borough Council where EY also provide external audit work.

19.2 Cllr Waight declared a personal interest as a Worthing Borough Council Member in relation to civil parking arrangements in the internal audit progress report.

20. Minutes of the last meeting of the Committee

20.1 Resolved – That the minutes of the meeting of the Committee held on 25 September 2020 be approved as a correct record and that they be signed by the Chairman.

21. External Audit

21.1 The Committee considered the Audit Results Reports for the West Sussex County Council and the West Sussex Pension Fund (copies appended to the signed minutes).

21.2 Mrs Thompson, EY, began by focussing on the West Sussex County Council report. Work was mostly complete and any outstanding items were noted in the executive summary. An opinion would be issued when the work was completed. EY were anticipating issuing an unqualified opinion on the financial statements which would include an emphasis of matter paragraph covering uncertainties based on the valuation report. The value for money conclusion was expected to have an except for qualification.

21.3 Simon Mathers, EY, explained that it had been a challenging year due to the impact of COVID-19 and passed on thanks to the County Council officers for their support with the audit. The risk of management override had been investigated with particular focus on the recording of expenditure and capital spend. EY were satisfied that there had not been any inappropriate usage. The risk for Plant, Property, and Equipment (PPE) valuation had been inherently high due to the impact COVID-19 had on market volatility. A caveat had been included from the external valuer which would be added as an emphasis of matter paragraph. EY were

happy with their testing of valuation processes and the approach taken by the County Council for cyclical valuations. There were also high inherent risks for County Council disclosures for going concern and events after the balance sheet date. The disclosures had undergone consultation and an emphasis of matter paragraph was not required. Cashflow mechanisms had been analysed with the results showing that good arrangements were in place. Work on officer remuneration disclosures had identified that recruitment and retention policies needed to be re-considered. An associated recommendation for improvement had been raised.

21.4 Mr Mathers spoke on Pension liabilities and how the statements had been adjusted for factors such as McCloud. There had been asset valuation changes which had led to a £7.9m change in asset values.

21.5 Mr Mathers spoke on the Audit Differences section of the report and explained that the final version would be updated for PPE.

21.6 Mr Mathers discussed the two risks raised for Value for Money (VFM) assessments and explained that the report was not expected to fully cover a plan for COVID-19. One risk concerned informed decision making linked to the inspections for Children's Services and the Fire Service. Good progress had been made, but the arrangements were not fully in place by the end of the year. This resulted in the 'except for' qualification of the VFM conclusion. The second risk related to sustainable resource deployment and considered whether the council would be able to continue to adapt its financial planning, monitoring and management arrangements to ensure it is able to continue to deploy the resources available to it sustainably over the medium term. EY concluded that adequate arrangements have been in place throughout 2019/20.

21.7 The Committee made comments including those that follow.

- Asked how property asset values should be represented if they have reduced in value since purchase. – *Mr Mathers confirmed that the report should reflect the current value of the asset.*
- Sought clarity on officer remunerations processes and policies. – *Mrs Thompson explained that the report was not commenting on specific posts. EY's work had identified areas where it had not been clear which policy was being applied and so improvements had been recommended.*
- Queried the concerns raised on PPE valuations and asked if other authorities were in the same position. – *Mr Mathers reported that COVID-19 had impacted market volatility and so generally speaking all authorities would be in a similar position. Mrs Thompson added that this was not a new risk, but the risk had been elevated to significant.*
- Queried if the document should be in the public domain. – *Mrs Thompson confirmed the document was fine to be in the public domain.*
- Sought clarity over capitalisation of salaries from revenue for transformation work. – *Mr Mathers explained that the scheme rules allowed the outlined use of capitalisation. Ms Eberhart, Director of Finance and Support Services, noted the concerns raised for the use of transformation funding and the impact this had on borrowing. It*

was confirmed that the policy for this was approved as part of the budget and officers were working within approved practices.

- *Questioned the value of the Horsham Enterprise Park. – Mr Mathers explained that the role of external audit was to ensure the statements met the current value of assets. Issues would only be provided on assets if there was a risk of material misstatement in the accounts.*
- *Asked if the consultation on going concern was complete. – Mr Mathers confirmed that this was complete and the disclosures had been approved.*
- *Queried when the procedures required by the National Audit Office (NAO) would be completed. – Mr Mathers confirmed that the target date for this was the beginning of December. An opinion would still be issued before this, but the audit could not formally close until this work was complete.*
- *Questioned the length of time remaining for Private Finance Initiatives (PFI). – Mr McEwan, Finance Manager (Accounting Systems and Control), reported that the PFI disclosures in the accounts confirmed that the final scheme expired within a 16 to 20 year time frame.*
- *Queried if some lease agreements were considered nonmaterial and excluded from the audit. – Mr Mathers explained EY were satisfied that the Council were recording lease arrangements correctly but that the ongoing work to ensure all lease arrangements were captured in the Council's lease register needed to continue.*
- *Sought clarity over the implications of McCloud. – Mr Mathers confirmed that the liability for McCloud had previously been accounted for in 2018/19. Now there was more clarity on remedies, the actuary had updated the figures.*
- *Sought more detail on how the use of reserves was greater than the average level of reasonable usage. – Mr Mathers explained that the data was based on submissions from all Councils. The comparison showed that the County Council's usage was greater than other Councils, but not yet in a position where EY would raise major concerns. Ms Eberhart added that the usage of reserves was monitored carefully and compared with other authorities.*
- *Queried why the County Council's level of reserves were falling at a faster rate than others. – Mrs Thompson responded that it was a difficult area to compare as it was difficult to know how other authorities used their reserves. Reserves were held to be used when required, and the areas for Children's Services, Fire Service, and COVID-19 had required the use of reserves.*
- *Asked if the review of the Medium Term Financial Statement included the County Council's Reset and Reboot plan. – Mrs Thompson explained that EY had not looked at the detail of the Reset and Reboot plan as the VFM conclusion was focused on 2019/20.*
- *Queried the identified scale of weaknesses in social work practice. – Mrs Thompson explained that this risk was identified in response to the inspection work. A wider aspect of informed decision making had been taken into account and not all service areas had been looked into for weaknesses.*
- *Sought clarity over the VFM section where improvements for the Fire Service are recognised. – Mr Mathers explained that the*

conclusion was an assessment of the corporate body. Mrs Thompson agreed to look at the positioning of the wording in the final version.

- *Queried the meaning of the VFM assessment. – Mrs Thompson explained that EY were required to assess whether proper arrangements were in place not whether the Council provides value for money. Mr Mathers added that consideration had been given to the link between savings targets and overspending.*
- *Sought clarity over the flexibility of audit fees. – Mrs Thompson expected an increase in fees following the changes recommended in the Redmond Review. EY had outlined the additional work that had been undertaken in the year. Discussions would take place with Public Sector Audit Appointments Limited (PSAA) if fee bases needed resetting.*
- *Queried the £5,000 going concern EY consultation requirements fee. – Mrs Thompson reported that this had been a consequence of COVID-19 and that the County Council was a large audit. All processes had been discussed with the Director of Finance and Support Services.*

21.8 Mr Mathers introduced the West Sussex Pension Fund report and explained there was an unqualified opinion. The risks that had been looked into concerned management override, property valuations and ongoing concerns. EY were satisfied that correct approaches had been taken and all disclosures were complete.

21.9 The Committee made comments including those that follow.

- *Queried if COVID-19 should have impacted the report if it covered the previous financial year. – Mr Mathers explained that COVID-19 had been a global issue within the given financial year and so there had been an impact on valuations. The going concern assessment would cover 12 months from November 2020.*
- *Asked if the fees had been confirmed. – Mrs Thompson explained that when the plan had been produced the fees were to be confirmed. Additional work had taken place concerning data quality.*

21.10 Resolved – That the Committee notes the Audit Results Reports for the West Sussex County Council and the West Sussex Pension Fund.

22. Financial Statements 2019/20

22.1 The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

22.2 Mrs Chuter, Financial Reporting Manager, introduced the report and informed the Committee that an adjustment of £13.8m was now reflected in the statements for the version that would be signed by the Chairman of the Committee and the Director of Finance and Support Services.

22.3 The Committee made comments including those that follow.

- Commented that the West Sussex County Council's vision section referred to the M25 and queried whether should be the M23.
- Questioned the statutory position for the repayment of debt. – *Mrs Chuter explained that this was the minimum revenue position within the management accounts which impacted the general fund but was not included within the statements.*
- Sought clarity over the recording of pension liabilities. – *Mr McEwan explained that the actuarial gain in the comprehensive income and expenditure statement could be reconciled with the remeasurements in the LPGS and Fire Pension assets and liabilities, which are primarily attributable to revised actuary assumptions.*
- Asked if pension liabilities reduce, does the release move to unusable reserves. – *Mr McEwan confirmed this was correct due to legislation which dictates that the amount charged to the taxpayer is linked to contribution rates set by the triennial pension fund valuations. The IAS19 adjustment to pension liabilities is mitigated via unusable reserves to ensure the general fund is not directly impacted.*
- Queried if the risks in the document were listed in order. – *Mrs Chuter confirmed that the risks were not in a particular order.*
- Sought clarity over the level of debt in the statements. – *Mr McEwan explained that not all of the liabilities on the balance sheet should be considered as repayable debt. In addition to Public Works Loan Board debt, short term trade creditors are classified as liabilities but form part of general cashflow management. PFI commitments are also classified as liabilities for balance sheet purposes, but will be written down through the payment of the unitary charge in accordance with contractual arrangements. Some capital grants and contributions are also classed as liabilities until used, however there was no expectation to repay them. Cllr Hunt, Cabinet Member for Finance, confirmed that the balance sheet showed £1.25bn assets were held which exceeded all recorded debts.*
- Queried the financial impact of COVID-19 and if an alternative solution would be to consider a long term repayment approach. – *Cllr Hunt explained the importance of focussing on the current timeframe. The Reset and Reboot plan included an economic recovery plan which had a four to five year approach. The plan should hold the County Council in good stead for the future.*

22.4 Resolved – That the Committee approves the Statement of Accounts for 2019/20 for West Sussex County Council and the West Sussex Pension Fund, for signing (electronically) by the Chairman of the Committee.

23. Annual Governance Statement 2019/20

23.1 The Committee considered a report by the Director of Law and Assurance (copy appended to the signed minutes).

23.2 Mr Gauntlett, Senior Advisor in Democratic Services, introduced the report and explained that the Committee had previously seen drafts of the statement and their comments had been taken on board for the current version. The statement was measured against CIPFA and SOLACE

guidance. There were some outstanding actions due to the impact of COVID-19 so any uncompleted actions would be rolled into the next plan.

23.3 Mr Kershaw, Director of Law and Assurance, confirmed that the statement was a backwards look that was supposed to close in April. Officers had however worked to bring elements of the document up to date.

23.4 The Committee made comments including those that follow.

- Welcomed the changes to the document following previous comments from the Committee.
- Queried the renewing of the West Sussex Plan and the Total Performance Monitor (TPM). – *Mr Kershaw explained that the report covered the actions taken with regard to the stability of the leadership team. The actions for the West Sussex Plan and TPM were in year measures. Once the reset plan is agreed, the impact for the TPM would be considered.*
- Sought clarity over the review undertaken for County Local Committees (CLC). – *Mr Kershaw explained that the report referred to a historic review undertaken in February. Currently CLCs had been suspended due to lockdown arrangements.*
- Queried the timeliness of the statement. – *Mr Kershaw explained that there was a degree of delay with the statement which had been increased this year. The Committee regularly reviewed drafts of the statement in order to maintain oversight. Mr Gauntlett confirmed that the action plan came to most meetings of the Committee which would be expected to continue.*
- Asked if there would be an attempt to get the statement back onto a normal schedule following the delay. – *Mr Kershaw explained that the statement traditionally aligned with the signing of the accounts, but there was no requirement for this. There could be opportunity next year to split the reports and have the statement meet the July deadline.*

23.5 Resolved – That the Committee recommend that the draft Statement and Action Plan be approved and proceed for the signatures of the Leader of the Council and the Chief Executive.

24. Treasury Management Compliance Report -Second Quarter 2020/21

24.1 The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

24.2 Mrs Chuter introduced the report and informed the Committee that there had been no breaches for the quarter.

24.3 The Committee queried the investment in Croydon Council. – *Mrs Chuter confirmed that £10m was held and that the limit was £25m. There was no risk considered for this investment.*

24.4 Resolved – That the report be noted.

25. Internal Audit Progress Report

25.1 The Committee considered a report by the Director of Finance and Support Services, and the Head of Southern Internal Audit Partnership (copy appended to the signed minutes).

25.2 Mr Pitman, Head of Southern Internal Audit Partnership, introduced the report and explained that catchup was still underway to make up for the loss of quarter one, however confidence was expressed that there was required capacity to meet commitments. There had been an increase in some management actions and a reduction of overdue actions. The Committee had previously commented on the lack of comments in the annex, which were now fully populated.

25.3 The Committee made comments including those that follow.

- Queried the approach to remote working and if it had changed the scope of any audit work. – *Mr Pitman explained that technology allowed the operating model to change which enabled audit work to continue. County Council officers were commended for how they had supported internal audit.*
- Sought clarity on the monthly reconciliation for outstanding Civil Parking Arrangement actions and if agency agreements were not being complied with by district and borough councils. – *Mr Pitman agreed to look into the matter and provide a response back to the Committee. The Committee asked that the Director of Law and Assurance should be included in the response to ensure that appropriate action could be taken if required.*
- Asked for details on the process for choosing which items were to be deferred. – *Mr Pitman explained that the process was fluid and that there was liaison with officers. The items needed to remain on the radar, but given the current circumstances it was appropriate to defer them.*
- Queried the revised due dates in the report. – *Mr Pitman reported that dates were changed by the service and that detailed narratives to explain the changes could be provided on request. The Committee could also request that service officers attend a meeting to talk to their actions and due dates. Additional detail could be added to future reports where lower level actions had significant changes to due dates. The Committee felt it would be appropriate to ask the Acting Head of IT to attend the next meeting to discuss the actions for Disaster Recovery Planning.*

25.4 Resolved – That the Committee note the Internal Audit Progress Report.

26. External Quality Assessment of Southern Internal Audit Partnership

26.1 The Committee considered a report by the Director of Finance and Support Services, and the Head of Southern Internal Audit Partnership (copy appended to the signed minutes).

26.2 Mr Pitman introduced the report which concerned the outcome of the recent external quality assessment of the Southern Internal Audit Partnership. The report was positive and showed conformity against all aspects.

26.3 The Committee made comments including those that follow.

- Praised the report which showed that good systems were in place and noted that improvements in Internal Audit had been observed.
- Queried Opportunity B in the report which concerned data analytics and asked if this would be progressed. – *Mr Pitman explained that data and strategy arrangements were set across the whole partnership and that the effectiveness of this would be considered across each organisation. There were elements that Mr Pitman was keen to drive forwards.*
- Sought comments on Opportunity A for the elapsed time on internal audit engagements. – *Mr Pitman explained that action plans for all organisations would be looked at to dissect any audit reviews that exceeded three months and understand the reasons. If delays were linked to the Partnership then mitigations would be worked on. If delays were from the client then conversations would be had to improve processes. This work was underway with actions looking to be proposed in the new year which could be presented to the Committee.*
- Raised Opportunity F for periodic planning and queried if churn within the organisation had impacted audit processes. – *Mr Pitman explained that speed of change had been increased due to COVID-19. The planning approach for each quarter included liaison meetings to assist with the audit work.*
- Asked if the Reset and Reboot plan was being considered. – *Mr Pitman confirmed that this was a significant part of the organisation and would sit high on audit plans. Recovery was an existing topic within the audit plan and it was expected that the Reset and Reboot plan would be considered within this.*

26.4 Resolved – That the Committee notes the External Quality Assessment Report.

27. Quarterly Review of the Corporate Risk Register

27.1 The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

27.2 Mr Pake, Corporate Risk and Business Planning Manager, introduced the report and highlighted that risks 66 and 68 had reduced due to the mitigating actions that had been undertaken.

27.3 The Committee made comments including those that follow.

- Queried the Children's Trust (CR67) risk reducing to its tolerable level. – *Mr Pake reported that the risk had been mitigated down to a target level of 10 and resolved to provide details to the Committee on the actions that had led to this. Ms Eberhart confirmed that*

initiatives had been recognised in the risk register as part of the workforce programme.

- *Raised concerns that the current scoring system did not exceed a score of 25 and so a further increase in risk would not be recognised. – Mr Pake reported that the strategy and associated governance (i.e. assessment criteria, possible inclusion of direction of travel etc) would be reviewed in next year as part of the annual review and submitted to the Committee for consideration.*
- *Asked if the Risk Register was compared with other local authorities. – Mr Pake confirmed that he regularly meets with other authority risk managers to discuss concerns and horizon scanning activity. Authorities have different risks with different contexts so direct comparisons could not always be made, however it was a valuable process in providing assurance/assessment of the current risk profile. Service leads regularly engage with partners to discuss mutual concerns and mitigating actions.*

27.4 Resolved – That the Committee note the Corporate Risk Register.

28. Date of Next Meeting

28.1 The Committee noted that its next scheduled meeting would be held on 18 January 2021.

The meeting ended at 2.15 pm

Chairman