

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

4 November 2019 – 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, Mrs Dennis, Mr Jones (arrived at 10.35am) and Mr Jupp

Apologies were received from Mr Bradford

Also in attendance: Mr Hunt (Cabinet Member for Finance and Resources)

### **Part I**

#### **11. Declarations of Interest**

11.1 Mrs Dennis declared a personal interest as a member of the Pensions Panel.

11.2 Mr Jupp declared a personal interest as a member of the Pensions Panel.

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

12.1 Resolved – That the minutes of the meeting of the Committee held on 22 July 2019 be approved as a correct record and that they be signed by the Chairman.

#### **13. External Audit**

13.1 The Committee considered the Annual Audit Letter from EY (copy appended to the signed minutes).

13.2 Mrs Thompson (EY) introduced the letter and highlighted the executive summary which outlined the unqualified opinion given to the financial statements, although there was a qualified value for money exception reported on Children's Services following the inspection report. The 2018/19 audit was now closed and planning had begun for the next audit with work looking at risk considerations.

13.3 The Committee made comments including those that follow.

- Queried EY's concerns with Contract and Whole Council design processes. – *Mrs Thompson confirmed that EY were satisfied that adequate processes were in place. It was noted that progress was being made, but slower than expected.*
- Raised concerns on the identified weaknesses in performance monitoring and risk arrangements and proposed that this could be an area that the Performance and Finance Select Committee (PFSC) be asked to review. – *Mrs Thompson explained that during the audit EY would not have looked into the details of Children's Services. Value for money processes looked to ensure that appropriate processes were in place. EY looked at arrangements,*

*not outcomes. Mr Hunt (Cabinet Member for Finance and Resources) highlighted that the letter referred to the previous year and confirmed that six months on work was progressing to address identified issues. The Committee agreed that the Chairman should write to the Chairman of the PFSC to raise concerns with regard to Children's Services and the Fire and Rescue Services and the failure with appropriate performance monitoring and risk arrangements. PFSC should be asked to look into the current measures which were not fit for purpose.*

- *Noted the issues raised by EY and queried the likelihood of further issues being widespread. – Mrs Thompson explained that their work generally found that issues can either highlight issues elsewhere; or the identified issues are bespoke and localised. There was no indication of other issues other than those identified from EY's point of view.*
- *Sought clarity on the considerations for informed decision-making arrangements being in place. – Mrs Thompson explained that value for money conclusions for arrangements could result in one of three opinions; unqualified, except for or adverse. Whilst some issues had been identified with the processes around informed decision-making, there were sufficient indications that arrangements across the whole council were in place and so EY had chosen to give an except for conclusion. EY had reported on the concerns identified with Children's Services and the Fire and Rescue Service by other inspectorates, the results of which had been reflected in EY's work.*
- *Queried the impact of International Financial Reporting Standard (IFRS) 16 Lease arrangements on the balance sheet. – Mrs Chuter, Financial Reporting Manager, explained that a disclosure note would need to be added to the accounts for 2019/20, but the impact of IFRS 16 would be implemented in full in the 2020/21 accounts. The work would not be part of the asset strategy as one of the main changes arising from IFRS 16 covered smaller scale, operational type leases; such as photocopier leases.*
- *Asked if training would be required for the new conceptual framework. – Mrs Chuter commented that this could be picked up in the annual June training session.*
- *Queried where the County Council's Chief Executive's relocation payment would be reported. – Mrs Thompson explained that EY had looked into the payment with regard to their criteria. The payment was not considered material from their work as it was less than £22m. It was therefore not included within the audit report.*
- *Praised the recent transfer of Pension Administration. – Mr Hunt reported that further progress had been made since the audit and praised the work of Hampshire County Council and County Council officers.*
- *Sought clarity on the issues raised by EY on permanent staffing issues. What level was the issue, was it a national issue and what assumptions had been made that processes would improve when staffing levels improved. – Mrs Muschamp, Head of Finance, explained that recruitment for procurement and contract was a challenge and an area where it was difficult to attract and retain professionals. Progress was being made. Members noted that a task and finish group was looking into a new staff structure for the contract service.*

- Queried the Capital budget and the slippages in the programme. – *Mr Hunt confirmed that this area was considered by the PFSC via a quarterly report. Delays in the programme were linked to issues such as planning and weather. Faithful+Gould had been appointed to help with this and address the concerns. Mrs Thompson confirmed that the level of slippage was typical and that EY checked that appropriate measures were in place to account for this. Mrs Muschamp confirmed that lessons were learned from processes to make improvements going forwards.*

13.4 Resolved – That the Committee note the report and that the Chairman should write to the Chairman of the PFSC to raise concerns with regard to Children’s Services and the Fire and Rescue Services and the failure with appropriate performance monitoring and risk arrangements. PFSC should be asked to look into the current measures which were not fit for purpose.

## **14. Internal Audit Progress Report - September 2019**

14.1 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).

14.2 Mr Harvey, Deputy Head of Southern Internal Audit Partnership, introduced the report and highlighted the table in Appendix A which showed the progress the Council were making in implementing the actions agreed to address issues identified through the respective audit reviews. There were two limited assurance reports relating to IR35 legislation and Residential Care Payments. IR35 concerned tax assessments for individuals working with the Council. Internal Audit had identified that processes were not being consistently followed or documentation checks were being missed. Nine actions had been agreed to address the issues.

14.3 The Committee made comments including those that follow.

- Queried if it was possible to see audit recommendations. – *Mr Harvey confirmed this information could be made available to the Committee on request. Mr Hunt confirmed that he has asked for dates to be added against management actions. Committee members welcomed the addition of dates. Mr Pitman, Head of Southern Internal Audit Partnership, confirmed that slippages would always be brought to the committee members’ attention.*
- Questioned the processes for IR35. When had the legislation changed and were there outstanding tax liabilities. – *Mr Harvey confirmed that the legislation had changed a couple of years ago. Mrs Chuter confirmed that issues with HMRC had been resolved. Mrs Muschamp confirmed that exercises were taking place to analyse all transactions to ensure compliance. Finance were going back to directors and budget holders to analyse the situation. The Committee requested to see the recommendations and progress on them.*
- Queried the progress on the audit plan. – *Mr Harvey confirmed that the progress to the end of September was 57% either work in progress or complete and that progress was on track.*

- Sought clarity on the narrative for the health and safety actions. – *Mr Pitman explained that the narrative came from the service and resolved to provide an update for the committee members.*
- Queried the progress of the IT Capita Contract workshop. – *Mrs Muschamp confirmed that the workshop had taken place and that work was on-going.*
- Sought clarity over the concerns with Mosaic User Access Control. – *Mr Pitman explained that weaknesses and risks had been recognized with processes, but confirmed that no breaches had been identified. Mr Pitman resolved to investigate progress on this.*
- Asked for an explanation over the Home to School Transport concerns. – *Mr Harvey explained the detail on this issue would have been reported previously, but confirmed that the issues related to the recertification of DBS reports. Mr Harvey understood that management confirmation had been received that correct processes were in place for the new academic year following the audit review..*
- Raised concerns over the identified payments for Residential Care Payments. – *Mrs Chuter gave reassurance that appropriate controls were in place going forwards and that two thirds of the payments had been recovered.*
- Queried the plans for Whole Council Design. – *Mr Harvey confirmed that the support element of the programme was being developed and that the governance arrangements were being considered by the Executive Leadership Team. Mr Hunt confirmed that transformation was a useful way to maintain efficiencies.*
- Requested information on the £17m for Childrens' Services. – *Mrs Muschamp explained that the challenge was on value for money consideration. Officers were aware of the challenges in this area and explained that governance arrangements would be looking into this. Mr Hunt confirmed that the Children and Young Peoples Services Select Committee would be looking at this.*
- Queried progress on Guardianship issues. – *Mr Harvey confirmed that fourteen actions had been completed and eight were outstanding. An update on this would be provided in a future report.*

14.4 Mr Pitman introduced the Fraud Plan for 2019-20.

14.5 Members queried the plans for the training. – *Mr Pitman confirmed that plans were in place for training for Hampshire and West Sussex by the end of the financial year.*

14.6 Resolved – That the Committee notes the progress report for the period to 30 September 2019.

## **15. Annual Governance Statement 2018/19 - Actions Update**

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

15.2 Mr Gauntlett, Senior Advisor, introduced the report and explained to the Committee that an update report would be coming to the next meeting in January. Action owners could be invited to the meeting if required.

15.3 The Committee made comments including those that follow.

- Sought clarity on the processes for the scheme of delegation action. – *Mr Gauntlett confirmed that the scheme of delegation within the constitution required a review following recent structure and cabinet changes and that this would be carried out by the Director of Law and Assurance.*
- Queried the timescales for the review of the West Sussex Plan targets and measures, and the anti-fraud review. – *Mr Gauntlett confirmed that updates on these were due in January 2020.*
- Sought clarity on the review of the County Council's health and safety governance and assurance. – *Mr Gauntlett resolved to seek clarification on the action. Members noted that the action was a high priority within the Internal Audit report.*
- Requested an update on the action for Risk Register reference CR60 relating to the Fire and Rescue Service. – *Mr Gauntlett confirmed that an update on the Fire and Rescue Service would be going to the Environment, Communities and Fire Select Committee in January and resolved to ask the Chief Fire Officer to provide a clear update on future reports. Mr Harvey confirmed that considerable progress had been made on the short term actions.*
- Sought clarity on the process for the review of the whistleblowing policy and Member involvement. – *Mr Gauntlett confirmed that this was within the remit of the Standards Committee. Members commented on the recent reports of bullying and queried the effectiveness of the current policy. Mr Gauntlett confirmed that the Standards Committee looked at an anonymous summary of issues and saw the outcomes of cases. Mr Gauntlett proposed contacting the Director of Law and Assurance to discuss the effectiveness of the strategy. The Committee raised concerns on the process for staff to raise grievances with managers and considered asking the Governance Committee to consider a whole review of the scheme of delegation. The Committee resolved to write to the County Council Chairman on the matters discussed.*
- Commented the contents of Forward Plan entries and requested that entries should include fuller costs and clearer impacts of proposed decisions. – *Mr Gauntlett explained that the Forward Plan complied with the 2012 regulations regarding key decisions. The criteria for cost of key decisions was £500,000. Entries could be considered on a case by case basis on what information was available at the time of publication, with an aim to be as transparent as possible. Mr Gauntlett resolved to raise the issue with colleagues in the Democratic Services Unit.*

15.4 Resolved – That the report be noted and the Committee agrees to write to the Chairman of the County Council to raise issues on the scheme of delegation to the Governance Committee; and issues regarding the whistleblowing policy to the Standards Committee.

## **16. Quarterly Review of the Corporate Risk Register**

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

16.2 Mr Pake, Corporate Risk and Business Planning Manager, introduced the report and explained that a new risk had been added to consider the event of a no deal Brexit. Mr Pake was meeting with new directors to explain risk processes; and also meeting with the Chief Fire Officer and the Childrens Leadership Team to discuss the risks for the Corporate Improvement Plan.

16.3 The Committee made comments including those that follow.

- Queried if improvements were expected for the cyber security risk. – *Mr Pake confirmed that the risk was aimed to be maintained at target level.*
- Sought clarity on the risk concerning data protection legislation. – *Mr Pake explained that this risk had evolved from the introduction of GDPR regulations.*
- Requested an update on the insufficient health & safety governance risk. – *Mr Pake gave reassurance that he regularly met with the appropriate team on this risk.*
- Noted the level of complete actions for the failure of social care provision risk but that a high risk level remained. Members queried if the target was unrealistic or if more actions were required. – *Mr Pake felt that more actions were required and confirmed that he was due to meet the service to scrutinise actions.*
- Felt that reports were required for the transformation benefits risk.
- Highlighted the need to understand the faults concerned with the death or serious injury of a child risk.
- Requested detail on the loss of operational control of Children's Services risk. – *Mr Pake confirmed there had been delays with this risk and resolved to investigate with the team.*
- Asked for an update on the Highways Procurement Litigation risk. – *Mr Pake confirmed that he was scheduled to meet with the Director of Law and Assurance soon on this risk.*
- Queried if any risks relating to Children's Services required changing. – *Mr Pake confirmed that the Director of Children's Services noted that no risks were at 25, but was working with the new leadership team to identify any new risks.*
- Questioned the level of confidence in delivering a balanced budget. – *Mr Hunt confirmed that this would be a challenge but confirmed that there was reasonable confidence based on the current understanding of the settlement. This was classed as a high risk given the current unknowns.*

16.4 Resolved – That the report be noted.

## **17. Treasury Management Compliance Report - Second Quarter 2019/20**

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

17.2 Mrs Chuter, Financial Reporting Manager, introduced the report and informed the Committee that there had been no breaches in policy for

quarter. The borrowing level as at the end of June was £485m and investments totalled £305m.

17.3 The Committee queried what other authorities did with the money they borrowed from the County Council. – *Mrs Chuter explained that it could be used for a variety of reasons but was likely to be used for capital investment or used for cashflow issues. Assurance was given that due diligence took place before money was lent.*

17.4 The Committee queried the £100m increase in investments. – *Mrs Chuter explained that the increase reflected the £100m borrowing taken out in quarter one, offset by the upfront payment of pension contributions in April.*

17.5 Resolved – That the report be noted.

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

18.1 The Committee noted that its next scheduled meeting would be held at 10.30 am on 20 January 2020 at County Hall, Chichester.

The meeting ended at 12.47 pm

Chairman