

Regulation, Audit and Accounts Committee

22 September 2021 – At a meeting of the Regulation, Audit and Accounts Committee held at 10.30 am at County Hall, Chichester, PO19 1RQ.

Present: Cllr N Dennis (Chairman)

Cllr Boram, Cllr Greenway, Cllr Montyn, Cllr Wall and Mr Parfitt

Part I

14. Declarations of Interest

14.1 None declared.

15. Minutes of the last meeting of the Committee

15.1 The Committee noted the minutes regarding the Annual Governance Statement item and commented that the Committee had asked that the statement be amended to reflect ongoing improvements to governance processes.

15.2 Resolved – That the minutes of the meeting of the Committee held on 19 July 2021 be approved as a correct record and that they be signed by the Chairman.

16. Quarterly Review of Corporate Risk Management

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

16.2 Mr Pake, Corporate Risk and Business Planning Manager, introduced the report and confirmed that a new risk had been added concerning placements for children in care under 16.

16.3 The Committee made comments including those that follow.

- Queried if Covid-19 risks should reflect supply chain and inflation concerns. – Mr Pake confirmed that supply chain risks were monitored by directorate, and that inflation was also managed by service leads. Any particular concerns could be raised with the service.
- Sought clarity on the risks for Gatwick in relation to Covid-19. – Ms Eberhart, Director of Finance and Support Services, confirmed that the Covid-19 impact on business at Gatwick continued to be monitored, including the impact for residents in the area. The economy team published monthly reports on the health of businesses in the area and also tracked the number of claimants for universal credit. Projections for tax and business rates had not indicated any major issues for the year.
- Welcomed the monitoring of Corporate Risk 58 concerning the care market and the Risk Register commentary covering the issues.
- Requested an update for Corporate Risk 72 concerning placements for children in care under 16. – Ms Eberhart confirmed that the

Department for Education were aware of the actions and gave reassurance to the Committee that there were strong communications for the issue.

- Noted the high risk rating for Corporate Risk 39a concerning cyber security and queried if attendance from a relevant officer at a future meeting would be useful. – Ms Eberhart confirmed that the Head of IT would be happy to attend a future meeting to explain actions and mitigations.

16.4 Resolved – That the Committee notes the information detailed in the report and the current risk management strategy.

17. Internal Audit Progress Report (August 2021)

17.1 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).

17.2 Mr Pitman, Head of Southern Internal Audit Partnership, introduced the report which provided an overview of internal audit activity and outlined any revisions to due dates.

17.3 The Committee made comments including those that follow.

- Sought clarity on the report terminology and if 'reasonable' was the same as 'adequate'. – Mr Pitman confirmed that CIPFA had reclassified terminology to ensure consistency across the public sector; and that the terms held the same audit status.
- Noted the revised dates for medium actions and that several were in the past and requested an update. – Mr Pitman confirmed that for some of the items reviews were currently taking place. Updates would be provided at the following Committee meeting.
- Noted that cyber security was considered 'reasonable' and queried how this tallied with the high risk rating on the Corporate Risk register. – Mr Pitman explained that internal audit considered how the authority responded to the risk, and it was felt they were doing all they could. The environment was ever-changing which was reflected by the risk rating.
- Queried why the Home to School Transport was rated low priority and overdue. – Mr Pitman reported that the low priority action referred to an internal issue between Children's Services and the Transport. The action was a governance issue rather than high level issue.
- Asked if it was possible to see actions for medium and low actions. – Mr Pitman resolved to circulate this to Committee members after the meeting.

17.4 Resolved – That the Committee notes the Internal Audit Progress Report (August 2021).

18. Internal Audit Plan 2021/22 (Q2 & Q3)

18.1 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).

18.2 Mr Pitman, Head of Southern Internal Audit Partnership, introduced the audit plan for quarter two and three for the year. Green flags had been added to the plan to denote the reviews that had been deferred from the previous year's plan at the request of the council so that important work to respond to Covid-19 could be prioritised. A review of HR policies was being added to the plan to provide assurance for compliance of key policy areas.

18.3 The Committee made comments including those that follow.

- Noted the governance consideration of the IT Transition Programme and queried if the resources of the programme would be considered after the transition was completed. – Mr Pitman confirmed that this was a significant change for the authority and that monitoring the transition would be a key focus. Assurance mapping processes were in place to audit this.
- Queried service resilience in regard to Covid-19 and how home working was considered as part of the review. – Mr Pitman explained the importance of ensuring that the resilience plans were keeping pace with the authority's direction of travel. A formal decision on future working had not yet been made.
- Noted the review for Ash Dieback and commented that the public were likely to be interested in how this was being managed.

18.4 Resolved – That the Committee approves the Internal Audit Plan 2021-22 (Q2 & Q3).

19. Annual Governance Statement

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

19.2 Mr Gauntlett, Senior Advisor – Democratic Services, introduced the Statement and confirmed that it reflected the journey of improvement for the County Council. Progress had been made within Children's Services and the Fire Service but there were still improvements required.

19.3 An additional paragraph was circulated to the committee concerning the Teachers' Pension Regulations (copy appended to the signed minutes). The paragraph gave details of a breach that had been notified to the Pensions Regulator, and a plan to rectify the issue.

19.4 Mrs Shaw, Chief Executive, joined the meeting virtually and reinforced that the statement captured the work that had been done and the improvements that had been put in place. Mrs Shaw acknowledged that there was still work to do but felt that the Statement showed more transparency on activity.

19.5 The Committee made comments including those that follow.

- Commented that the Statement showed more assurance than in previous years. – Mr Gauntlett confirmed that assurance was in place from the Director of Law and Assurance. Mrs Shaw confirmed that the Executive Leadership Team confirmed full assurance with no change in definitions.

- Queried the resources issues within the Children’s Commissioner section. – Mrs Shaw explained that that the framework had drawn on all evidence such as John Coughlan’s commissioner report and the fire inspection report. Officers had confidence that the framework covered all areas, and confirmed that inspectors would be looking in this area too.
- Noted the pending Fire and Rescue inspection and asked if further issues were likely to be discovered. – Mrs Shaw welcomed the pending inspection to check the work that had been undertaken. Officers were hopeful that the work had been sufficient but would await the results of the inspection.
- Sought clarity on the progress of County Local Forums. – Mr Gauntlett confirmed there had been a delay in progression of the forums due to the scheduling of the Governance Committee where the forums were due for discussion. Once the Governance Committee had given support, the work on the forums could continue.

19.6 Resolved – That the Committee recommends the draft Statement and Action Plan for adoption through the signatures of the Leader of the Council and the Chief Executive.

20. External Audit

20.1 The Committee considered the Audit Results Reports for the West Sussex Pension Fund and the West Sussex County Council; and updated draft management representation letters (copies appended to the signed minutes).

20.2 Mrs Thompson, EY, began by introducing the West Sussex Pension Fund report and reporting that the audit work was substantially complete and that County Council delays would delay the Pension Fund work as the audits would be signed off together.

20.3 Mrs Thompson highlighted that there had been a change in materiality and also that there had been a change in the International Standards of Auditing on 5 40 concerning auditing estimates. This change had impacted EY’s audit work.

20.4 Mr Mathers, EY, spoke on the risks that had been considered as part of the pension fund audit. The first risk was on the manipulation of investment income and valuation and concerned management override risks. It was highlighted that this was difficult to do for pension funds as the information used for the accounts came from third parties, such as fund managers. The investigation on this area resulted in no issues being reported from the audit.

20.5 Mr Mathers reported on the next considered risk which concerned the valuation of property investments. The risks on this area focussed on the estimate of property values and ensuring that the appointed valuer’s work is reliable. The investigation on this area resulted in no issues being reported from the audit.

20.6 Mr Mathers reported on the next considered risk which concerned the valuation of level three investments which was a material area of the

fund. There was no observable market data for this and so the investments were difficult to value. Another difficulty was that the investments were not underpinned by the end of year statements and so additional work was required to gain assurance. The investigation on this area resulted in no issues being reported from the audit.

20.7 Mr Mathers reported on the final area of audit focus which was on going concern which had been impacted by the Covid-19 pandemic. The pension fund was performing strongly and had significant liquid investments available if required. Consideration of liquidity estimates and how they had been reported had been looked into and EY were satisfied that work in this area was reasonable. EY had made some changes to the disclosure for going concern in the management assessment in the financial statements.

20.8 The Committee made comments including those that follow.

- Sought clarity on the lower value misstatement that had been identified. – Mr Mathers confirmed that the value concerned private equity valuations.
- Queried the draft management representation letters and that the role of the Committee in the process should be clarified. – Mrs Thompson proposed that wording could be added to the letters to confirm that the Committee had considered and reviewed the reports at a meeting as part of their terms of reference responsibilities.

20.9 Mrs Thompson introduced the West Sussex County Council report and began by thanking both County Council and Pension officers for their help with the audits. The year had been challenging for the audit and the work had been significantly helped by the support that had been received.

20.10 Mrs Thompson reported that the straightforward areas of the audit were complete, but there were three areas that were still outstanding which could impact the completion deadline of 30 September. The first area concerned an objection that had been received from a member of the public. EY were working to consider if the objection would impact their audit opinion concerning value for money. An internal consultation was taking place to consider EY's judgement on the objection. The second area concerned valuation of property, plant and equipment. The third area concerned IAS19 pension liabilities which was a national issue for financial statements. With regard to value for money consideration, apart from the objection consideration, there were no matters to report by exception. The Auditor's Annual Report would include summaries on the three matters outlined.

20.11 Mrs Thompson explained that EY would not be able to issue the audit certificate which formally closes the audit due to the outstanding work as mentioned. The delay of issuing the audit certificate was also linked to a delay in HM Treasury releasing the tool used for submitting the Whole of Government Accounts. The Audit Result Reports would be reissued to the Committee when they were finalised.

20.12 Mr Mathers reiterated Mrs Thompsons comments on the hard work undertaken by County Council officers to assist with EY's audit. Mr

Mathers spoke through the risks that had been considered as part of the County Council audit. The first risk was on the management override controls and how they could be misused. The audit work on this area was complete and there were no issues to raise to the committee.

20.13 Mr Mathers reported on the next significant risk which concerned inappropriate capitalisation of revenue expenditure. EY had tested this area and were satisfied that there were no areas of concern to raise with the Committee.

20.14 Mr Mathers reported on the next significant risk which concerned the valuation of land and buildings. Significant work had been done in this area following the County Council's change in their appointed valuer, and how the different approach taken by the valuer had been reported. EY had added disclosures on this to explain the County Council's judgements, and work to test this area was still being undertaken by EY's valuer.

20.15 Mr Mathers reported on the next area of audit focus which concerned the County Council's Private Finance Initiatives and the models that were in operation for them. There had been no changes to models used, and EY had no issues to report on this area.

20.16 Mr Mathers reported on the next area of audit focus which concerned pension liability valuations. For this area the County Council was reliant on the work of the actuary, and so EY tested the information submitted to the actuary and the output from the actuary. As the final audited value of Pension Fund assets was available, the Council made an adjustment to update the estimated value used in the draft statements.

20.17 Mr Mathers reported on going concern and that this was a strong area for the County Council with regard to cashflow and treasury management.

20.18 Mr Mathers reported on the final area of focus which concerned the accuracy and appropriateness of Covid-19 grant reporting. The accounting treatment applied for an Adult Social Care grant had been considered and accepted as reasonable, but the County Council had been asked to include more disclosure details in the statements.

20.19 The Committee made comments including those that follow.

- Queried the introductory letter in the report and the quality of evidence required to perform a satisfactory audit, and if this gave more assurance than previous years. – Mrs Thompson confirmed that audit was generally under a high level of increasing scrutiny and gave reassurance that EY would only give an opinion and sign off an audit when they were completely satisfied.
- Questioned why EY has not be able to access actuary models as part of the audit. – Mrs Thompson explained that all actuaries had different models which were their own intellectual property. The model mechanics were not considered, but EY would be able to identify if there were issues with the model that impacted materiality. Mr Mathers added that the work on modelling would complete soon, and EY felt it was likely to run positively based on the work done on other audits.

- Sought clarity over the Adult Social Care grant and how intelligence from other audits had been considered. – Mr Mathers explained that there were split opinions across authorities on how the grant should be reported. Additional disclosures had been added to the statements to explain the West Sussex County Council approach.

20.20 Resolved – That the Committee notes the 2020/21 Audit Results Reports for the West Sussex Pension Fund and the West Sussex County Council and requests that details be added to the management representation letters to cover the role of the Committee.

21. Financial Statements 2020/21

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

21.2 Mrs Chuter, Financial Reporting Manager, introduced the report and explained that an updated copy of the County Council Financial Statements had been circulated following changes as part of the ongoing audit work (copy appended to the signed minutes).

21.3 Mrs Chuter explained the changes to the updated statements which included additional disclosures relating to the change in approach for school valuations on the balance sheet; and an additional contingent liability in relation to a breach of the Teachers' Pension Regulations.

21.4 Mrs Chuter explained that the usual deadline for financial statements was July, but following the Redmond Review there was temporary two year revision of the deadline to September. It was confirmed that risk registers for the statements continued to be reviewed during the course of the audit.

21.5 The Committee made comments including those that follow.

- Thanked the officers and the auditors for their work on the statements and the audit, particularly under the difficult circumstances as a result of the Covid-19 pandemic and changing guidance.
- Commented on the assumptions and estimates made for the statements and how they were presented in the reports. – Mrs Thompson felt that the County Council assumptions and judgements were comprehensively outlined within the statement and were of a high quality when compared to other council's statements.
- Queried the considered exposure for the changes for contingent liabilities and if this could be a material risk. – Mrs Chuter explained that this was in the hands of the Teachers' Pension and that the work had not begun yet. Mr Mathers added that the included disclosure was correct based on the level of work progression.
- Asked if the Committee would be able to approve the statements, given that there were elements of work outstanding. – Mrs Chuter explained that the statements would be agreed in their current state, subject to any further changes. The Committee could delegate authority to the Chairman for final approval if changes were minor in nature. If changes were major an urgent meeting of the Committee would be convened. The Chairman confirmed that

details of any changes would be communicated to the Committee.
The Committee agreed to delegate final approval to the Chairman,
subject to any minor changes.

21.6 Resolved – That the Committee approves the Statement of Accounts for 2020/21 for West Sussex County Council and the West Sussex Pension Fund, for signing by the Chairman of the Committee. The Committee also agrees to delegate final approval to the Chairman following completion of outstanding elements of the statements, subject to the changes being minor.

22. Date of Next Meeting

22.1 The Committee noted that its next scheduled meeting would be held at 10.30 am on 8 November 2021 at County Hall, Chichester.

The meeting ended at 12.33 pm

Chairman