

Regulation, Audit and Accounts Committee

26 June 2017 – 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, Mr Fitzjohn and Mr Lea.

Apologies for absence were received from Mrs Dennis and Mr Patel.

Declarations of Interest

1. Dr Dennis declared a personal interest as a member of a local government pension scheme (not West Sussex).
2. Mr Lea declared a personal interest as a Mid Sussex District Council Member in relation to the discussion on Devolution and also as a Member of the Mid Sussex Audit Committee in relation to the External Audit item.
3. Mr Waight declared a personal interest as a Worthing Borough Council Member in relation to the asset management strategy.
4. Ms Eberhart (Director of Finance, Performance & Procurement) declared a personal interest as her daughter was employed at Ernst & Young (EY).

Part I Minutes of the previous meeting

5. Resolved – That the part I minutes of the meeting of the Committee held on 13 March 2017 be approved as a correct record and that they be signed by the Chairman.

Part II Minutes of the previous meeting

6. The Committee agreed that as they had no comments on the minutes it was not necessary to enter Part II to discuss their content.
7. Resolved – that the Part II minutes of the meeting of the Committee held on 13 March 2017 be approved as a correct record and that they be signed by the Chairman.

Membership

8. The Committee noted its membership as confirmed at the 16 May 2017 County Council.

Terms of Reference

9. The Committee notes its Terms of Reference.

Annual Governance Statement 2016/17 (Draft)

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

11. Ms Eberhart introduced the report and explained that the Annual Governance Statement (AGS) was prepared annually to sit alongside the accounts. The presented AGS had been updated to match CIPFA and SOLACE guidance. The AGS contained a review of actions for 2016/17 and a focus on actions for 2017/18.

12. The Committee made comments including those that follow.

- Asked for the amount the County Council had invested into its Devolution bid. – *Ms Eberhart resolved to circulate this information to the Committee.*
- Queried Capital Programme Governance and the difference in actual spend against the revised programme's figure. – *Ms Eberhart expressed disappointment at the gap on the projected outturn and explained that the Capital Programme had suffered from optimism bias. The 2017/18 profile was being carefully calculated to be more realistic and that officers were committed to improving the forecast.*
- Commented that the AGS should include a catalogue of actions, including key dates, which would help with progress monitoring. It was also commented that the document contained too many three letter acronyms which could cause confusion. – *Mr Pitman, Head of Internal Audit (interim), resolved to look at the format of the AGS.*
- Queried the meaning of 'Assured ✓' in the principles section. – *Mr Pitman explained that this logged officer sign off of the principles. Ms Eberhart stated that the mark gave assurances to the Chief Executive, Leader and Executive Directors that the framework was set out correctly. The assurances were considered at working group meetings.*
- Sought clarity on the compliance section and the comments relating to P Card and Parked and Blocked invoices. Were the SAP improvement delays hindering the effectiveness of compliance? – *Ms Eberhart explained that there had been improvements to the P Card compliance procedures and that she was pleased with the progress. The SAP improvements were delayed due to technical issues. Proposed solutions had been implemented in the interim to improve compliance. Mrs Chuter, Chief Accountant, explained that progresses for Parked and Blocked invoices had been investigated. Improvements had been made to controls but there was still work to be done. It was felt that the work was moving in the right direction.*
- Queried the impact of stress on staff and if the change in the senior level could be a factor. – *Ms Eberhart felt that the County Council was entering a stable period with the majority of posts filled. The establishment of a culture board was a good way to get feedback from staff with a focus on wellbeing of employees. A recent pulse survey had given some useful insights.*
- Asked about the transparency of data of payments and invoices. – *Mrs Chuter confirmed that this was due to be published on the website soon.*

13. Resolved – That the Committee approves the draft Annual Governance Statement for signature by the Leader of the County Council and the Chief Executive, subject to the comments and suggestions discussed for the Action Plan.

Quarterly Review of the Corporate Risk Register

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

15. Ms Eberhart introduced the report and explained that a risk manager had now been appointed which would help raise the profile of embedding risk across the County Council. The Committee's role was important in considering risk management. Dr Muller, Head of Performance & Intelligence, reported that the Corporate Leadership Team was now more engaged with risk and felt that the buy in from the top would help strengthen the importance of risk.

16. The Committee made comments including those that follow.

- Sought clarity on the new process for risk. – *Ms Eberhart explained that the risk register was reported quarterly to the Committee, however risks were reviewed regularly. High risks were escalated to the Executive Leadership Team for discussion.*
- Queried Brexit's impact on risk. – *Ms Eberhart confirmed that Brexit was on the Director of Economy, Planning & Place's risk register. Following the recent Queen's speech, officers could begin to consider the impact.*
- Asked what approach would be used to embed risk into County Council culture. – *Dr Muller confirmed that this was the next step, working to embed this at a lower level. A communication strategy was being planned which would seek to remove the negative association with risk. The Committee felt this work should be included within future reports so progress could be monitored. Dr Muller resolved to add this to future reports.*
- Raised concerns on the impact scores related to IT. – *Ms Eberhart proposed attendance from the relevant officer to the next meeting to outline the issue and risk exposure. SAP and data protection should also be covered.*
- Queried the risk of exposure to asbestos. – *Ms Eberhart explained that the work on the asset management review had highlighted this risk. Details on this would be sent to the Committee.*
- Asked for clarity on officer compliance and why certain procedures were not being followed. – *Ms Eberhart admitted that training needed to be more concise and easy to follow, this was being worked on. Processes needed to be streamlined and compliant.*

17. Resolved – That the Committee notes the progress made in the Corporate Risk Register and welcomes an attendance from an officer at the next meeting to report on IT, SAP and Data Protection.

Financial Statements 2016/17

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

19. Mrs Chuter introduced the report and confirmed that the statements had been completed by 31 May and signed by the Director of Finance, Performance and Procurement on 5 June. The inspection period started on 19 June and closed on 28 July and the External Audit had now begun. There were no red risks to report.

20. The Committee made comments including those that follow.

- Queried the withdraw deadline for Pantheon. – *Ms Eberhart resolved to look into this.*

- Commented that the 'Telling the Story' requirement that changed the way spend was broken down, from service spend to portfolio spend, made it difficult to understand where specific service spend had moved to. - *Mr McEwan, Finance Manager - Accounting Systems and Control, explained that the change had been mandated by CIPFA. Whilst the reporting change made it difficult to compare West Sussex with other authorities, it would align with the Total Performance Monitor (TPM) report which members would be used to.*
- Questioned the reporting of long term assets on the balance sheet in the context of borrowing. – *Ms Eberhart explained that while not all the assets were sellable, the reporting method was appropriate to show debt verses assets. The options to repay debt would be outlined in the Treasury Management Strategy for 2018/19.*
- Requested if future reports could include a high level summary of cashflow for the County Council. – *Mrs Chuter explained that the TPM contained monthly updates on spend, but resolved to investigate the possibility of a high level cashflow.*
- Queried the different types of assets. – *Ms Eberhart reported that an asset strategy was being developed that would help with this.*
- Asked what would happen to the Capital Infrastructure reserve should the A27 scheme not happen. – *Ms Eberhart explained that the reserve would be held whilst there was still uncertainty about the improvements.*
- Queried the deficit balance on the unusable pensions reserve. – *Ms Eberhart explained that the pension fund has just been through a triannual valuation which helped direct funding levels to reach 100%. The pension fund was in a healthy position.*
- Requested details on the impact of a reduction of grants. – *Mr McEwan explained that the reduction in Dedicated Schools Grant was linked to academy conversions. Ms Eberhart resolved to send details on the Care Act.*
- Requested details on the Management Expenses reported in the pension fund accounts. – *Ms Eberhart resolved to send details.*
- Queried the different actions taken by fund managers in response to the pension fund de-risking. – *Ms Eberhart explained that fund managers would be following the investment strategy, which included moving from equities to bonds for stability. It was the responsibility of the Pensions Panel to review the investment strategy. Ms Eberhart resolved to circulate a link to the strategy.*

21. Resolved – That the Committee reviews the statements and awaits the audited accounts for presentation at the September Committee meeting.

Internal Audit Report – Annual Audit Report 2016/17

22. The Committee considered a report by the Director of Finance, Performance and Procurement and the Head of Internal Audit (interim) (copy appended to the signed minutes).

23. Mr Pitman introduced the report and explained that common themes had been drawn from limited assurances which would form part of the AGS.

24. It was also reported that internal audit had recently undergone an external assessment by Mazars. The results had shown that internal audit were largely compliant with some recommended areas to work on. An action plan had been put in place to address the recommendations.

25. The Committee made comments including those that follow.

- Queried on the slipping dates within the audit recommendations. – *Mr Pitman explained that drifting dates were linked to specific issues, e.g. SAP. Going forwards there would be a focus on dates that would allow the Committee to hold particular departments to account.*
- Raised concerns on the progress of the asset management strategy. – *Ms Eberhart explained that initial progress had been delayed due to officer vacancies. It was proposed that the Executive Director Economy, Infrastructure and Environment could attend a future meeting to discuss the strategy.*
- Asked how internal audit would be organised in the future. – *Ms Eberhart explained that all options would be carefully considered before a decision was made. For example, current staff could be TUPE'd. There were positives to options like this as it gave staff additional learning opportunities from the experience.*

26. Resolved – That the Committee considers the annual audit report and notes the progress made by services to implement high priority internal audit recommendations.

External Audit

27. The Committee considered letters and a progress report from EY (copies appended to the signed minutes).

28. Paul King, EY, introduced the annual audit letters for the County Council and the Pension Fund and explained that fees remained unchanged for 2017/18. The letter relating to IAS19 assurances was also explained, stating that this was work that was now being charged to the pension fund. Mrs Chuter confirmed that this was charged back to admitted bodies with no net impact on the fund.

29. Simon Mathers, EY, introduce the progress report which outlined the audit of the risks in the audit plan. Work was progressing well and it was hoped that the work would be completed by August and presented to the Committee in September.

30. The Committee were informed that EY were in lot 2 for national procurement. Public Sector Audit Appointments would make individual appointments of auditors to bodies in December which would be in place for April 2018. Consideration was given in regard to continuity and location of offices and the rotation of appointments. It was reported that there could be a 18% reduction in fees which was a benefit of national procurement exercises.

31. Resolved – That the Committee notes the letters and the progress report.

Treasury Management Compliance Report – Fourth Quarter 2016/17

32. The Committee considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).
33. Mrs Chuter introduced the report and confirmed that there had been no breaches for the quarter.
34. The Committee made comments including those that follow.
- Queried the decision to invest rather than reduce borrowing. – *Mrs Chuter explained that investments were temporary and were made from the cash from reserves. Ms Eberhart added that borrowing was used to fund the Capital Programme.*
 - Raised concerns relating to the CCLA Property Fund investment on the adherence to the SLY principles. – *Mrs Chuter explained that the strategy recognised short term volatility. The Committee recognised that multiple approaches were required in treasury management, but felt the policy should be considered to remove ambiguity.*
 - Queried the low returns from instant access investments. – *Mrs Chuter explained that this was linked to more cash at year end than forecast due to slippage in February and March on the capital programme and a higher balance of LEP funds than anticipated.*
 - Asked if investing in other local authorities was considered secure. - *Mrs Chuter confirmed that local authorities were generally considered more secure than some other financial institutions..*
35. Resolved – That the Committee notes the report and requests that the Treasury Management Panel consider amending the Treasury Management Strategy.

Duplicate Payments

36. The Committee considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).
37. Ms Eberhart introduced the report and explained the background of the work on duplicate payments
38. Mrs Chuter reported that Meridian Cost Benefit Ltd had looked back as far as April 2011 and reported that the bulk of duplicate payments identified were up to 2014; which was when robust processes and controls had been installed. Meridian were finalising their work and a full report would come to the Committee in September. It was reported that Meridian had not found as many duplicate payments as they had anticipated.

39. The Committee made comments including those that follow.
- Queried Meridian's systems compared to the previous contractor and if they were less efficient. – *Ms Eberhart confirmed that Meridian worked on commission, as had the previous contractor. Therefore it was in their interest to find as many duplicate payments as possible. The Committee requested that the final report should include assurances on the issues raised by the previous contractor.*
 - Requested that the final report also gave technical assurance on the processes used during the investigation.
40. Resolved – That the Committee notes the progress made on the payment recovery audit and expects a full report on the process at the next committee meeting.

Date of Next Meeting

41. The Committee noted that its next scheduled meeting would take place on 4 September 2017 at 10.30 a.m. at County Hall, Chichester.

The meeting ended at 1.48 p.m.

Chairman