

## Agenda Item No. 2

### Regulation, Audit and Accounts Committee

29 June 2015 – At a meeting of the Committee held at 10.30 a.m. at County Hall, Chichester.

Present: Mr Bradbury, Ms James, Mr M. Jones, Mr Lanzer, Mrs Millson (Chairman), Mr Patel and Mr Waight (Vice Chairman)

In attendance: Nicola Debnam, Peter Lewis, Gavin Jones, Vicky Chuter, Cathryn James, Michael Brown.

### Declarations of Interest

1. Mr Lanzer declared a personal interest in Item 4 Financial Statements 2014/15 as a member of the Local Government Pensions Scheme.

### Minutes

2. Resolved – That the minutes of the Committee held on 16 March 2015 be approved as a correct record and that they be signed by the Chairman.

### Financial Statements 2014/15

3. The Committee considered a report by the Executive Director Corporate Resources and Services (copy appended to the signed minutes). Ms Chuter (Chief Accountant) gave the following updates:
  - There had been no change to the general fund balance.
  - All accounts were finalised by 12 June to allow for sign off before dispatch aside from the Pension Fund accounts which had been signed on 19 June 2015, just after the dispatch of papers because of a slight delay in producing a missing figure.
  - In previous years, Members had seen the statements at the September Committee meeting before final sign-off on 30 September but it was recognised from audit findings that it would be useful to have sight of them at an earlier stage
  - Continuation of the approach of a more structured approach to producing the final accounts with named responsible officers in the production plan
  - The accounts would need to be produced by 30 May in 2017/18 so the plan would be revised to take account of the earlier deadline.
  - External Audit of the accounts would start on 13 July.
4. The Committee raised the following issues/questions:
  - Pleased to see that there was a tighter timetable for production of accounts and thanked the team for their hard work.
  - The accounts layout was prescribed but members had made suggestions as to how these could be improved to make them clearer and easier to understand, particularly around the Capital projects.
  - Questioned what housing services were offered by the County Council as this is a District Council Service\*\*

*\*\*Post Meeting Note: refers to Supporting People, where the County Council commission a range of housing related support services which help to maintain vulnerable people's independence and reduce reliance on statutory services. Housing related support may involve provision of accommodation based support in a designated property such as a hostel, refuge or purpose specific residential scheme, or alternatively it may involve floating support to someone living independently in the community.*

5. Resolved – That the Committee
  - i. has reviewed and commented upon the financial statements both for West Sussex County Council and the West Sussex Pension Fund for 2014/15 (prior to submission for external audit)
  - ii. Approved the change to the West Sussex Pension Fund accounting policies, as set out in paragraph 1.6 of the report.

### **External Audit**

6. The Committee considered several reports by the External Auditor EY (copy appended to the signed minutes). Ms Handy from EY gave updates on the following reports:

### **Update on scale of fees and proposed audit fees for 2015/16**

7. EY considered that the audit can be carried out for the specified audit fee.

### **Progress Report 2014/15**

8. The Committee noted the progress report.

### **County Council Audit Plan 2014/15**

9. The key risks were listed on page 34 and these would be the focus for the opinion audit. Some key concerns were:
  - the risk of management override so there would be a focus on journal entries along with significant or unusual transactions.
  - Property Asset valuation – large figure in accounts but needed to be sure that the waste plant was valued on the correct basis. The accounting entries and valuations would be tested
  - Managed services – a number of weaknesses had been identified and an action plan put in place. The results of the action plan would be examined.
  - Value for money – County Council specific risk. Concerned about how the future West Sussex vision cascaded to services and how it was built into business plans. There would be a funding gap of £96m which would have a big impact on the effectiveness of the Council.
  - Contract management – the Annual Governance Statement identified the risks and EY would review the plans to tackle the problems.

10. The Committee raised the following issues/questions:
- Requested that it be made clearer whether the risks were generic across the sector or particular to West Sussex. *Ms Handy agreed that it could be made clearer in the plans.*
  - Questioned whether the current CAPITA review, up to 31 March 2015, would be included, or whether it would take a wider view into the following quarter as vast improvements would be noted. *Ms Handy stated that the focus would be up to 31 March to tie in the audit of accounts but would also be continually reviewed and this would be taken into account.*
  - Questioned why was there a change in cost for waste processing for the plant being brought into use? *Ms Handy replied that there were rules surrounding valuation when a built item came into use to take account of depreciation and replacement costs. Currently the MBT Plant was being held at cost in the accounts but when brought into use the value may be different. There would need to be adjustments made in the accounts based on the depreciation. Mr Stretton added that as of 31 March the plant was still under construction and when it was brought into use, it would be professionally valued.*
  - Needed to look at whether the MBT plant was still the best way forward for waste in West Sussex and how it compares to technology that other authorities are using. Also questioned whether, if West Sussex's waste processing costs were much higher than neighbouring authorities would EY raise it as an issue? *Ms Handy responded that EY were unlikely to look at this in depth but would include as part of their planning process if the costs were way out of line with other similar authorities.*
  - Questioned what metrics were used to review contract management? *Ms Handy replied that the review was more surrounding the arrangements and was linked to the Medium Term Financial Strategy than metrics. EY would expect the council's process to include assessment against other contracts.*
  - The Committee should be satisfied that the scrutiny process had been effective on contracts and would like to see more progress on how they are managed. *Mr Lewis responded that the Committee would look at evidence of assurance of process. The Select Committee would hold to account the details. EY would be looking at evidence of assurance.*

### **Pension Fund Audit Plan 2014/15**

13. The Pension Fund Audit had been completed early as part of an interim audit visit. The substantive work on income and expenditure had been completed. A draft report would be presented at the end of August.

### **Local Government Audit Committee Briefing**

14. The Committee noted the Audit Committee Briefing.
15. Resolved - That the Committee noted the reports and commented on matters relating to the audits and audit plans.

## Treasury Management Compliance Report – Fourth Quarter 2014/15

16. The Committee considered a report by the Executive Director Corporate Resources and Services and Deputy Director of Finance (copy appended to the signed minutes).

17. Ms Chuter introduced the report and highlighted the following points: there had been no breaches of the approved Treasury Management Strategy or changes to monetary levels, no change to long term borrowing apart from £300k for the Littlehampton Harbour to buy a vessel and the board would then repay the County Council and the County Council would focus more on secured investments rather than unsecured.

18. The Committee raised the following issues/questions:

- Questioned, taking account of the financial situation in Greece, whether the County Council had enough flexibility to act with speed if the situation dictated. *Mr Lewis stated that the Council did have the flexibility to act but would sacrifice a return if unacceptable.*
- The County Council had made a secure investment with Lancashire County Council and would continue to invest if the terms remained generous.
- Questioned how the County Council's investments had performed in year and against estimates? *Ms Chuter responded that the target was £1.8m and the actual figure was £1.6m which was compensated by a drawdown of £200k from the interest smoothing reserve. The 2015/16 investments potential was being maximised. A budget shortfall still remained but officers were working hard to improve the situation.*
- Investing cash with such a low base rate was incredibly difficult.
- Concerned about the strategy for the Investec short dates bond fund

19. Resolved – That the Committee noted the report.

### Contract Management Update

20. The Committee considered a report by the Commercial Director and Head of Commercial Services (copy appended to the signed minutes).

21. Mr Carter introduced the report and highlighted the following points: progress had been made in the last year – including compliance with processes, the CAPITA contract was delivering savings and there was compliance in the most part, a small team had been set up to ensure compliance and service managers were working with their opposites in CAPITA to tackle non-compliance.

22. The Committee raised the following issues/questions:

- Questioned whether the overpayment to leavers highlighted in paragraph 2.8 was in a redundancy case or a normal leaver and requested the number of cases and amounts involved. *Mr Carter responded that there had been a number over the last two years and a process had been agreed with CAPITA to eradicate the problem and recover overpayments. Mr Carter agreed to provide a breakdown to show whether they were an external or internal employee. It was also highlighted that late paperwork was the main issue. Two thirds of overpayments were to school staff.*

- The Committee requested a report on the redundancy calculator at a future meeting.
- The Chairman requested that an update report, including the new processes, be presented at a future meeting.

23. Resolved – That the Committee noted the report.

### **Risk Management Report**

24. The Committee considered a report by the Executive Director Corporate Resources and Services (copy appended to the signed minutes).

25. Mr Stretton introduced the report and highlighted the following issues:

- Working to improve risk management and a number of items on the agenda fed into the process
- Risk management strategy was live and monitored by the Corporate Leadership Team (CLT) and would feed into the Total Performance Monitor (TPM) from September.
- Countywide risk management is now feeding into departmental team meetings.
- Risk management software had been acquired but officers were currently deciding on the number of officers that would be given access.

26. The Committee raised the following issues/questions:

- Questioned whether the Committee should review progress on the strategy at every meeting as it was not yet embedded. *Was agreed that the strategy would be reviewed every six months as it would now be monitored by the Cabinet as part of the TPM.*

27. Resolved –

- (i) That the Committee noted progress made with the Risk Management strategy as outlined in the report and;
- (ii) Agreed to review the Risk Management Register on a six monthly basis given the remit of the Performance and Finance Select Committee to scrutinise the content of the risk register.

### **Internal Audit Report**

28. The Committee considered a report by the Executive Director Corporate Resources and Services (copy appended to the signed minutes).

29. Mr Lewis introduced the report and highlighted the following issues:

- This was a very important report which had been discussed and debated at length given the limited assurance recommendation that had been put forward.
- The limited assurance recommendation was based on a number of judgements and the significance of the systems judged as limited assurance.
- Officers were taking both specific and generic actions based on the recommendations.

- General attitudes and behaviours were being tackled to ensure that greater compliance with WSCC governance procedures was achieved.
30. Mr Gavin Jones, Head of Internal Audit, added the following points:
- First time limited assurance opinion had been given and sincerely hoped it was the last.
  - Risk management was a massive issue
  - Significant issue with one of the biggest contracts the authority managed.
  - 36% of opinions given were limited
  - Officers had been very honest about the areas that needed improving and some good plans were in place to tackle generic issues.
  - Risk management has good processes being put in place but the challenge will be at year 3 – are we still operating in the same way?
  - Was confident that the specific issues with the Highways contract were being tackled but noted the Council was still experiencing difficulties in managing some other contracts effectively. This had been a recurrent theme in recent years.
  - Sample testing would be carried out on a monthly basis on compliance with the contract processes within highways, with a fuller audit to follow at Christmas.
  - There were issues in accounts payable and Payroll, particularly surrounding overpayments
  - New resource in place for visits is working well to audit smaller establishments where some small housekeeping issues were identified.
31. The committee shared the disappointment in the content of the report that had been expressed by both the Cabinet Member for Finance and the Council's officers in their introductions. Members asked a series of robust questions as reported below and requested that regular reports on progress on the recommendations should come to future meetings of the Committee.
32. The following questions/comments were raised:
- Questioned whether officers felt that there were issues with contracts and work done in procurement. *Mr Jones answered that the issues were mainly surrounding the application of the contract and the development of the 'Walk, Talk and Build model'.*
  - There was a need to work to make the contract more efficient. *Mr Lewis responded that it was always good practise to review large contracts to identify issues. This was part of on-going contract management.*
  - Applauded honesty of report but couldn't remember a report with the same level of limited assurance judgements
  - Concerned about member involvement in the commissioning of contracts, how external companies had been able to overpromise and not deliver?
  - No clear idea of overspend on Highways contract as the County Council failed to use safeguards because of time pressures and the drive to improve roads. *Ms Debnam replied that that the audit was unable to substantiate the figures and no conclusion could be drawn from the samples. The focus now was on ensuring appropriate controls are in place to operate a good contract effectively.*
  - Probable that expected savings had not been realised from the contract to date. *Mr Lewis stated that the County Council had commissioned a*

*specialist audit to seek to identify if more than contract sums had been paid for jobs undertaken. The County Council knows how much it paid for certain jobs, but there were so many variables that it is not possible to retrospectively check these against what the Council should have spent. Mr Lewis was not comfortable with this but the Council could spend a significant amount of time and resource checking all completed jobs without any potential for recovery if there were over-payments. Indeed, all jobs had been delivered to the price agreed by WSCC and the sums paid were those agreed. It was therefore better to focus on the management of the contract going forward.*

- Need to ensure that the County Council gets better at managing and monitoring contracts going forward. The Council needed to go into negotiations with a clear set of guidelines. *Ms Debnam responded that there was now a specific contract and commercial team in place to look at all processes and scrutinise all payment requests. Training will play a key part of the improvement to change the culture and behaviours. Confident that we have the right people in post.*
- Clear that there was a need to reduce the number of limited assurance audits. What is Cabinet going to do? Particularly giving the significant change to the senior management team and the turnover of staff. *Mr Brown acknowledged that the Cabinet was very disappointed at the trend but had faith that the new management team would take reports seriously and correct the weaknesses. Peter Lewis had responsibility for contract monitoring at a management level and Mr Brown had it for Cabinet. They would have a meeting to discuss how they planned to discharge this new responsibility and ensure control processes were being utilised.*
- Trend of staff involved in negotiating and procuring contracts leaving after the contract is signed so there is a massive loss of expertise and knowledge. *Mr Brown remarked that the authority needed to consider rewards for those leaving the authority and need to try and retain staff.*
- Requested that Peter Lewis and Michael Brown come to an appropriate future meeting to update on the new management arrangements for contracts.

33. Resolved –

- (i) That the Committee has considered the Internal Audit report for the year ending 31 March 2015;
- (ii) has noted the progress being made by services to implement high priority Internal Audit recommendations and;
- (iii) Requested that an update on limited assurance audits is presented at every meeting of the Committee

### **Internal Audit Plan 2015/16**

34. The Committee considered a report by the Executive Director Corporate Resources and Services and Head of Internal Audit (copy appended to the signed minutes).

35. Mr Gavin Jones, Head of Internal Audit, highlighted the following key issues that would be forthcoming in the next year:

- Changes in Social Care as a result of the Care Act
- Contract management would be a key focus

- Proactively working with CLT on behavioural change
- 2016/17 plan would be presented in March

36. Resolved – that the Committee approved the contents of the Internal Audit Plan for 2015/16.

### **Annual Governance Statement**

37. The Committee considered a report by the Executive Director Corporate Resources and Services and Director of Law, Assurance and Strategy (copy appended to the signed minutes).

38. Mr Gauntlett (Senior Advisor Democratic Services) introduced the report which set out progress with the Annual Governance Statement Action Plan for 2014/15. He highlighted that the Committee had considered the action plan in March and only minor tweaks had been made since. The action plan had now been populated by the action owner. The Committee would monitor the action plan at every meeting via a report from the action owner.

39. The Committee raised the following issues/questions:

- Ten issues in the statement were well identified and were the right issues
- Would like more information about the prioritisation of the Capital Programme as a decision was due in October 2015 with a £68m funding gap. *Mr Lewis responded that the report presented to Council in February 2014 focussed on 2015/16. A number of projects were in conjunction with partners and included Local Enterprise Partnership (LEP) funding that had to be worked into the programme. The Cabinet would look at the programme in July prior to the full Council decision on October.*
- Questioned when the wider membership would be given the opportunity to see the priorities and asked for their priorities. *Mr Lewis stated that it was hoped that the programme would be shared with members over the summer and early autumn. May form part of a member development day.*
- There were always more projects than funds available within the County Council's ambitious Capital Programme. The projects were not political and would create economic benefit.
- Any member could suggest projects to relevant Cabinet Members at any time
- Need to make staff feel more valued so that they perform better. *Mr Lewis agreed and highlighted that restructures did not stop at the restructure but need to improve induction processes and behaviours to improve the performance of the organisation. He also noted that the organisation had not been good enough at highlighting and enforcing the 'Code of Conduct' for officers.*

40. Resolved –

- (i) That the Annual Governance Statement be supported for signature by the Leader and Chief Operating Officer

(ii) That the action plan for the 2014/15 Annual Governance Statement be agreed

**Date of next meeting**

41. The Committee noted that its next scheduled meeting will be held at 10.30 am on Friday 27 September 2015, at County Hall, Chichester.

The meeting ended at 1.07 p.m.

Chairman