

## **Regulation, Audit and Accounts Committee**

25 September 2024 – At a meeting of the Regulation, Audit and Accounts Committee held at 10.30 am at County Hall, Chichester, PO19 1RQ.

Present: Cllr Condie (Chairman)

Cllr Boram and Cllr Bradbury

Apologies were received from Cllr Kenyon, Cllr McKnight, Cllr Wall and Mr Parfitt

Absent: Cllr Markwell

### **Part I**

#### **9. Declarations of Interest**

9.1 None

#### **10. Minutes of the last meeting of the Committee**

10.1 Resolved – That the minutes of the meeting of the Committee held on 8 July 2024 be approved as a correct record and that they be signed by the Chairman.

#### **11. External Audit**

11.1 The Committee considered the draft audit reports from the External Auditor Ernst & Young (EY) (copies appended to the signed minutes).

11.2 Mr Lazarus (EY) began by thanking County Council officers for their work on the 2023/24 Financial Statements. Mr Lazarus gave a summary of EY's findings within the County Council draft Audit Results Report and confirmed elements such as the increase in materiality based on benchmark calculations. It was confirmed there was no change in methodology. No additional risks had been discovered to bring to the attention of the Committee. The risk for Oracle Fusion had been retained for 2023/24. The impact of progress made on the project to implement Oracle would be seen in the 2024/25 reports. No significant change in fees was expected from the Public Sector Audit Appointments (PSAA) work.

11.3 Mr Lazarus confirmed that EY had maintained their independence when working on the West Sussex accounts.

11.4 The Committee made comments including those that follow.

- Sought Mr Suarez's thoughts on the proposed audit fee. – Mr Suarez, Interim Director of Finance and Support Services, confirmed that he was comfortable with the fee range and would accept it.
- Queried the wording that would be used in the disclaimer for the 2022/23 Financial Statements. – Mr Lazarus confirmed that the legislation on this was still outstanding. EY would be able to act when the legislation was live. A draft disclaimer had been circulated

within EY, but pending the final legislation. Once the legislation was confirmed, a draft would be shared with County Council officers. Work would follow the disclaimer to rebuild assurance. Mr Suarez confirmed that he would work on the wording with the Chairman and Vice Chairman in advance of the November meeting. Mr Lazarus confirmed that a high number of disclaimers would be issued for 2022/23, and so this would not be held against local authorities. Challenges would be made if disclaimers continued.

- Queried if a lack of opinion on the accounts would impact any commercial activities. – Mr Suarez confirmed that officers had undertaken an exercise to look into this. No covenants would be broken on any large contracts. There may be some loans taken out in the future with the Public Works Loan Board, but the industry was aware of the situation and sector issues. Assurance was given to the Committee that no issues were foreseen for any covenants linked to audited accounts.
- Sought clarity over EY's interaction with Internal Audit. – Mr Lazarus confirmed that there were strict rules concerning this. Mr Wilkins explained that there was no reliance on Internal Audit controls. However, their reports were looked at to consider internal controls, governance issues and any related risks. The Internal Audit work on Smartcore had been useful to look at.
- Queried how Edes Estates was considered within the financial statements. – Mrs Chuter, Financial Reporting Manager, confirmed that the company was 100% owned by West Sussex County Council. Mr Lazarus explained that on a quantitative level it was immaterial with regard to audit. However, other issues were considered such as reputational areas.

11.5 Mr Lazarus reported on the draft Pension Fund Audit Results report and confirmed that the pension fund was substantially complete. There were no reportable differences to highlight. With regard to Private Equity, EY had spoken with fund managers and the actuary to gain assurances. EY were comfortable with the valuations and so there were no differences to report. It was confirmed that the Pension Fund accounts would continue to be merged with the County Council accounts for now with one joint opinion. For the audit reports, it would be clear that the Pension Fund had been audited, but would formally be part of the disclaimer as it was joined with the County Council accounts.

11.6 Mr Wilkins confirmed that EY maintained their independence when working on the West Sussex Pension Fund accounts.

11.7 The Committee made comments including those that follow.

- Queried the reporting thresholds for the pension fund. – Mr Lazarus confirmed that anything over £2m was reportable. £40m was the trigger for noting within the accounts.
- Queried the test for liquidity of assets. – Mr Lazarus confirmed that EY had a specific pension team which considered liabilities. A scale approach was undertaken for the types of funds seen. Ms Quaid, Finance Manager - Pension Fund, confirmed that Private Equity funds were defined as illiquid assets with agreed investment times; they were not considered as part of cashflow considerations.

11.8 Resolved – That the Committee notes the draft Audit Result Reports.

## **12. Pension Fund Financial Statements 2023/24**

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

12.2 Mr Suarez introduced the report and informed the Committee that the pension fund audit was in a good position and substantially complete.

12.3 The Committee made comments including those that follow.

- Sought clarity over the investments outlined in note 14a. – Ms Quaid confirmed that the investments were Private Equity and Private Debt. These were sub funds and not ACCESS pooled funds; which aligned with CIPFA guidance. Ms Quaid resolved to consider the need for further clarity on this for the final version.
- Queried the accounting of property income received in advance. – Ms Quaid explained that this was the accounting treatment of income that was received in advance from tenants and related to a future accounting period. Ms Quaid resolved to clarify the process and update the committee.
- Sought clarity over the levels outlined in note 16a. – Ms Quaid explained that the Sterling Aggregate Bond Fund had been reclassified to level 2 as public pricing was not available. The Committee was given reassurance that this was a presentational issue and not an audit concern. Mr Wilkins confirmed EY did not have concerns on this.

12.4 Resolved – That the report be noted.

## **13. Quarterly Review of Corporate Risk Management**

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

13.2 Mr Pake, Corporate Risk and Business Planning Manager, introduced the report and confirmed that CR11 had a reduced risk rating due to works undertaken. CR58 was still a considerable risk, but movement in actions was welcomed.

13.3 The Committee made comments including those that follow.

- Queried the interaction between CR11 and CR22, and how financial concerns could impact recruitment. – Mr Pake confirmed that no new/additional recruitment concerns had been raised. Benchmarking activity had shown that the County Council was comparable to other local authorities. Mr Suarez confirmed that these items would be expected on all local authority corporate risk registers. Positive Recruitment and Retention (R&R) levels meant that for some areas of the Council, like children’s social work, actual percentage vacancies were below budgeted vacancy levels which was a positive outcome for R&R. Recruitment activity was

fundamental in workforce planning, and the importance of recognising staff and ensuring good working environments.

- Commented on the format of the register, and that the risk impact column did not relate to the actions. – Mr Pake resolved to look into the format.
- Noted the impact of Oracle failure on other areas. It was confirmed that the Performance and Finance Scrutiny Committee (PFSC) was focussed on Oracle with a regular agenda item scheduled. – Mr Suarez recognised that Oracle was a major system for the organisation. Both committees had roles to play; PFSC would be monitoring risk and performance, whereas this committee would look at the strategic risks and the risk management framework.
- Noted the collapse of the contractor for the Woodlands Meed project and queried how the health of contractors was monitored. – Mr Suarez confirmed that contracts should consider administration activity and termination rights. There were no issues with contract monitoring. For this particular contractor there were no indicators that saw the collapse coming. Lessons would need to be learned to consider other indicators that were not financial. The sector was looking into other factors such as any high court judgements for a company. Key performance indicators were useful in holding contractors to account.

13.4 Resolved – That the Committee notes the report.

#### **14. Internal Audit Progress Report (August 2024)**

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

14.2 Mr Pitman, Head of Southern Internal Audit Partnership, introduced the report and gave an update on the actions.

14.3 Ms Nemorin-Noel, Assistant Chief Fire Officer, attended the meeting to give an update on actions relating to the fire and rescue service. The collaboration with Internal Audit had been welcomed and the service were working through the improvements. For the overtime and toil piece, expenditure was being considered to ensure that overtime usage was appropriate. The retained duty piece was a national sector issue, with work being undertaken to ensure systems were robust. The joint fire control piece was undergoing a contract extension and so dialogue was being undertaken with Surrey.

14.4 The Committee made comments including those that follow.

- Sought clarity on the overdue dates for the fire and rescue service actions. – Ms Nemorin-Noel gave assurance that work was progressing on the actions. It was expected that the timelines on the retained duty piece would extend as the issue was impacted by the national picture. Mr Pitman confirmed that the report included indicative dates for activity.
- Queried if the impact of Oracle on the fire and rescue service has been considered. – Ms Nemorin-Noel confirmed that this had been taken into consideration.

14.5 The Chairman proposed utilising a future meeting to focus on overdue actions. – Mr Chisnall, Democratic Services Officer, proposed utilising the 4 November meeting and resolved to look into the arrangements.

14.6 Resolved – That the Committee notes the report.

## **15. Internal Audit Plan 2024-25 (Q3)**

15.1 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).

15.2 Mr Pitman introduced the report and explained the Internal Audit work plan for quarter three.

15.3 Mr Suarez confirmed that the impact of the Woodlands Meed contractor had been included.

15.4 The Committee made comments including those that follow.

- Asked if Special Educational Needs and Disabilities (SEND) provision was included in the school place planning piece. – Mr Pitman confirmed that this was included holistically.
- Queried how Oracle would be covered in the plan. – Mr Pitman confirmed that Oracle elements were being considered to ensure the programme was being followed and assurance sought. The committee stressed the need for the project to agree what success looked like. Mr Pitman agreed to include this.

15.5 Resolved – That the Committee agrees the plan for quarter three.

## **16. Treasury Management Compliance Report - First Quarter 2024-25**

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

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

16.3 Mr Suarez confirmed that the Treasury Management Panel was considering the Council's investment in the CCLA (Local Authorities' Property Fund) to determine the appropriate time for action if needed.

16.4 Resolved – That the report be noted.

## **17. Standing Order Amendments - Financial Regulations**

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

17.2 Mr Suarez introduced the report and informed the Committee that the report proposed amendments to ensuring the appropriate alignment of Pensions Committee functions to the financial regulations.

17.3 The Committee raised concerns at the proposed wording of 'As far as possible these will align with the Financial Regulations of the County Council' for 1.2. – Mr Suarez explained that the intention had been for the wording to be helpful and not directly influence Committee functions.

17.4 Resolved – That Committee endorses the proposals to County Council, subject to the wording being amended to ensure that the Pensions Committee has primacy functions as required.

## **18. Date of Next Meeting**

18.1 The Committee noted that its next scheduled meeting would be held at 10.30 am on 4 November 2024 at County Hall North, Horsham.

The meeting ended at 12.30 pm

Chairman