

Regulation, Audit and Accounts Committee

23 July 2018 – At a meeting of the Regulation, Audit and Accounts Committee held at 10.30 am at County Hall, Chichester.

Present: Dr Dennis (Chairman)

Mr Waight, Mr Bradford, Mrs Dennis, Mr Fitzjohn and Mr Lea

Apologies were received from Mr Jupp

Also in attendance: Mr Hunt

Part I

1. Declarations of Interest

1.1 Mr Lea declared a personal interest as a Member of the Mid Sussex District Council Audit Committee. Mr Lea also declared a personal interest in relation to his professional role in IT.

1.2 Ms Eberhart (Director of Finance, Performance & Procurement) declared a personal interest as her daughter is employed at Ernst & Young (EY).

1.3 Mr Bradford declared a personal interest in relation to the Annual Audit Report 2017/18 agenda item as a family member has a Deprivation of Liberty Safeguards (DOLS) order.

2. Minutes of the last meeting of the Committee

2.1 Mr Lea gave an update on minute 203 and reported that the data had been submitted to the finance team for investigation. The finance team had looked through the data and the results were reassuring in that no duplication had been found.

2.2 Resolved – That the minutes of the meeting of the Committee held on 26 March 2018 be approved as a correct record and that they be signed by the Chairman.

3. Responses Received

3.1 The Committee noted the letters from the Cabinet Member for Environment and the Chairman of the Contract Management Scrutiny Task and Finish Group in response to the queries raised at the previous meeting (copies appended to the signed minutes).

3.2 The Committee made comments including those that follow.

- Asked how the processes outlined within the Cabinet Member for Environment's letter linked with the embedding of risk culture within the County Council. – *Mr Kershaw (Director of Law and Assurance) proposed this discussion should be held later on the agenda during the Quarterly Review of the Corporate Risk Register item.*

- Queried where issues were reported and when highlight reports had been completed; and why the Regulation, Audit and Accounts Committee (RAAC) had not been informed of the situation. – *Mr Kershaw explained that it would be unusual for the committee to see risk assessments of individual matters. RAAC has a broad, strategic role for risk management and should seek reassurance that risk management processes are in place. It was also highlighted that all members are able to ask officers to see any documentation.*
- Queried the process for Arun Construction's appointment. – *Mr Kershaw explained that this process was fully described within the Cabinet Member for Environment's decision that was made available to all members.*
- Queried the term '...verbally advised by the Cabinet Office' and if this was formal guidance. – *Mr Kershaw explained that the Cabinet Office had notified local authorities of the situation and asked them to look into their own positions. It had no other status or purpose.*

3.3 Resolved – That the letters are noted.

4. External Audit Report

4.1 The Committee considered the Audit Result Reports by the External Auditor EY (copies appended to the signed minutes).

4.2 Mrs Thompson (EY) began by thanking officers for their prompt work during the accounts audit. The audit had been smooth as a result of this and the accounts were in a good place.

4.3 The Committee agreed to focus on the West Sussex County Council Statement audit first.

4.3 Mrs Thompson outlined the key work that had taken place including the work required to reflect the change in portfolios which had led to a change in audit scope and so an additional fee had been included. There had also been a change in materiality levels which had led to an updated threshold for reporting misstatements of £1.3m.

4.4 It was explained that there was outstanding work related to the Whole of Government Accounts submission. The deadline for this was the end of August, but it was confirmed that this did not affect the audit.

4.5 There were no adjusted misstatements to highlight and it was proposed that an unqualified opinion would be given on the accounts.

4.6 Mr Mathers (EY) reported that a risk had been identified for management override. This had been investigated and no evidence of management override was found. A main focus of the audit had been on land and building valuation which had found a potentially material difference. Additional work was undertaken to investigate. This work showed that no changes were ultimately required.

4.7 Mr Mathers reported that all recommended adjustments arising from the audit had been made or, in the case of the PFI recommendations that had been reported later, would be made in the 2018/19 accounts.

4.8 Mr Mathers reported on value for money (VFM) risks and the two areas that had been identified; weakness in procurement and contract management, and financial resilience. Improved commissioning activity had been seen for Adult services, but there is still work to do. Childrens' Services represented a high cost pressure and work is still required. A holistic approach had been recommended to ensure good working with other parties. In terms of financial resilience, slippage within the capital programme had been identified which officers were addressing. There was appropriate monitoring of the Medium Term Financial Strategy. Overall EY were satisfied with arrangements and an unqualified VFM conclusion was proposed.

4.9 The Chairman thanked EY and officers for their hard work in preparing the accounts in time for the new deadline.

4.10 The Committee made comments including those that follow.

- Sought clarity on the difference in materiality on the Property, Plant and Equipment (PPE) revaluation issue. – *Mr Mathers explained that the £44m related to EY's estimate of the difference between the carrying value and the current value of PPE assets that are not subject to revaluation, which if the council had adopted to index the assets which had not been valued in the year, would have resulted in an increase of the carrying value of PPE. The internal valuation specialist within EY reported that the County Council's approach was reasonable.*
- Asked if the Committee could request that items were revalued outside of the five year cycle. – *Mr Mathers reported that it was the County Council's judgement over what was included in the valuation. It was thought that the County Council's approach was sensible as it covered a good sample and allowed for further investigation if required.*
- Questioned if certain asset types could be revalued at different times, and if the valuation included unrealised assets such as infrastructure. – *Mr Mathers explained that CIPFA stated what assets should be valued over a 5 year cycle with sufficient work performed to ensure no material misstatement in any one year. The County Council undertook an annual impairment review to look at specific assets. All PPE had been included. Short life assets such as vehicles were not included.*
- Queried why the Schools PFI had looked back to 2009/10. – *Mr Mathers explained that this was due to a review of the accounting changes which came in in 2009/10. Some residual differences had been identified in the 2016/17 audit but had not been amended as they were not material. These differences were highlighted this year by the EY specialist at a very late stage of the audit.*
- Requested an explanation on the difference in the capital budget from the outturn. – *Ms Eberhart explained that the difference was linked to a refresh of the capital programme and the identification of underspends and delays to projects. The Performance and Finance*

Select Committee (PFSC) had looked into this and were satisfied with the explanation. Mr Hunt clarified that the issues were linked to factors outside of the County Council's control. A good team were in place to work on this with assistance from a multi-disciplinary partner.

- *Queried if the process for commissioning was too complex and sought guidance on best practice. – Mrs Thompson explained that commissioning was a key action, and a challenge for all councils to comply with best practice. A review had been undertaken to give assurance on the Council's arrangements. More work was required and recognised by the County Council within the Annual Governance Statement.*
- *Sought clarity on the process for the Target Operating Model (TOM). – Ms Eberhart explained that PFSC had set up the Contracts Task and Finish Group which had looked into the TOM. The PFSC report outlined the details of the procurement cycle, and the new organisational structure was out for consultation. Ms Eberhart agreed to circulate slides on this.*

4.11 The Committee then considered the West Sussex Pension Fund statement.

4.12 Mrs Thompson introduced the report and explained that there were no areas of outstanding work. Mr Mathers reported that there were significant risks of management override that EY would seek assurance that the grounds for this were appropriately managed. There were no specific areas that required bringing to the Committee's attention.

4.13 The Committee made comments including those that follow.

- *Queried the project to reduce the differences in membership numbers. – Mr Hunt explained that the pension administration transfer was in train and would address this. Mrs Davies (Finance Manager – Pension Fund (Accounting & Reporting)) explained that officers were working with Capita and employers to resolve differences in active membership. An incorrect report had been received from Capita- HRMI and so the Pension Fund had to produce the correct report. Mr Mathers explained that this had been a new process to reconcile pensions paid at a member level.*
- *Concerns were raised on the transfer of erroneous data and reassurance was sought that this would be corrected. – Ms Eberhart stressed the importance of the transfer project and gave reassurance that officers were working with Capita and Hampshire County Council to ensure clean, reconciled data is uploaded onto the Hampshire County Council system. Work on the reconciliation would be completed and correct for the triennial valuation. The Committee agreed to write to the Pensions Panel Chairman to request reassurance on this process. Mrs Thompson confirmed that this was a focus for EY. Mr O'Brennan (Principal Pensions Accountant) explained that officers completed an annual reconciliation of the data to highlight and correct errors.*

4.13 Resolved – That the Committee notes the audit result reports from EY for West Sussex County Council and the West Sussex Pension Fund.

5. Financial Statements 2017/18

5.1 The Committee considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

5.2 Mrs Chuter (Financial Reporting Manager) introduced the report and explained that the same process had been used for the West Sussex County Council statements and the West Sussex Pension Fund statements. Officers had adopted a staggered approach, with 2013/14 being the baseline when the accounts were signed on 30 June, in order to meet the new deadline for audit. EY had been on site for 5 weeks performing their audit.

5.3 The Committee made comments including those that follow.

- Queried the level of reserves and if these should be utilised to assist with meeting the budget demands. – *Ms Eberhart explained that the policy when setting the budget was to not rely on reserves for budget pressures. There were planned uses for the reserves. An aspirational aim is to increase reserves where possible.*
- Requested clarity on the work of PwC for the Transformation Programme. – *Ms Eberhart explained that PwC were supporting in two main areas. They had assisted EY with the look at commissioning services for adults and children. PwC had helped improve controls in this area and with the procurement and contract management redesign. Secondly, PwC were helping with organisational design and making better use of technology.*
- Questioned the reduction in net cash over two years and if this was an issue. – *Mr Mathers explained that this was not a deliberate strategy and that the figure referred to particularly liquid cash. Mrs Chuter added that this was not a particular issue and that it was better for the council to consider longer term investments where cash flow allowed.*
- Queried the lack of financial resilience listed as a key strategic risk. – *Ms Eberhart confirmed that this was a key risk for consideration.*
- Questioned the increase in Capital Programme financing from £1m in 2018/19 to £81m in 2022/23 and the importance of realising receipts; and asked if sensitivity analysis were considered. – *Ms Eberhart explained that the figures included assumptions on capital receipts for property schemes. Sensitivity analysis was used to monitor risk. PFSC has picked up this issue when looking at specific projects. Mr Hunt noted the concerns and proposed additional dialogue could be included within the Capital Programme.*
- Questioned what would happen if receipt assumptions were not realised within the capital programme. – *Mr Hunt reported that this would be discussed if it occurred.*

5.4 Mrs Chuter highlighted that within the Pension Fund statements the Partners Group actual valuation was £2.2m higher than the statement estimate.

5.5 The Committee asked if the risk schedule for the Pension Fund included consideration for the change in policy for the investment

strategy. – *Ms Eberhart explained that this would be included in next year's report as the policy was not implemented yet.*

5.6 Resolved – That the Committee approve the Statement of Accounts for 2017/18 for West Sussex County Council and the West Sussex Pension Fund for signing by the Chairman of the Committee.

6. Annual Governance Statement 2017/18

6.1 The Committee considered a report by the Director of Finance, Performance and Procurement and the Director of Law and Assurance (copy appended to the signed minutes).

6.2 Mr Gauntlett (Senior Advisor) introduced the report and explained the draft Statement had been updated following comments received at the previous meeting. Discussions had taken place with EY which had influenced the statement.

6.3 The Committee made comments including those that follow.

- Queried the action for procurement. – *Ms Eberhart explained this reflected EY's comments regarding value for money. The action recognised the need for improvement for the approach to procurement. The action would include the work on the TOM.*
- Commented that it would be good to monitor performance against previous action plans.
- Sought clarity on how long records of decision and agendas are held. – *Mr Gauntlett explained that the website kept this information for six years and all hard copy records were kept in the Records Office. Mr Gauntlett agreed to look into the requirements of long term website storage.*
- Queried the issue relating to skills shortage. – *Mr Gauntlett explained that was an issue for areas of the authority that relied on contract staff. Mrs Daley, Director of Human Resources & Organisational Change, was looking into the workforce strategy to improve this.*

6.4 Mr Gauntlett reported that the first action plan would come to the November meeting.

6.5 Resolved – That the Committee approves the draft Annual Governance Statement for signature by the Leader of the County Council and the Chief Executive; and also agrees the draft action plan arising from the 2017/18 Statement.

7. Review of Financial Regulations and Financial Procedures

7.1 The Committee considered a report by the Director of Finance, Performance and Procurement and the Director of Law and Assurance (copy appended to the signed minutes).

7.2 Mrs Chuter introduced the report and explained the proposal to review the Financial Regulations and Procedures every three years. As part of the streamlining project for the Council's Constitution, it is also

proposed to hold the Treasury Management Policy Statement and the Financial Procedures outside the constitution.

7.3 The Committee queried the limit for budget transfers and raised concerns that Directors could move multiple large sums just under the threshold. – *Mrs Chuter gave reassurance that all movements were monitored and that movements across portfolios required a two part sign off. Ms Eberhart agreed to raise this concern at the Total Performance Monitor Task and Finish Group.*

7.4 Resolved – That the Committee:

(1) Approves the revised Financial Regulations following endorsement by the Governance Committee on 25 June 2018.

(2) Endorses the proposal to hold the Treasury Management Policy Statement and the Financial Procedures outside of the Council's Constitution.

(3) Agrees with proposal to review the Financial Regulations and Financial Procedures in 2021.

8. Internal Audit - Annual Audit Report 2017/18

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

8.2 Mr Pitman, Head of Southern Internal Audit Partnership, introduced the report and informed the Committee that the Annual Internal Audit Opinion for 2017/18 was Satisfactory.

8.3 The Committee made comments including those that follow.

- Queried if DOLS were a key issue for other authorities. – *Mr Pitman explained that a recent change in legal requirements had brought this under the microscope for local authorities.*
- Asked if the one hundred day plan for Adult Social Care would address concerns. – *Mr Pitman commented that the plan would address some of the issues. Ms Eberhart reported that governance would be overseen by the Adult Improvement Board.*
- Sought clarity on the actions for business resilience. – *Ms Eberhart explained that it was important to understand the distinction between contingency and emergency plans. Business resilience focused on specific services and contingency plans needed proper rigor checking.*
- Questioned the testing for resilience with regard to power outages and virtual attacks to data. – *Mr Pitman explained that these tests were part of the IT audit plan. Ms Eberhart reported that a white hacker had conducted an attack on the County Council's system and reported that it was robust. The attack had taken two days to breach the firewall, compared to previous tests where it had only taken eight hours. The Committee queried if training was given to officers on phishing tactics. Mr Chisnall explained the mandatory training modules for staff on IT security.*

- Queried General Data Protection Regulation (GDPR) and if the County Council was fully compliant. – *Mr Pitman explained that local authorities had clear guidance for GDPR requirements. Full reassurance could only be given when a review was undertaken.*
- Queried the lack of opinions for the schools listed in the report. – *Mr Pitman explained that it was unusual to provide a specific audit opinion for each school. Mr Pitman agreed to share his comments on each school with the Committee.*
- Asked for progress on previous recommendations. – *Mr Pitman informed the Committee that a progress report would be included within the annual report.*
- Queried what would be required to receive a substantial assurance rating. – *Mr Pitman commented that in the current climate with a large and diverse authority, satisfactory is a good rating to receive.*

8.4 Resolved – That the Committee approves the annual audit report for the year ended 31 March 2018.

9. Internal Audit - Annual Fraud Report 2017/18

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

9.2 Mr Pitman introduced the report and informed the committee that the identified fraud was a typical spread compared to other authorities. It was felt that the increase in numbers for 2017/18 was linked to better detection. The number of cases was considered low given the size of the authority.

9.3 The Committee made comments including those that follow.

- Queried the work being done with schools. – *Mr Pitman explained that work was being done to understand the controls that schools had in place. Identified issues had been linked to hospitality gifts and IT controls. The Committee asked if this work looked into false addresses used for school catchment. Mr Pitman explained that this issue was looked at by school catchment works.*
- Sought clarity on the work on blue badges. – *Mr Pitman explained that this was an initiative being undertaken with Brighton and Hove City Council to detect fraudulent use of blue badges. The Committee queried the level of fraud detected for this. Mr Pitman reported that low levels had been found, but the work was important to deter a larger risk of fraud.*
- The Committee raised concerns on people challenging blue badge holders as not all disability was visible and reiterated the importance of bus passes for vulnerable residents. – *Mr Pitman explained that the report was looking at fraudulent use and would add detail to future reports to clarify this.*
- Asked if the whistle blowing process was adequate. – *Mr Pitman explained that the whistle blowing hotline was publicised to many areas to also encourage external calls. Work would continue on this initiative.*

9.4 Resolved – That the Committee notes the annual fraud report for the year ended 31 March 2018.

10. Quarterly Review of the Corporate Risk Register

10.1 The Committee considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

10.2 The Chairman informed the Committee that Mrs Curry, Executive Director Children, Adults, Families, Health & Education, would be attending the next meeting to talk on Corporate Risk 55. The Committee requested that Mrs Curry also discuss Corporate Risk 56.

10.3 Mr Pake, Corporate Risk and Business Planning Manager, introduced the report and explained the new format for the Corporate Risk Register which included an action plan to help monitor responsibility.

10.4 The Committee made comments including those that follow.

- Queried the order of the risk register and if it could be sorted by priority order. – *Mr Pake explained that this was possible; however he felt it was important to consider risk proximity as well as the risk score.*
- The Committee requested clarity on the definition of risk proximity and if this should be recorded in the risk register. – *Mr Pake explained that risk proximity gave consideration to when the impact of a risk would occur. This was considered during the risk assessment stage and may influence the priority of a risk. A high scoring risk may not impact for some time, whereas a risk with a slightly lower score could occur sooner. Due to this it may be necessary to commit resources to mitigate the lower scoring risk first. Ms Eberhart gave reassurance that all risks were discussed individually regardless of score. Ms Eberhart resolved to look into this query and add clarity to future reports.*
- Noted the risks related to IT and sought clarity on the plans to improve IT and the costs involved. – *Ms Eberhart reported that this was being considered by the Cabinet Member for Highways and Infrastructure and that there was a detailed roadmap for the migration of IT. Mr Mezulis, Chief Information Officer, explained that the IT strategy included a cloud based approach that would help with the business change drive. The 'Evergreen' status of this approach would ensure all applications were kept up to date which would ensure compliance. Secure email accounts would be used by default. Mr Mezulis resolved to share an IT Strategy update with the Committee.*
- Queried the change for Members' IT. – *Mr Mezulis explained that the IT strategy included a major upgrade to the Microsoft suite that would be a migration in the autumn. Members would be included at an appropriate time to ensure a smooth transition. Options within the strategy included smartphone and tablet capability. Lifetime passwords were also being considered, which would require 14 characters.*
- Noted the previous discussion on contract risks and asked if future reports could include this information. – *Ms Eberhart resolved to*

add information to future reports that would highlight key risks. Mr Hunt added that the new arrangements would have PFSC looking at these risks.

- Commented that key contract discussions took place at the negotiation stage and that scrutiny may be ineffective if the contract was already in place. – *Ms Eberhart agreed that commissioning was a key area for consideration and that the TOM would be looking at this. Ms Eberhart agreed to circulate slides on the TOM to the Committee.*
- Raised concerns on the security risks for cloud services.
- Welcomed the new design which would help with risk monitoring.

10.5 Resolved – That the Committee notes the information detailed in the report, the current Corporate Risk Register and requests that future reports include highlight information on key contract risks.

11. Treasury Management Compliance Report - First Quarter 2018/19

11.1 The Committee considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

11.2 Mrs Chuter introduced the report and informed the Committee that there had been no breaches for the quarter. A monetary exposure limit had been exceeded for one day.

11.3 Resolved – That the report be noted.

12. General Data Protection Regulations

12.1 Mr Mezulis gave a verbal update to the Committee on the progress with GDPR.

12.2 The recruitment exercise discussed at the previous meeting had now been completed and the team were in place and reporting to Mr Kershaw.

12.3 Communications had been sent internally and externally regarding issues such as subscriptions to services. It was reported that most users had re-subscribed.

12.4 There had been 44 breaches that were currently under a high focus to resolve. The enhanced reporting would improve the accuracy of held data.

12.5 Officers had expected a high level of demand for subject matter requests. Whilst Adult Services had experienced double the number of requests for the first month, the level of requests had tailed back and there was not expected to be a high demand going forwards.

12.6 Mr Mezulis reported to the Committee that he was confident of the capacity and processes required to comply with the new regulations.

12.7 The Committee made comments including those that follow.

- Sought clarity on the impact on Parish Councils. – *Mr Mezulis reported that the new team in place should be able to assist small parishes. It was recommended that Parish Councils also contact The Surrey and Sussex Associations of Local Councils (SSALC) for assistance.*
- Queried the breaches that had occurred. – *Mr Mezulis explained that there were no significant issues and nothing had been required to be reported to the Information Commissioner’s Office. Most issues were linked to not adhering to policy or the misfiling of data.*

12.8 The Committee welcomed the update and progress with GDPR compliance.

13. Training Considerations

13.1 Mr Chisnall asked the Committee to consider any training requirements they had.

13.2 It was agreed that a training session to consider Northamptonshire County Council’s financial situation and how to detect a deteriorating financial position of this type would be useful. – *Mr Chisnall resolved to look into this request.*

14. Date of Next Meeting

14.1 The Committee noted that its next scheduled meeting would be held at 10.30 am on 5 November 2018 at County Hall, Chichester.

The meeting ended at 2.30 pm

Chairman