

Regulation, Audit and Accounts Committee

26 March 2018 – At a meeting of the Committee held at 10.30 a.m. at County Hall, Chichester.

Present: Dr Dennis (Chairman), Mr Waight (Vice Chairman), Mr Bradford, Mrs Dennis, Mr Lea and Mr Fitzjohn

Apologies for absence were received from Mr Patel.

In attendance by invitation: Mr Hunt (Cabinet Member for Finance and Resources).

Declarations of Interest

146. Mr Fitzjohn declared a personal interest as he held financial agencies with some of the banks listed within the Treasury Management Compliance Report

147. Mr Waight declared a personal interest as a Worthing Borough Council Member in relation to the General Data Protection Regulation (GDPR) Assurance report.

148. 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.

149. Mrs Dennis declared a personal interest as a school governor in relation to the General Data Protection Regulation (GDPR) Assurance report.

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

Minutes of the previous meeting

151. The Committee considered the minutes regarding the Motion discussion and felt that more detail could be added.

152. It was proposed to append the original motion wording to the minutes and to include 'using straight forward language and drawing attention to any significant matters' to the resolution.

153. Resolved – That the minutes of the meeting of the Committee held on 27 November, amended as above, be approved as a correct record and that they be signed by the Chairman.

External Audit

154. The Committee considered the Audit Planning reports by the External Auditor EY (copies appended to the signed minutes).

155. Mrs Thompson (EY) introduced the West Sussex County Council Audit Planning report and drew attention to the three areas that were subject to more audit focus; Pension Liability Valuation, Valuation of Land and Buildings, and Private Finance Initiative (PFI). The format of the Restatement of the Comprehensive Income and Expenditure Statement (CIES) would also require updating.

156. Mrs Thompson spoke on materiality calculations and how the range on this had risen from 1% to 2%, which would be kept under review. It was also acknowledged that members would want reassurance on Value for Money Risks.

157. Mrs Thompson spoke on audit timetables and explained that EY had set times to arrive and leave on site and so work had to be completed within this time.

158. The Committee made comments including those that follow.

- Queried the interim audit report. – *Mrs Thompson summarised the work that had been completed in the interim which included work on; income and expenditure; Property, Plant and Equipment capital programme testing; payroll; starters and leavers; investment property; CIES; journal testing; Minimum Revenue Provision calculations; and value for money work. Mrs Thompson commented that this work had proved satisfactory, but that testing work would need topping up to ensure a continued good report.*
- Sought clarity on the impact on the change in materiality range. – *Mrs Thompson explained that the change would impact on the sample sizes for substantive testing. The testing threshold of 75% remained the same within year. It was explained that underlying errors would still be investigated and that work could be done to measure the impact of the change.*
- Asked if the change in materiality would increase risk exposure. – *Mrs Thompson explained that EY had the ability to use a 0.5% to 2% threshold range. Whilst the range would change the amount in the gross revenue expenditure account that was untested, the sampling methodology would not change and so the large items would still be looked at. A good knowledge of the County Council also helped to identify issues. The range would be monitored and EY would be aware of the perceived risk.*
- Queried if multiple entries would be picked up under the new materiality threshold. – *Mrs Thompson explained that any difference over £1.3m had to be recorded and so differences would be logged for evaluation.*
- Asked if EY's fee would increase if the threshold went back to 1%. – *Mrs Thompson explained that there would be no change in fee unless errors were identified and identified risks changed.*
- Queried how transactions under the threshold were monitored. – *Mrs Thompson explained that these transactions were outside of key items. The methodology required sampling of the residual population to be considered and tested appropriately. Any errors, of any size, were investigated. Items in the sample were not ignored.*
- Sought clarity on what were considered future risks. – *Mrs Thompson reported that the value for money work seemed realistic, but felt that contracts for delivery of key services held a large exposure to risk. Any cause for concern would be investigated. EY's role would be to highlight any areas without a clear action plan and discuss with officers.*
- Asked if the Waste PFI was a high risk. – *Mrs Thompson confirmed that this part of the letter needed correction. The detailed section for PFI within the report confirmed what was happening. The Waste PFI was not a specific risk.*

- Queried if the fee assumption was expected to be correct. – *Mrs Thompson reported that there were currently no indications that the fee would not be on target.*
- Sought clarity on the consequences of not meeting the audit deadline. – *Ms Eberhart reported that the work was challenging but officers had every intention of meeting the target. Mrs Thompson confirmed that EY would only remain on site for the agreed timeframe. Whilst there was no financial or legal risk to missing the deadline, there would be reputational risk for the County Council.*

159. Mrs Thompson (EY) introduced the West Sussex Pension Fund Audit Planning report and reported that interim work on this had been satisfactory.

160. The Committee queried the £10.697m figure for materiality. – *Mrs Thompson confirmed this figure was incorrect and apologised.*

161. Resolved – That the Audit Planning reports be noted.

Internal Audit Progress Report – February 2018

162. The Committee considered a report by the Head of Southern Internal Audit Partnership (copy appended to the signed minutes).

163. Mr Pitman, Head of Southern Internal Audit Partnership, introduced the report and explained the work that was in progress for General Data Protection Regulation (GDPR) readiness.

164. The Committee made comments including those that follow.

- Queried the phrase 'generally conforms' in the assessment from Mazars. – *Mr Pitman explained this was the best rating you could get and is a term used for assessing conformance.*
- Requested detail on the medium priority recommendations; how long had they been recommendations and should the report contain more detail. – *Mr Pitman confirmed that actions were in place for these items. Assurance was given that recommendations were continually monitored.*
- Questioned the delay with the Ethical Governance priority. – *Mr Pitman explained that the delay was due to a change in staff within Human Resources, but reported that the policies were being looked at.*
- Queried the availability of the audit work reports. – *Ms Eberhart explained that the report set out the relevant information for the Committee. Members were advised to contact the audit team if they had concerns with any particular items.*

165. Resolved – That the Committee notes the Internal Audit Progress report.

Internal Audit Plan 2018/19

166. The Committee considered a report by the Head of Southern Internal Audit Partnership (copy appended to the signed minutes).

167. Mr Pitman introduced the report and explained that the plan highlighted risks and relevant corporate priorities. The plan was fluid and any changes would be brought to members' attention via the quarterly progress report.

168. The Committee made comments including those that follow.

- Queried where the risk descriptions had come from. – *Ms Eberhart explained that these anecdotal comments had come from the risk register and would be used to drive the plan.*
- Sought clarity on the process for tender arrangements. – *Ms Eberhart explained that the level of officer oversight was linked to the value of the tender. Agreement from a senior officer with budget approval was always required.*
- Queried the process for P-Card transaction approval. – *Ms Eberhart explained that P-Cards could only be used for small transactions, £600 per transaction and £4000 per month. They should not be used for long term transaction arrangements. Payments were reviewed regularly and any issues were raised with the Executive Leadership Team. Fraud was also considered as part of the process. A recent review had shown that improvements could be made to the process, but there were no other concerns.*
- Asked what level of materiality would be looked at. – *Mr Pitman explained that there was not a monetary level that would be looked at. Frequency and trends would be monitored.*
- Queried the difference between the dialogue in the plan and the risk register for risk CR55. – *Mr Pitman reported that audit was looking into this risk and the implications for the service.*
- Questioned when the external quality review was scheduled. – *Mr Pitman confirmed that the external review was scheduled every 5 years, the internal review was annual. Mrs Thompson added that EY had regular meetings with Internal Audit and their work was taken into consideration.*
- Asked if there were appropriate resources to deliver the plan. – *Mr Pitman said it was a comprehensive plan that he believed was achievable.*

169. Mr Hunt welcomed the quality of the work performed by Mr Pitman and his team.

170. Resolved – That the contents of the Internal Audit Plan and Fraud Plan for 2018/19 be approved.

Internal Audit Charter 2018-19

171. The Committee considered a report by the Head of Southern Internal Audit Partnership (copy appended to the signed minutes).

172. Mr Pitman introduced the report and explained that it had last come to the Committee in September and that there had been a change in terminology in the document. Mr Pitman explained that his role was appraised through the host authority which would engage with Ms Eberhart. A questionnaire would also go to committee members.

173. The Committee queried if a 5 year plan would be more appropriate. – *Mr Pitman proposed that an overview of the last few years could be provided. Mr Pitman added that the Audit Partnership was able to utilize intelligence of the wider authorities enabling the plan to be more dynamic and responsive to sector specific risk.*

174. Resolved – That the Internal Audit Charter 2018-19 be approved.

Draft Annual Governance Statement 2017/18

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

176. Mr Gauntlett, Senior Advisor, introduced the report which provided the public a summary of the Council's governance arrangements. The committee was asked to comment on the draft, and then consider the final version at the July meeting.

177. The Committee made comments including those that follow.

- Queried the quarterly reminder for members to consider their register of interest. – *Mr Gauntlett confirmed that this was included within an email sent with the Members' Information Service.*
- Commented that some Members were not receiving password change reminders. – *Mr Chisnall, Democratic Services Officer, proposed this was linked to the newly elected members' computer profiles and agreed to investigate this matter.*
- Felt that effective scrutiny should be highlighted. – *Mr Gauntlett explained that a large part of effective scrutiny at the Council was decision preview and Business Planning Group activity. Mr Gauntlett agreed to add this to the final version to confirm scrutiny arrangements.*

178. Resolved – That, subject to the change requested in minute 177, the draft Annual Governance Statement be supported.

Financial Statements 2017/18 – Plans and Progress

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

180. Mrs Chuter, Financial Reporting Manager, introduced the report and explained that a change in regulations had brought plans forwards in that the draft statements had to be produced by 31 May. The timetable did not allow time for the Committee to see the draft statements; however the Committee were reminded of the Financial Statement training on the 13 June where the draft papers would be discussed.

181. The Committee made comments including those that follow.

- Queried if there was appropriate resource to meet the required deadlines. – *Mrs Chuter reported that there was a team of 4 for the West Sussex County Council and a similar team for the West Sussex Pension Fund. A contingency would be to bring in agency staff if necessary. The accounts would be the main focus for the team, as well as business as usual activity.*

- Sought clarity on the reported corruption of *SAP Business Warehouse (BW)*. – *Mrs Chuter reported that IT was working on a patch to resolve the issue. Reassurance was given that there was no danger of corrupting financial records. Ms Eberhart reported that this was not considered a material risk to the closedown.*
- Asked if IT performance issues would impact delivery. – *Mrs Chuter reported that alternatives systems were available if BW was unavailable which would only impact 1 day of work.*
- Commented that the timing of the finance department restructure could impact the closedown. – *Mrs Chuter explained that the restructure happened in 2017 followed by staff member promotion. It was felt that the restructure had strengthened the team and a solution has now been found for the staff vacancy.*
- Asked how long £10,000 had been the level for capitalisation of expenditure on property, plant and equipment. – *Mrs Chuter confirmed that this had been the level for a number of years.*
- Queried the recording of non-saleable assets. – *Mrs Chuter explained that there were various categories used for assets and that the balance sheet showed investment assets.*
- Sought clarity on investment property hybrid assets. – *Mrs Thompson explained that the CIPFA code had changed on this and that if an asset was used in any way to deliver Council services it must be classed as an operational asset, not as an investment property.*
- Queried the risk to the pension fund timetable for Capita providing their information. – *Ms Eberhart reported that all deadlines had been met. Mrs Chuter added that there had been close work with Capita in preparation for the closedown work.*

182. Resolved – That the Committee:

- (1) Notes the project plans for the County Council and Pension Fund accounts and the progress to date.
- (2) Approves the draft accounting policies for both the County Council and Pension Fund accounts for 2017/18 for application in preparing this year's accounts.

Quarterly Review of the Corporate Risk Register

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

184. Mr Pake, Corporate Risk and Business Planning Manager, introduced the report and explained that Mrs Curry had recently been appointed as the Executive Director Children, Adults, Families, Health & Education who had taken ownership of Risk 55 and put measures in place to control the risk at an acceptable level. Mr Pake reported that this was being managed well.

185. The Chairman proposed inviting Mrs Curry to the next Committee meeting to discuss risk CR55. The Committee agreed to this proposal.

186. Mr Pake reported that work was underway to create e-learning modules which were expected to go live in the Summer.

187. The Committee made comments including those that follow.

- Asked who would be completing the e-learning modules. – *Mr Pake explained that the expectation would be for new starters to complete the modules. It was hoped that it would also be an annual requirement.*
- Queried the progress on embedding risk into County Council culture. – *Mr Pake reported that whilst progress had been slower than hoped, work was underway to look into specifications to understand the content for training.*
- Asked how contractor risks were considered. – *Mr Pake explained that both the Capital and Corporate Portfolio Management Office were aligned to the corporate risk management strategy and had their own risk logs. Risk reports were considered by the transformation board. Mr Pake had oversight of the highlight report to analyse trends. Ms Eberhart added that the capital programme had its own risk register which was monitored by the Cabinet Member for Finance and Resources and the Capital Asset Board. The relevant Director would remain responsible for the risk.*
- Sought clarity on the action that had been taken following the initial profit warning on Carillion and the subsequent warnings which had ultimately lead to an urgent action decision to appoint Arun Construction as Principal Contractor to complete the Westhampnett Solar Farm project. – *Ms Eberhart explained that the contract with Carillion was already in place at the time of collapse and that there was not a dismissal clause within the contract. At the time Carillion Energy Services were declared insolvent, the Westhampnett solar farm was 95% complete and a decision was required to complete the project. Mr Hunt commented that the Cabinet Member for Environment was not in attendance and so it was not possible to report on the actions that had taken place between the initial profit warning and the urgent action decision. As an example, Mr Hunt explained the action that had taken place following Capita's profit warning and the contingency plans that were in place. Ms Eberhart explained that exposure to risk from contractor collapse was something that had to be considered and that a scrutiny task and finish group had been set up to look into contracts. The Committee resolved to write to the Cabinet Member for Environment to ask when she had been advised of the Carillion profit warning and what action had been taken as a consequence. The Committee also resolved to write to the Chairman of the Contract Management Scrutiny Task and Finish Group to request that lessons were learned from the Carillion collapse and the Capita profit warning; and that they were taken into consideration to improve future contract processes.*
- Queried the high risk score for Cyber-security. – *Mr Mezulis, Chief Information Officer, explained the importance of remaining vigilant to threats and gave reassurance that mitigation measures were in place. Mr Mezulis reported that he met regularly with the Cabinet Member for Highways and Infrastructure, who was responsible for this risk, to monitor the risk carefully. The Committee discussed concerns with cloud based systems.*
- Commented on risk for third party suppliers and the need to consider accounts/supply managers.
- Queried the format of the risk register and if it was possible to reorder the dates to show current rating after initial rating and add the dates of initial ratings. – *Mr Pake agreed to look into these requests.*

188. Mr Pake informed the Committee that the Risk Management Strategy had undergone a review. Members were asked to consider the proposed changes and provide comment to Mr Pake. The revised strategy would come to the next Committee meeting.

189. Resolved – That the Committee:

- (1) Notes the current Corporate Risk Register and Risk Management Strategy.
- (2) Invites the Executive Director Children, Adults, Families, Health & Education to the next meeting to discuss Risk CR55.
- (3) Resolves to write to the Cabinet Member for Environment to ask for details on when she was advised of the Carillion profit warning and what action was taken as a consequence.
- (4) Resolves to write to the Chairman of the Contract Management Scrutiny Task and Finish Group to request that lessons are learned from the Carillion collapse and the Capita profit warning; and that they are taken into consideration to improve future contract processes.
- (5) Asks for the format of the risk register to be considered to reorder the dates to show current rating after initial rating and also add the dates of initial ratings.

General Data Protection Regulation (GDPR) Assurance

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

191. Mr Mezulis introduced the report and explained that the County Council complied well with current data protection regulations. Full guidance for the new GDPR arrangements was not complete yet, however the general guidance was in place.

192. It was reported that the Mr Kershaw, Director of Law and Assurance, had been appointed as the Data Protection Officer and that there would be an appointment made to a Data Protection Manager role. It was anticipated that there may be a high demand for subject matter requests with the £10 fee being removed. Agency staff could be considered to help with this.

193. The Committee made comments including those that follow.

- Queried the appointment process for the Data Protection Roles. – *Mr Mezulis explained that Mr Kershaw would be the main officer responsible for data protection acting as the formal Data Protection Officer for the Council. In addition, appointments would be made to provide for a subject matter expert role and additional support roles to manage requests and reported breaches.*
- Asked for details on the cost of responding to GDPR changes. – *Mr Mezulis reported that the cost for the County Council was likely to be in the region of £145,000, this represented the total cost of additional resources that may need to be employed.*

- Sought clarity on the role of Members and if they would be classed as data processors or data controllers. – *Mr Chisnall resolved to contact Mr Kershaw for clarity on this query.*
- Queried the approach taken to managing data assets. – *Mr Mezulis explained that data process maps would be utilised to consider prime data first, that is those data sources that act as data sources for other data collections.*
- Commented that schools may experience difficulties with compliance. – *Mr Mezulis reported that most schools were using the SIMs package which included guidance for GDPR and that guidance was available via the West Sussex Services for Schools website.*
- Asked how the regulations would impact the sharing of data between parties such as police, social services, etc. – *Mr Mezulis explained that this was linked to the protection of individuals and that parties would have to demonstrate appropriate secure compliance. Consent models were required for giving and receiving data if there is no formal legislative or regulatory basis.*
- Queried the security aspect of the regulations and how this would impact sub-contractor relations. – *Mr Mezulis confirmed that there were significant challenges, however the Council had obligations to meet the security requirements of accreditation regimes such as the Public Services Network. These underpinned the information security elements of the relationship with contractors. The technical aspects of the security accreditations were regularly reviewed and subject to monitoring and testing to identify vulnerabilities. Compliance had to be routinely demonstrated in order to keep the accreditations. Sub-contractors would have requirements built into contracts.*

194. The Committee thanked Mr Mezulis for his update on GDPR.

195. Resolved – That the plans and actions underway to enable the County Council to meet its obligations arising from the GDPR be noted.

196. **Treasury Management Compliance Report – Third Quarter 2017/18**

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

198. Mrs Chuter introduced the report and confirmed that the report had been streamlined following the motion discussion at the previous meeting. It was confirmed that there had been no breaches to the strategy and no new external borrowing.

199. Resolved – That the report be noted.

200. **Duplicate Payments**

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

202. Mrs Chuter introduced the report and confirmed that the report set out the full recovery from the audit recovery work carried out by Meridian Cost Benefit Limited, including supplier statements and VAT corrections.

203. The Committee made comments including those that follow.

- Queried supplier statement work being outside the scope of Capita and the costs and benefit of the exercise. – *Mrs Chuter reported that this was worth doing as Meridian recovered over £100,000, albeit labour intensive.*
- Raised concerns with the publically available data on the County Council website that seemed to include duplicate/similar transactions. – *Ms Eberhart explained that legislation required authorities to publish un-altered transactions and so the data did not include the adjustments that would have taken place. Mr Mezulis added that the data also did not include certain formats which would be reflected in the adjustment work. Ms Eberhart requested a copy of the data which she agreed to pass to the Finance team for investigation. The Committee considered writing to Government highlighting the anomaly in that the regulations enforced published transactions not including amendments.*

204. Resolved – That the Committee notes the outcome of the audit recovery work and the position regarding the current duplicate payment process.

205. **Work Programme**

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

207. Mr Chisnall, Democratic Services Officer, introduced the report and confirmed that discussions had taken place with the relevant departments to ensure that time critical items had been scheduled appropriately.

208. The Committee requested that Mr Mezulis attend the July meeting to give an update on GDPR following implementation.

209. Resolved – That the outline work programme for 2018/19, with the inclusion of a GDPR update at the July meeting, be agreed.

Date of Next Meeting

210. The Committee noted that its next scheduled meeting would take place on 23 July 2018 at 10.30 a.m. at County Hall, Chichester.

211. The meeting closed at 2.42pm.

Chairman