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# **Southern Internal Audit Partnership**

Assurance through excellence  
and innovation

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## **West Sussex County Council**

### **Internal Audit Report**

**Company Governance Framework 2022/23**

**27 October 2022**

**Prepared by: Hazel Collyer**

**FINAL REPORT**

**Confidential**

## 1. Introduction

- 1.1. As part of the Internal Audit Plan for 2022/23, we have undertaken a review of Company Governance Framework.
- 1.2. The purpose of the audit was to ensure the setup of the joint venture partnership (West Sussex Property Development LLP) between WSSC through Ede's Estates Limited and Lovell Partnerships Limited has a robust governance framework in place. As part of the scope of the audit we have not looked at detailed transactional items as the Partnership is in its infancy regarding transactions and this is a high-level governance review.
- 1.3. We are grateful to Malcolm Mayo for their assistance during the course of the audit.

## 2. Objectives

- 2.1. This review has sought to assess the effectiveness of controls in place focusing on those designed to mitigate risk in achieving the following key objectives:
  - There is a clear and approved business case for the setup of the Property Company / Joint venture.
  - Governance arrangements are clearly defined, documented, agreed, and communicated to allow transparency and accountability
  - Accounting arrangements for the JV/Property Company have been developed and agreed and adhere to local authority accounting regulations

### 3. Circulation List

3.1. This document has been circulated to the following:

- Lee Harris – Director of Place Services
- Tony Kershaw – Director of Law and Assurance
- Tony Kirkham – Interim Director of Finance and Support Services
- Andrew Edwards – Assistant Director (Property & Assets)
- Malcolm Mayo – Technical Project Manager
- Clare Williams – Deputy Chief Finance Officer



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Internal Auditors

The Southern Internal Audit Partnership conforms to the IIA's professional standards and its work is performed in accordance with the International Professional Practices Framework (*endorsed by the IIA*).

#### 4. Summary Findings

Assurance Opinion	
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Management Actions	
<b>High</b>	<b>0</b>
<b>Medium</b>	<b>1</b>
<b>Low</b>	<b>3</b>
<b>Total</b>	<b>4</b>

Key Observations
<p><b>Areas assessed to be working well/controls are effective</b></p> <ul style="list-style-type: none"> <li>• There is a draft Partnership Business Plan in place which outlines the objectives of the partnership however, the business plan is due to be reviewed again as KPI's are going to be added as well as a clear reference to the Our Council Plan published by WSSC.</li> <li>• A key decision was approved through the appropriate channels in order to develop a property company joint venture.</li> <li>• The Partnership has a clear reporting structure back to the Council via its Shareholder Group which meets quarterly along with having a quarterly Board of Directors meeting.</li> <li>• The board structure demonstrates the decision-making process in order to ensure that there are no conflicts of interest.</li> <li>• A Shareholder Agreement is in place between West Sussex County Council and Ede's Estates which clearly outlines the key roles and responsibilities as well as having a defined reporting framework.</li> </ul>

- Conflicts of Interest training is programmed in for all Directors in November 2022.
- A Partnership Agreement is in place and has been signed by all parties (Edes Estates, Lovell Partnership Limited and West Sussex Property Development LLP). The Agreement defines the services and obligations for each party.
- Transparency and accountability of council key decisions relating to the surplus land to be developed and other decisions relating to the JV are accessible through West Sussex County Council's website.
- A Development Management Services agreement is in place and lays out the financial obligations and liability detailed for each party whilst in the development phase.

**Areas where the framework of governance, risk management and control could be improved**

- Risk management arrangements are captured in the various documents relating to the joint venture set up including the Edes Estate draft Business Plan along with an example risk register, the Joint Venture draft business plan and a standalone JV risk register which is currently incomplete with no entries for risk owners, target dates and residual risk scores. With the various references to risk including the JV risk register it is not clear what the overall risk management arrangements are for the JV project for WSSC.
- Procurement and Financial procedures are yet to be completed for Edes Estates (which is a limited company and therefore reporting and accounting should be defined by the Companies Act). Through discussion it was confirmed that these will be in line with the council's procedures and that management accounts will be produced and presented to the board, however there is no written evidence to support this.

## 5. Added Value

- 5.1. One of the Core Principles that underpin the Professional Practice of Internal Auditing is to ‘promote organisational improvement’. The Added Value section of the report provides insight, opportunities and collaborative learning (best practice) that the organisation may wish to consider moving forwards. We do not consider the issues raised in this section to adversely impact the control environment in the achievement of objectives reviewed.
- 5.2. The points raised below are for management to discuss and consider within the context of the organisation, and Internal Audit do not require a response on these.

Added Value
<ul style="list-style-type: none"><li data-bbox="208 699 2000 767">● Edes Estates and the partnership may wish to publish board meeting dates in advance and also publish meeting minutes for increased transparency and accountability.</li><li data-bbox="208 810 1955 847">● At all formal meetings ‘Declaration of Interests for individuals’ in the agenda items could be considered as a standard agenda item.</li></ul>

Observation – 1 – Risk Management			
<p>During the audit we sought to confirm that there are risk management arrangements in place that effectively maintain and monitor the risks associated with the JV project.</p> <p>Risk Management arrangements are articulated within draft business plans for Edes Estates and the Joint Venture. There is also a JV risk register available which is incomplete. With the various references to risks including the registers, there is a lack of clarity for the overall risks to WSSC and where these are managed, including risks associated with either Edes Estates or the Joint Venture and their impact on WSSC.</p>			
<b>Risk</b>	Lack of clarity and ownership of risk management processes.		
Management Response			
Action	Priority	Responsible Officer	Target Date
1.1 The Risk Register to be further assessed after specialist assessment, processes put in place with advisers appointed to provide direct assistance to Edes Estates/WSSC. Advisers have been selected and briefed to commence start of September. The outcome is appointed advisers that review the business cases, management controls in place and check/amend the initial risk and issues registers.	Low	Malcolm Mayo	November 2022
1.2 The proposed action is to further review the current register, assess the present list and status of entries, identify additions, identify risk owners and confirm empowered to act, create realistic target dates informed by the recent revisions to the programme and provide actions that are costed then residual risk scores/issues.	Low	Malcolm Mayo	February 2023

Action	Priority	Responsible Officer	Target Date
<p>1.3 It is also proposed to review the risk registers of the partnering company, Lovell and the JV's advisers, to identify common risks in those that have potential impact to Edes Estates/WSSC, including political and reputational. This will progress to link the registers. Following on will be Priorities Schedule and Issues Register that are connected to this information. The outcome is linked registers across all contributors to the joint venture.</p>	Low	Malcolm Mayo	February 2023
<p>1.4 It is proposed, with advisers to Edes Estates, the JV and the JVA to review the registers bi-monthly and link to programme and product strategy to report to the boards.</p>	Low	Malcolm Mayo	March 2023
<b>Auditor assessment of managements response</b>			
Management actions, once implemented, should help mitigate identified risk.			

<b>Observation – 2 – Accounting Arrangements</b>			
<p>Our audit identified that although governance arrangements are being progressed there are currently no written financial or procurement procedures in place for Edes Estates. Therefore, there is a risk that financial transactions may be taking place within the partnership and that they are not being fully discussed or recorded appropriately.</p> <p>The Council has outsourced the financial management arrangements for Edes Estate to a local firm of Accountants who will produce monthly management accounts and prepare the annual statement of accounts. The Joint Venture has recently prepared their annual statement of accounts however there has been no approval of expenditure through the shareholder board and consequently no transactions to be recorded</p>			
<b>Risk</b>	Financial transactions not being appropriately recorded		
<b>Management Response</b>			
<b>Action</b>	<b>Priority</b>	<b>Responsible Officer</b>	<b>Target Date</b>
<p>2.1 The arrangements now in place will be formally recorded in the records of Edes Estates rather than relying on the record of action within the Council. The arrangements for the procurement of external advice and other services will be set down in a set of procurement rules for approval by the Board.</p> <p>The JV has completed outline business cases which are currently being reviewed by Edes Estates consultants. The costs of this review will be recorded in the accounts of Edes Estates.</p>	Medium	Clare Williams	December 2022
<b>Auditor assessment of managements response</b>			
Management actions, once implemented, should help mitigate future risk.			

## Appendix 1 – Definitions of Assurance Opinions and Management Actions

We use the following levels of assurance and prioritisations in our audit reports:

Assurance Opinion	Framework of governance, risk management and management control
<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Management Action	Current risk
<b>High Priority</b>	An immediate risk of failure to achieve objectives; system breakdown; or loss. Such risk could lead to an adverse impact on the organisation or exposure to criticism.
<b>Medium Priority</b>	Although not immediate, there is risk of failure to achieve objectives; system breakdown; or loss.
<b>Low Priority</b>	Areas that individually have no immediate risk impact, but where management would benefit from enhanced process/control or efficiencies.