

Regulation, Audit and Accounts Committee

3 April 2020 – At an informal, virtual meeting of members of the Regulation, Audit and Accounts Committee held at 4.00 pm.

Note: In accordance with government advice in the current public health emergency, it was not possible to hold a public meeting of the Committee. These notes record an informal, virtual discussion by members of the Committee. Any decisions required have been taken by an officer using the urgent action procedure following the conclusion of the committee's discussion and published on the Council's website in the usual way.

Present: Cllr N Dennis (Chairman)

Cllr Waight, Cllr Baldwin, Cllr J Dennis and Cllr Goldsmith

Apologies were received from Cllr Bradford and Cllr M Jones

Also in attendance: Cllr Hunt

Part I

1. External Audit Plans

Following the cancellation of the Regulation, Audit and Accounts Committee on 23 March 2020 due to the current public health emergency, the Chairman agreed to hold an informal, virtual meeting of members of the committee on 3 April 2020. The meeting was held in order to discuss the External Audit Plans with the External Auditors, EY, so they could continue their work.

These notes record the discussion of the members present.

Appended to the minutes are questions from the members, with officer responses, on other agenda items that were planned for review at the 23 March meeting. These were submitted subsequently as written questions and were not discussed during the virtual meeting.

- 1.1 The Chairman welcomed Members, Officer and attendees from EY to the virtual meeting.
- 1.2 The Chairman had asked members to submit their questions in advance of the virtual meeting in order to better facilitate the running of the meeting.
- 1.3 The questions were grouped together by topic and presented to EY to answer during the meeting.
- 1.4 The first questions related to the change in materiality level and sought clarification on the reasoning and benefits behind this change. Members queried what EY hoped to learn from this change and if this was considered more important than governance concerns. Members also queried what the impact would have been to last year's audit if the materiality level had been reduced.

- 1.5 Mr Mathers (EY) explained that EY had a professional responsibility to set materiality at an appropriate level which was important to do from their independent position. EY felt that changing the level of materiality from 1.8% to 1% was the appropriate level. The reasons behind the change included the fallout from the Children's Services inspection which had highlighted volatility in spend and pressures on the revenue budget and due to more stakeholder interest in the council. The risks involved with potential management override were also a factor. Headline materiality was a consideration in that higher interest from stakeholders on the level of errors would be anticipated. It was also confirmed that 1% was the industry standard. Mr Mathers confirmed that no change was recommended for performance materiality as the County Council had a good track record for financial statement accuracy.
- 1.6 Mrs Thompson (EY) explained that the change in materiality level would increase the sample size of the audit work in that there would be greater coverage and more testing which would lead to an overall increase in assurance.
- 1.7 Members had submitted questions querying the impact COVID-19 on areas such as the External Audit Plans; the practicalities of the audit; the County Council's ability to function as a Going Concern; Value for Money risks for the County Council's operations and projects; fees; and the impact on 2020-21 revenue.
- 1.8 Mrs Thompson responded stating that operational and delivery risks were being considered. EY's general working approach was geared up for remote working and so the impact of isolation had been absorbed well. The interim audit work had showed that the County Council was also geared up for remote working. Secure transfer systems had been utilised to share key documents and query logs had been set up with officers to assist with the work. EY were maintaining contact with officers and increasing the frequency of conference calls. The initial slowdown caused by COVID-19 seemed to have stabilised.
- 1.9 Mrs Thompson explained that the deadline for financial statement submission had moved from May to June; and the audit opinion deadline had moved from July to September as a result of COVID-19. EY were aiming to keep to the original deadlines where possible. There would ultimately be a delay when it came to the consideration of hard copy data and so the later deadline could be used to enable site hard copy checks. POST MEETING CLARIFICATION – the financial statement submission has now been confirmed as August with the audit opinion now November.
- 1.10 Mr Mathers discussed the risks associated with COVID-19 and the need for EY to establish that the County Council would satisfy requirements of financial cash levels for 12 months following the audit. The County Council could see a reduction in revenue collection in some areas and also an increase in costs for care and

transport. COVID-19 would have an impact on financial planning for 2020/21.

- 1.11 Mr Mathers reported that there was a proposal from CIPFA for the simplification of accounts in response to COVID-19, with the reporting of just key balances and returns; with a simplification of balance sheets. EY would monitor the situation and considered that changing practices to the simplified arrangements may not be the best approach. POST MEETING CLARIFICATION – it has been confirmed that there will no change to previous years.
- 1.12 Mrs Thompson explained that the Value for Money risks had already been considered in the plans and work would continue on this. The 2019/20 work assessed 1 April 2019 to 31 March 2020 and so the majority of the COVID-19 impact was not included. This would be picked up in the 2020/21 audit. EY felt it would not be appropriate to critique the business continuity plans and accepted that the current primary focus for the County Council was core functions.
- 1.13 Mrs Thompson explained that the outlined fees were always the best estimate. If changes were required this would be raised with County Council officers. Mrs Thompson explained that fees had been reducing for a while and had hit an unsustainable position; with fees 60% lower than 8 years ago but with increased expectations. It was therefore expected for audit fees to rise. The Public Sector Audit Appointments Limited (PSAA) had recently reviewed the audit market to understand the market pressures and the 2020/21 fees were recently issued in line with the previous year. EY resolved to keep the committee members updated.
- 1.14 Members queried if the change in deadline and CIPFA proposals would require a change in the committee meeting cycle. - Ms Eberhart, Director of Finance and Support Services, proposed that it could be sensible to schedule an additional meeting towards the end of September in case it was required. Mrs Thompson explained that it was not currently clear if the CIPFA proposals would be optional or mandatory.
- 1.15 Members had submitted questions on Children's Services with regard to Value for Money and business continuity plans.
- 1.16 Mrs Thompson explained that EY's consideration of confidence in the service would be made when the review work was completed. The responses to the inspections were being looked at and consideration was being given to cost and if they were one off or continuing. Continuing costs would need to be considered as part of wider financial plans. The National Audit Office (NAO) would be issuing guidance on how to consider the impact of COVID-19. The impact consideration would be reported on at a future committee meeting.
- 1.17 Members had queried Internal Audit and if there were any limited assurance reports that should be brought to the members' attention, or any areas that should be considered by Internal Audit.

- 1.18 Mr Mathers commented that all limited assurance reports should be of interest to the Committee members. The Committee needed to consider how it responded to the reports, and how it held officers to account. Mr Mathers also explained that it was not for EY to dictate the work of Internal Audit, and that Internal Audit needed to respond appropriately to risks.
- 1.19 Members had submitted a query on EY's thoughts on Whole Council Design.
- 1.20 Mrs Thompson explained that this had not been considered in detail as County Council structure was for members' consideration. Change in senior officers had not helped and so stability was recommended. The appointment of Becky Shaw as Chief Executive was seen as a positive step. Ms Eberhart reported that Whole Council Design had been scheduled for scrutiny at the Performance and Finance Scrutiny Committee, but this meeting had been cancelled due to COVID-19. It was noted that COVID-19 had led to rapid consideration of some ways of working, such as the paper based / remote working.
- 1.21 Members commented on the recent departure of the Executive Director of Adults and Health and how this may impact the Council. – Mrs Thompson commented that this was very recent news and so EY had no comment, but noted that social care was a current area of high pressure. Mr Hunt, commented that the Cabinet Member for Adults and Health had spoken with the new interim officer and had expressed confidence in him.
- 1.22 Members raised queries for the Pension Fund Triennial Review and if the current market situation would impact scheme funding.
- 1.23 Mr Mathers explained that the valuation would have considered the markets before the impact of COVID-19. Year end balances would be sent to the actuary and so the impact on pension liability could be considered. Private equity was a different area, but represented a small element of the total pension fund. A bounce back of markets was expected and so it was important not to initiate a knee jerk reaction. The pension fund would need to consider the overall impact COVID-19 had on scheme funding and contributions. Members commented that equity may see a longer effect which could impact the next valuation. Mr Hunt, confirmed that he had recently updated Pension Panel members to say that the pension fund was 97% funded and so still in a healthy position. There were no plans to revise any arrangements at the current time.
- 1.24 Resolved – The members in attendance note the plans for main Council and Pension Fund and confirm their understanding of, and agreement to, these materiality and reporting levels. The members also agree to the scheduling of an additional reserve committee date in September.

The meeting ended at 5.05 pm

Chairman

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Offline Questions on the March RAAC Reports

Agenda Item 4 Quarterly review of Corporate Risk register

Question - In light of the new Risks, is there anyway we could have a member of the Children's directorate to talk us through, however if not I will ask for this to be raised at Performance and Finance Scrutiny Committee Business Planning Group. The mitigating actions are not clear enough.

Response from Fraser Pake, Corporate Risk and Business Planning Manager - Suggest that the Chairman refers the issue to the relevant Select Committee Chairman.

Question - CR11 – a risk update is required.

Response from Fraser Pake - This risk is due to be updated in May.

Question - CR22a – Instead of being closed, is this not ongoing as inherent risk?

Response from Fraser Pake - Once in the restart phase, we will review the description of CR22 to reflect post-COVID financial evaluations. Which may/may not require a separate risk on in-year overspend.

Question - CR59 – This really does concern me as the benefits do not appear anywhere in any papers and have not yet been scrutinised.

Response from Fraser Pake – A paper went to the Performance and Finance Scrutiny Committee.

Question - CR66 – Has this been discussed at HASC BPG?

Response from Fraser Pake – Suggest that the Chairman writes to the Health and Adult Social Care Scrutiny Committee Chairman.

Question - CR67 – Very concerned re interim what is the latest update?

Response from Fraser Pake – This action has been closed. Mutual Ventures have been appointed.

Question - CR68 – What is the Rapid Improvement plan?

Response from Fraser Pake – There's no mention of this in the risk serial

Question - CR69 – is there an update?

Response from Fraser Pake - This risk was added just before agenda dispatch, which contains the most up to date info.

Question - Are WSCC furloughing staff or seeing an increase in staff off work ill or self-isolating? What impact does this have on the ability to maintain services and governance?

Response from Fraser Pake - Currently we are not furloughing staff. We are not seeing large numbers of staff off sick or self-isolating and not able to work so there is no impact on services or governance.

Agenda Item 5 Internal Audit Progress Report

Question - Page 27 – How long will it take as part of the allocated workforce effort to complete this work in 2019/20. By inference how much will now be delayed?

Response from Neil Pitman, Head of Southern Internal Audit Partnership – All has been allocated to staff and agreement reached with the various service areas to complete the work remotely. It is fully anticipated that all 19/20 work will be completed to inform the annual report and opinion.

Question - Page 28 - where are the DR papers? Did we have them in Jan?

Response from Neil Pitman - Reported to the RAAC in January – Stewart Laird (Interim Head of IT) attended to answer Councillors' questions.

Question - Page 33 – WCD why has this been completely pulled from the work programme

Response from Neil Pitman - This has not been pulled from the work programme. The WCD review was designed to cover two aspects: 1) a report on governance, which is currently being concluded; and 2) an advisory / consultancy role to assist with ongoing workstreams. This element of the work would not conclude in a report hence the n/a within the progress report. I will add some narrative to the comments to make this clearer.

Question - Page 34 – Firewalls and Malware provision ditto as above

Response from Neil Pitman - Reported to the RAAC in January – Stewart Laird (Interim Head of IT) attended to answer Councillors' questions.

Question - Page 38 – Re the deferred audits – when are provisional new dates for these?

Response from Neil Pitman - These reviews will be further risk assessed to determine whether they are to feature in the 20/21 audit plan. Other COVID risk (as detailed below) may take priority.

Question - Page 39 – How is Group Manager recruitment going?? This is very slow for a high priority role.

Response from Neil Pitman - It has been reported that interviews are due to be taking place on 22 April 2020

Question - Page 40 – Has E-Income been completed and IR35 has no update?

Response from Neil Pitman - It has been reported that E-Income has not progressed due to identified costs in completing the work. Discussions are ongoing. Implementation slipped to June 2020

IR35 – Guidance & Procedure Notes is complete, however, we have been unable to attain an update on progress with the vendor records. We will continue to press for a response. As soon as we receive feedback from the responsible manager we will update you accordingly.

Question - Page 42 – Give us a scale of the problem as this is I agree a poor state of affairs.

Response from Neil Pitman - The scale of the problem is as presented to the RAAC by the Interim Head of IT when he attended the meeting to run through the 'Limited Assurance' reviews at the January 2020 meeting.

It has been reported by management that due to the impact of COVID and reprioritisation of staff to support remote connectivity for the whole organisation a revised implementation of June 2020 has been set, however some positive progress has been made in starting to migrate asset data into the new AMDB

Agenda Item 6 Approach to Internal Audit Planning 2020/21

Question - How is this to be impacted by Covid 19, and will you be reviewing priorities.

Response from Neil Pitman - I circulated an overview of emerging risks as a result of COVID-19 to all S151 officers across all of the SIAP Partners during the first week of April (copy attached as Annex A) for their consideration and potential inclusion in their respective audit plans. I will be following up with each organisation to determine key areas pertinent to their organisations for review in Q1/Q2 of this year's plan.

Question - Is this risk based approach (P47-48) likely to find where there is a problem (as we seem to have failed to identify some of the recent problems such as childrens and fire in advance through the corporate risk register). Would it be better to do some basic testing on every area to try and find problems that may be 'hidden in the woodwork' rather than only chasing the highlighted risks?

Response from Neil Pitman - The approach we will be adopting is to hold workshops around existing risk registers, however, it will also be an opportunity to ensure that the identified risks are relevant and up to date, with the further opportunity to consider new and emerging risks (The council's Risk Manager will also be in attendance).

Whilst 'basic testing' may identify lower level risks at a system / process level it would not highlight strategic level risks where the organisation needs to be gaining its assurances.

Agenda Item 7 Internal Audit Charter 2020/21

Question - Are there any changes from last year? This may have made it easy to review.

Response from Neil Pitman - There are no changes.

Agenda item 10 Regulation of Investigatory Powers

Question - It would have been useful to have an understanding of the changes to the previously approved Policy. Might I ask if an independent person/organisation has seen this document to check that it is line with other LA's. Have we had any legal issues with the use of these powers in the past?

Response from Tony Kershaw, Director of Law and Assurance - The changes to the policy are as a result of a review of comparator policies across similar councils. There are some changes to 'best practice' which have also been identified by the national body which carries out routine inspections of authorities which make use of RIPA. Guidance is given nationally as well as in response to individual inspection visits. The Council's last inspection was three years ago.

A particular focus of this review has been the growth in the use of social media by officers in various services for viewing and recording information about service users. The policy now contains clearer and more firmly directive advice about this practice.

No legal challenges to the Council's use of RIPA powers have been received. The Council's use of the powers through formal enforcement action has been limited to a small number of activities by Trading Standards, especially to control the on-line sale of counterfeit goods and regulated products such as tobacco.

Agenda Item 11 Financial Statements Plans and Progress 19/20

Question - Plans look fine , though I would like an update on the potential impact of Covid 19 and the potential that the government may relax the date for submission of accounts and audit?

Response from Vicky Chuter, Financial Reporting Manager - *MHCLG has now issued the amendment to the Accounts and Audit Regulations which confirm the extended timetable for the publication of the 2019/20 financial statements. All local authority bodies will have until 30 November 2020 to publish the audited accounts. The public inspection period must start on or before the first working day in September, which means the council will have until 31 August at the latest to publish draft accounts. The amended regulations also permit authorities publishing their accounts earlier than those dates, so for this year authorities must publish the dates of their public inspection period, explaining why they are departing from normal practice for 2020.*

At this stage, the council is still working to the original timetable of 31 May for both the County Council and Pension Fund accounts, subject to there being no issues in terms of resourcing. It is anticipated that the Pension Fund statements will be completed by 31 May, subject to there being no issues in terms of the provision of information from third parties and also the vast majority of the West Sussex financial statements too, although there is one element relating to the council's share of the district's and borough's collections funds, which is included in the financial statements but will be delayed because of an extension to the date when the districts and boroughs are required to submit their NNDR returns for 2019/20 (now set as 31 July 2020). The original deadline for receiving this information from the districts and boroughs was early May, and the council is in discussion with the districts and boroughs to confirm when this information will now be available. The council have also been in discussion with EY and they are intending to start the audit of the statements at the beginning of June, recognising that the statements may not be finalised at this stage.

In addition, to ensure that the council is able to fully reflect the impact of Covid 19 in terms of the council's financial outlook and to safeguard against any further unforeseen delays in either the production or the audit of the financial statements, a potential second later date for the audit committee in September 2020 will be arranged.

Specifically for the Pension Fund, there will be additional disclosures required as a result of the uncertainty caused by the current market environment – an example being the material uncertainty in the property valuation.

Question - Re the draft Accounting policies – may we be advised of any changes from last year please, this takes a huge time pressure off members and they are more likely to take note.

Response from Vicky Chuter -

West Sussex County Council

The most significant changes are to policy (ii) Property, Plant and Equipment. The Council has adapted its policy so that the estimated remaining useful lives of its buildings (including componentised assets) as used for the purposes of calculating depreciation are now provided by its external valuer. The Code confirms that useful lives are considered an accounting estimate and therefore changes are to be applied prospectively i.e. no prior period adjustment is necessary. Additionally, the Council's policy regarding the recognition of schools' non-current assets has been reworded to ensure alignment with the latest provisions of the Code and to remove duplication with its Critical Judgements disclosure. This has no impact on the recognition of school assets by the Authority. Finally, this policy has been amended to reflect the adoption by the Council of its inaugural Flexible Use of Capital Receipts Strategy.

Changes have also been made to accounting policy (iv) Charges to Revenue for Non-Current Assets, to confirm the arrangements for accounting for lease premiums such as the cost of the IT equipment refresh which was incurred during 2019/20.

The opportunity has also been taken to make some other minor changes to the summary of accounting policies. These changes are intended to remove unnecessary detail in line with CIPFA's 'Cut the Clutter' initiative, ensure ongoing alignment with the example accounting policies in CIPFA's Code of Practice Guidance Notes where appropriate, and address issues raised by EY during their previous audit. The changes are designed to provide clarification, streamline or to address previous omissions, and none are intended to reflect a change in existing practice.

Pension Fund

There was only a minor change in section (f) to update the investment management expenses for the Baillie Gifford fee for 2018/19.

Question - With reference to P165 WSCC Closedown Milestones and P166 WSPF Closedown Milestones; Will this schedule all change now, including the RAAC Member Briefing in June?

Response from Vicky Chuter - As at this point of time, the majority of the dates will remain unchanged in line with the council's intention to produce the draft statements for both West Sussex County Council and the Pension Fund, as complete as possible, by 31 May. Although the date for the outturn collection funds from the districts and boroughs, which was originally set as 1 May 2020 on Page 165, will change once confirmed with the districts and boroughs and this will have an impact on when a complete and signed set of statements will be available for West Sussex County Council. The RAAC Member Briefing is currently scheduled for 25 June and it is very likely that this will need to be rescheduled.

Agenda item 12 Draft Annual Governance statement

Question - It would have been good to highlight those items of change from the previous year in red for ease of reading. Similarly Appendix A , I would have liked to have seen the previous years last reviewed/ action planned.

Response from Charles Gauntlett, Senior Advisor - Each year the document is newly produced and is standalone. While there may be similarities from year to year, councillors are encouraged to consider the whole document and whether it accurately reflects the governance arrangements in place. As the draft report was prepared before the year-end, the previous year action outcomes are not included at this stage. This is because directors are asked to prepare an annual assurance statement which includes an update on the previous year's actions after year end.

Question - Page 228 point 71 re Risk Management Strategy – I am not comfortable with this. Happy to discuss with Charles.

Response from Charles Gauntlett - Paragraph 71 is a factual statement which sets out existing arrangements in line with the executive and non-executive functions of the Council. I'm happy to discuss the detail with Joy Dennis.

Question - Section D in Appendix A, P221, refers to the performance measures in the West Sussex Plan, the Performance Dashboard and the Total Performance Monitor. Are these still 'fit for purpose' in the light of the recent challenges facing the Council? Are there any plans to review them? (seemingly not according to the top of P234).

Response from Charles Gauntlett - These are the current measures and I am not aware of any plans to review them.

COVID-19 – Emerging Risks Areas



With the unprecedented scale of COVID-19 coupled with the speed of its impact and the wide ranging challenges it has presented, local authorities have had to react promptly and positively to the complex issues raised to ensure that the essential services they provide and the best interest of the people they serve are protected and maintained.

The exceptional demands this crisis has placed on local authorities has necessitated new and different ways of working to navigate the unique challenges posed.

Such challenges and subsequent resolutions bring with them new and emerging risks that management need to consider, manage and mitigate. In response, the Southern Internal Audit Partnership has considered and produced a list of consequential and emerging risk areas that more prominently present themselves or are born by the necessary or imposed actions to meet and address the crisis we currently face.

The risk areas identified below are not exhaustive but do reflect on many of the circumstances faced by SIAP Partners and intelligence gained from other local authorities across the country.

Key risk areas

- Distribution of Business Grants
- Other COVID-19 Funding (e.g. homelessness, social care, business rate/ council tax relief, local grants etc)
- Governance (decision making, delegated powers, GDPR, risk management)
- Homeworking
- Performance Management
- Staff Welfare
- Health & Safety
- IT Security (user access, cyber, malware (masquerading as guidance on COVID-19), offsite data-storage services)
- IT Capacity (remote access, telephone systems, internet connectivity)
- Procurement
- Contract Management (supply chain management)
- Reputational risks of how as an organisation you are responding / communicating with the public
- Fraud risks – emerging opportunities internally and externally
- Emergency Planning / Business Continuity
- Financial resilience (e.g. impact on MTFs assumptions arising from cost of response to COVID-19, reduced income generating activities, trading arms, treasury management etc)
- Resilience and single points of failure

The Southern Internal Audit Partnership are happy to work with organisations to explore and provide assurance in respect of these key risk areas either in addition or through reprioritisation of existing audit plans.

Should you wish to discuss further please contact: Neil Pitman, Head of the Southern Internal Audit Partnership; Email: Neil.Pitman@hants.gov.uk