

**Regulation, Audit and Accounts Committee**

23 June 2014 – At a meeting of the Committee held at 2.15 p.m. at County Hall, Chichester.

Present: Ms James, Mr Lanzer and Mr Rae (Chairman).

Apologies were received from Mr Bradbury, Mr M Jones and Mrs Millson. Mr Patel was absent.

In attendance by invitation: Mr Brown (Cabinet Member for Finance)

1. Mr Rae welcomed Members and indicated that, as Mrs Millson had given her apologies, as Vice Chairman, he would be chairing the meeting.

**Declarations of Interest**

2. No interests were declared.

**Minutes**

3. Wendy Saunders, Democratic Services Officer, confirmed that, as an update to minute 121, a report on the setting of termination payments had been scheduled for the December meeting of the Committee

4. Resolved – That the minutes of the Committee held on 10 March 2014 be approved as a correct record and that they be signed by the Chairman.

**Update on Risk Management Arrangements**

5. The Committee considered a report by the Head of Corporate Finance (copy attached to the signed minutes). The report was introduced by Jo Dixon, Monitoring Manager, who highlighted that the new approach should result in more proportionate reporting of risk, meaning there would be a more accurate reflection of the key risks to the authority contained within the Total Performance Monitor (TPM).

6. The Committee were encouraged that the new approach would make it clearer for all Members to ascertain the focus of risk when examining the TPM. *Tim Stretton, Head of Corporate Finance, explained that, to ensure awareness of these new risk management arrangements, an all-Member training day was being planned for September.*

7. Resolved that: - the Committee notes progress in improving risk management within the County Council.

**Annual Governance Statement 2013/14**

8. The Committee received a report by the Director of Finance and Assurance and Head of Law and Governance (copy attached to the signed minutes). Charles Gauntlett, Principal Democratic Services Officer, introduced the report

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and confirmed that the Committee would receive updates at future meetings on progress achieving the targets in the action plan for 2013/14.

9. Mark Catlow of EY explained that the Committee should consider suggesting an addition to the Annual Governance Statement regarding addressing the weaknesses that had been identified in contract management and controls related to the Capita contract, also highlighted by Internal Audit.

10. Resolved that the Committee: -

- (1) Supports the Annual Governance Statement and recommends it for signature by the Leader and Chief Operating Officer
- (2) Confirms completion of the 2012/13 Action Plan with outstanding actions included in the action plan for the 2013/14 Statement.
- (3) Supports the action plan for the 2013/14 Statement.

### Outsourced Services Compliance

11. The Committee considered a report by the Chief Operating Officer and the Head of Commercial Services (copy attached to the signed minutes). Kevin Carter, Head of Commercial Services, introduced the report

12. The following points were raised in discussion. Members: -

- Raised concern that weaknesses had been found in compliance with existing controls and that, despite this, the County Council were considering transferring other services to the Capita contract. *Mr Carter advised that an action plan had been put in place to address these issues; additionally from now on, the overview function held by the Service Assurance Managers (SAM) should identify concerns at an earlier stage. Mr Catlow reassured the Committee that no major issues in terms of actual error or fraud have been identified from EY's work to date and was satisfied the County Council were being more proactive in implementing preventative measures.*
- Suggested that the Contract Management training needed expanding due to the intention to commission more services. *Mr Carter indicated that work was underway to develop a standard role profile and clear career path for contract managers who came into the employment of the County Council. This would provide staff opportunities to develop their skills leading to potential for career progression and, as a result, creating a flexible resource for the authority, with the option of being able to move knowledgeable staff into new contract management posts as they arose.*
- Requested that the Committee should receive further updates at future meetings to assess progress with the new proposals, particularly relating to the work being carried out by the Service Assurance Team and how successful it was. *Mr Catlow highlighted that it would take time to embed these new procedures and ways of working. In addition he suggested that EY would be willing to meet with the SAM's to share experience gained*

*working with other local authorities that had implemented similar working practices.*

13. Resolved that:

(1) The report be noted.

(2) That a further report be brought to the September meeting to update the Committee on progress with implementing proposed improvements to compliance monitoring of the Capita contract.

### **External Audit Report – Audit Plan for the County Council**

14. The Committee considered a report by the external auditor (copy attached to the signed minutes) which set out the audit plan for the County Council. Mark Catlow of EY introduced the report and highlighted that, amongst other things, the audit would include examining the focus on becoming a commissioning authority and the legal and governance arrangements for PropCo. He also indicated that there had been very little national guidance in relation to provision for Non-Domestic rates appeals.

15. The following issues were raised in discussion. Members: -

- Welcomed the inclusion of PropCo within the audit plan as this would provide an additional check that this new panel was operating within agreed codes of practice. *The Cabinet Member for Finance concurred and highlighted that PropCo had been constitutionally created, as Cabinet Member he made all decisions, taking advice from the PropCo panel and all decisions were subject to call-in.*
- Raised concern that a figure of 2% of the Council's gross revenue expenditure was being used in relation to determination of material errors and wondered if this was set at a lower level of 1% it would lead to higher external audit fees. *Mr Catlow advised that the figure was determined using the expertise and professional judgement of the auditor and it was possible that setting it at a lower level would increase the fee.*

16. Resolved: - that the report be noted.

### **External Audit Report – Audit Plan for the West Sussex Pension Fund**

17. The Committee considered a report by the external auditor (copy attached to the signed minutes). Mr Catlow explained that, in contrast to the audit plan for the County Council, for determination of material error a figure of 1% or net assets was used rather than a percentage of gross revenue.

18. Resolved: - that the report be noted.

### **Fee Letters 2013/14**

19. The Committee received the Annual Audit Fee Letters from the External Auditor (copy appended to the signed minutes), which summarised the fees for the 2013/14 audits of the County Council and Pension Fund.

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20. Resolved – That the Committee notes the West Sussex County Council and West Sussex Pension Fund Annual Audit Fee Letters for 2013/14.

### Fee Letters 2014/15

21. The Committee received the Annual Audit Fee Letters from the External Auditor (copy appended to the signed minutes), which summarised the fees for the 2014/15 audits of the County Council and Pension Fund which would take place in the next financial year. Mr Catlow confirmed that the fees were determined by the Audit Commission, and as such, was not liable to change unless there was a change to the scope of the work.

22. Resolved - That the Committee notes the West Sussex County Council and West Sussex Pension Fund Annual Audit Fee Letters for 2014/15

### Annual Audit Report 2013/14

23. The Committee received a report by the Director of Finance and Assurance and Head of Internal Audit (copy attached to the signed minutes). Gavin Jones, Head of Internal Audit, introduced the item and indicated that services had taken action in relation to the limited assurance audits detailed in the report and that this progress would be reflected in future reports. He also highlighted that, across the limited assurance audit opinions issued throughout the year, there did not appear to be any common theme occurring, meaning weaknesses identified were generally limited to that individual service.

24. The following points were raised in discussion. Members:-
- Queried what action had been taken to prevent the possibility of a fraudulent alteration to a pensioner's bank details. *Clare Chambers, Assistant Pensions Operations Manager, advised that a new procedure had been introduced which meant that no changes to bank details could be made unless Pensions Administration was in receipt of a standard form, signed either by the Pensioner or their nominated power of attorney.*
  - Asked whether more resources should be focussed in the Financial Assessments team due to the increase in the number of adults in residential and non-residential care. *Sharon Gogan, Head of Adult Social Care, explained that a gap analysis was being undertaken to assess whether demand was exceeding capacity and additional resource was required to focus on this area. In addition she explained it was thought there was a clause in the Capita contract which could be invoked to request the contractor to undertake income monitoring; so by activating this clause it would resolve the weakness.*

25. Mr Jones indicated that there did appear to be an issue with information not transferring smoothly between Capita and Finance and that work was required to ensure better communication between the two.

26. Resolved – That the report be noted.

**Annual Audit Plan 2014/15**

27. The Committee received a report by the Director of Finance and Assurance and Head of Internal Audit (copy attached to the signed minutes).

28. The report was introduced by Gavin Jones, who indicated that, as a result of the audit section meeting their required savings target of £88,000, and associated loss of two posts, it was considered there would not be sufficient resources available to provide a meaningful audit opinion across the whole control environment.

29. Mr Catlow expressed concern that, with the qualified opinion noted in the annual audit report, and the weaknesses in control that had been identified a reduction in resources was proposed.

30. The following points were raised in discussion. Members: -

- Raised concern that it appeared the quantity of savings requested was at a greater level than was sustainable and could present a risk to the County Council. The Committee asked what level of resource would be required to sustain a satisfactory service. *Mr Jones advised that, presuming the team no longer undertook work for Sussex Police and dependent on the future model of the County Council, it was felt the minimum number of staff required would be 8 full-time equivalent posts. Mr Stretton indicated that, as acting Section 151 officer, there was concern about the level of assurance that could be provided with the resources available.*
- Requested clarification regarding the specialist IT audit work undertaken by an external consultant. *Mr Jones advised that this was a very specialist area of IT audit work which the consultant charged in the region of £40,000 for. However it would not be cost-effective to carry out this work in-house due to the prohibitive charges that would be incurred in training staff in this specialist work.*

31. The Vice-Chairman indicated that he would speak with the Leader and Cabinet Member for Finance to raise the concerns of the Committee regarding the level of savings the audit section were being asked to deliver and the associated potential risk to the County Council. The Committee welcomed this approach and requested that an update on this matter be provided at the meeting in September.

32. Resolved that: -

- (1) The Committee approve the contents of the Internal Audit Plan for 2014/15
- (2) The Vice-Chairman highlights to the Leader and Cabinet Member for Finance the concerns of the Committee regarding the level of savings the audit section is being asked to deliver
- (3) An update on this matter be provided at the next meeting of the Committee

**Statement of Accounts 2013/14 Update**

33. The Committee received a report by the Director of Finance and Assurance and the Head of Corporate Finance (copy appended to the signed minutes) which provided an update on progress in producing the financial statements for 2013/14 for West Sussex County Council and the West Sussex Pension Fund.

34. Vicky Chuter, Chief Accountant, introduced the report explaining that it was the final week of production for the financial statements and all was on track for successful completion on time. A review meeting held each week had been helpful in identifying any issues of concern such as the delay in receiving both the valuation certificates from Montagu Evans and the data from Capita, which had arrived over a month late and two months late respectively.

35. Members were concerned at the delays that had been caused by external organisations and queried what measures were being taken to address these. *Mrs Chuter advised that, following the issues caused by delay of the valuation information this would be dealt with differently next year. With regard to Capita, they had experienced problems with a new IT system that had led to the hold-ups in data provision, but now had a clearer understanding of the reporting requirements so would be better prepared for next year.* Members wondered whether a Key Performance Indicator (KPI) could be included in the Capita contract in relation to the timely production of information for the Statements in future. *Mr Stretton explained that it was unlikely additional KPI's could be inserted into the contract at this stage.* Members were disappointed that this was the case when the delays could have such an impact on preparation of the Statements. *Mrs Saunders agreed to ask Mr Carter to circulate a briefing note to the Committee regarding the potential for including additional KPI's within the Capita contract.*

36. Resolved –That the Committee notes the latest position in regard to the production of the financial statements for 2013/14..

**Treasury Management Annual Report 2013/14**

37. The Committee received a report by the Director of Finance and Assurance (copy appended to the signed minutes). Mrs Chuter introduced the report and highlighted that, as the return on the pooled funds had started to improve, the Treasury Management Panel had approved continued investment in these funds.

38. Members welcomed this proposal as it was felt that, pooled funds were a sound investment over a longer term period.

39. The Cabinet Member indicated that the hope to obtain an average interest rate of 0.8% across investments for the 2013/14 period was maybe too optimistic and welcomed the potentially more realistic 0.6% rate estimated for 2014/15.

40. Resolved – That the Committee support the content of the report for County Council on 25 July 2014.

**Date of Next Meeting**

41. The Committee noted that its next scheduled meeting will be held at 2.15 p.m. on 26 September 2014, at County Hall, Chichester. The Vice Chairman reminded Members of the training session on Financial Statements that was taking place at 2pm on 16 September 2014 and stressed the importance of all Members of the Committee attending the session.

The meeting ended at 4.08 p.m.

Chairman