

Regulation, Audit and Accounts Committee

4 September 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.

Mr Patel was not present.

In attendance by invitation: Mr Hunt (Cabinet Member for Finance and Resources).

Part I

Declarations of Interest

42. Dr Dennis declared a personal interest as a member of a local government pension scheme (not West Sussex).

43. Mr Lea declared a personal interest as a Member of the Mid Sussex District Council Audit Committee. Mr Lea also declared a personal interest in relation to his professional role in IT.

44. Mr Waight declared a personal interest as a Worthing Borough Council Member in relation to the reference to the Bohunt Academy, Worthing.

45. Ms Eberhart (Director of Finance, Performance & Procurement) declared a personal interest as her daughter is employed at Ernst & Young (EY).

Part I Minutes of the previous meeting

46. Resolved – That the minutes of the meeting of the Committee held on 26 June 2017 be approved as a correct record and that they be signed by the Chairman.

Part II Matters

47. The Committee agreed that they did not wish to bring the Part II item on the agenda into Part I.

48. Resolved – that the item in Part II of the agenda, Future arrangements for Internal Audit, remains in Part II.

Statement for Accounts 2016/17 and External Audit Reports for West Sussex County Council.

49. The Committee considered a report by the Director of Finance, Performance & Procurement and the Annual Audit Results Report from EY for West Sussex County Council (copies appended to the signed minutes).

50. Mrs Chuter introduced the report on the Financial Statements and advised that EY had given very positive feedback to both teams in respect of the County Council and the West Sussex Pension Fund audits. They had praised the quality of the working papers along with the speed and quality of responses to any queries raised.

51. Paul King, EY advised that there were no unadjusted differences arising from the audit. The audit had gone well that this year marked a very good step towards next year when the accounts have to be audited by the end of July. EY has looked at the change in approach and policy on Minimum Revenue Provision (MRP) and has no concerns. It has recorded some observations on the impact of the policy in later years. With regard to accounting for Property, Plant and Equipment, Paul King highlighted the high degree of estimation but this is not uncommon for local authorities.

52. The Committee made comments including those that follow.

- Raised concerns about capital financing and longer term financial planning and whether controlling the level of debt as reported in the financial statements was sustainable –
 - *Paul King advised that financial sustainability is considered. With regard to re-profiling of MRP, EY tends to look at arrangements over the next few years and does not draw conclusions about the very long term position. EY would expect the County Council to consider the sustainability of managing debt risk under the regulations of the CIPFA Prudential Code. The Committee commented that given EY had considered the long term financial planning implications of the Council's re-profiling of MRP in its work it would have been appropriate to also consider the Council's debt strategy over the same period, rather than just over the medium term.*
 - *Simon Mathers, EY advised that it is not unusual for local authorities to re-profile MRP in this way. With regard to the issue about the risk of paying higher interest rates to repay the borrowing in the future, he advised that whilst they highlighted the possible risk they did not speculate on what interest rates would be in the future.*
 - *Mr Hunt reported that plans for re-financing the borrowing were being worked on and officers monitored the market and will look to take action on forward borrowing. Any financial risks of re-profiling the MRP are considered and understood. The County Council needs to provide services efficiently and this can be financed through borrowing which is carefully monitored.*
 - *Ms Eberhart confirmed that the approach to borrowing is set out in the Treasury Management Strategy which will be considered at Performance and Finance Select Committee in November prior to approval by County Council in December. There will be opportunities for the long term plans to be debated and monitored by members.*
- Asked about the level of materiality in the audit – *Simon Mathers advised that the threshold for materiality is driven by industry practice.*
- Asked about the financial impact of adopting the IFRS 9 Financial Instruments – *Mrs Chuter advised that this has not been quantified yet.*
- Asked whether the Whole of Government Accounts submission would have an impact on the County Council's Financial Statements – *Simon Mathers confirmed that it would not.*

- Requested that the wording within the report relating to borrowing being secured against assets (page 27), be amended to reflect that borrowing is not secured against assets.
53. Resolved – That the Committee notes the audit results from EY and approves the Statement of Accounts for 2016/17 for West Sussex County Council as attached at Appendix A(i), for signing by the Chairman.

Statement for Accounts 2016/17 and External Audit Reports for West Sussex Pension Fund.

54. The Committee considered a report by the Director of Finance, Performance & Procurement and the Annual Audit Results Report from EY for the West Sussex Pension Fund (copies appended to the signed minutes).

55. Mrs Chuter introduced the report and confirmed that all requests for small changes to the narrative had been completed. Simon Mathers EY stated that as with the Council audit, the working papers had been produced to a high standard and the audit process was well placed for the earlier audit deadline next year.

56. The Committee made comments including those that follow.

- Asked whether the annual salary increase assumption has the effect of skewing the reliability of the fund. – *Ms Eberhart advised that this point had been debated with the actuary who has to consider the long term situation and take into account the youngest and oldest members of the scheme. The figure is reviewed at each triennial valuation as it is a key assumption.*
57. Resolved – That the Committee notes the audit results report from EY and approves the Statement of Accounts for 2016/17 for the West Sussex Pension Fund as attached at Appendix A(ii), for signing by the Chairman.

58. Mr Hunt welcomed the EY report on the County Council's audit and referred to the statement that there were no matters to report about the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. He extended his personal thanks to the team who prepared for the audit and to EY for the improvements they had made to the audit process. The Chairman endorsed these comments.

Internal Audit Progress Report – August 2017

59. The Committee considered a report by the Head of Internal Audit (interim) (copy appended to the signed minutes).

60. Mr Pitman introduced the report and highlighted that progress against the internal audit plan was about where it should be at this time of year. The external quality assessment undertaken by Mazars had concluded that the internal audit service generally conforms to Public Sector Internal Audit Standards. Whilst he was pleased that the number of high priority directorate actions was low, he referred to the overdue high priority actions that still needed to be cleared for the estate/asset management strategy. The Director of Economy, Planning and Place will attend the next meeting to report on progress.

61. The Committee made comments including those that follow.

- Asked about the need to bring in specialists for some areas of internal audit. – *Mr Pitman confirmed that this had been necessary in certain niche areas such as fraud and contract management.*
- Referring to the Rolling Work Programme, members asked for clarification about the item 'no recourse to public funds'. – *Mr Pitman advised that refers to individuals who do not have access to benefits.*
- Regarding the review of Capita Services and Contract. – *Mr Pitman advised that the scoping work has been done in this quarter and he will include start dates for the programme in future.*
- Asked about Procurement Cards (P Cards). – *Mr Pitman advised that there was a reasonable framework of controls in place but the main issue was one of compliance. He agreed to include a full assessment on the work on P Cards in his report to the next meeting.*
- Asked whether the rolling programme could also identify priorities and to give a definition of what is meant by the assurance opinions of satisfactory and substantial. There was some discussion about the criteria for colour coding, members felt that this was not needed at all.

62. Resolved – That the Committee notes the Internal Audit Progress Report for the period to August 2017.

Internal Audit Charter 2017/18

63. The Committee considered a report by the Head of Internal Audit (interim) (copy appended to the signed minutes).

64. Mr Pitman introduced the report and explained that the external Quality Assessment had identified that the existing Internal Audit Charter was not comprehensive enough.

65. The Committee made comments including those that follow.

- Referring to definitions, the Committee asked for an amendment regarding the name of The Board. It should be made clear that The Board referred to the Regulation Audit and Accounts Committee.

66. Resolved – That, subject to the amendment in Minute 65 above, the Committee approves the Internal Audit Charter 2017/18.

Fraud Risk Plan 2017/18

67. The Committee considered a report by the Head of Internal Audit (interim) (copy appended to the signed minutes).

68. Mr Pitman introduced the report and explained the need for a Fraud Risk Plan. In the past work on fraud had been reactive and there was a need for a more pro-active approach which would provide more transparency through an Annual Report. The plan identifies key areas of focus to assess risk and incorporate national initiatives. The work will increase awareness of fraud risk and align it with the Corporate Risk Register. He highlighted the work that was being carried out with schools through a 'fraud health check'. There is also focus on greater use of data analytics and a quarterly newsletter that extends beyond the current version for schools.

69. The Committee welcomed the report and made comments including those that follow.

- Asked why the allocated resource for Data Analytics was only ten days. – *Mr Pitman explained that the ten days was just to initiate the strategy not to investigate the outcomes.*
- Asked about the sort of fraud the County Council had been subject to. – *Mr Pitman agreed to circulate a briefing to members before the next meeting.*
- Asked about the 'Fraud Health Check' for schools. *Mr Pitman advised that concerns have arisen due to the level of autonomy which schools have over their budgets. It is intended that from the 'Fraud Health Checks' a number of schools will be visited and the rest are to be sent a survey for completion. If there are concerns as a result of the survey results, then the school will be given a physical visit. Mr Pitman agreed to provide an update on this in a progress report at the next meeting.*

70. Resolved – That the Committee approves the Fraud Risk Plan 2017/18.

Duplicate Payments

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

72. The Chairman reported that a letter on duplicate payments, dated 1 September 2017 from Mr Andrew Rowson of Data Diligence Ltd, had been sent to all members of the Committee.

73. Mrs Chuter introduced the report and explained the background to the work by Meridian Cost Benefit Ltd on duplicate payments. She highlighted the very low error rate. Meridian had presented a very positive report to the County Council on assurance and controls.

74. The Committee made comments including those that follow.

- Asked for a further report from Meridian on the technical detail of their work along with their findings and recommendations.
- The Committee asked for more assurance about the Council's processes. - *Ms Eberhart advised that the council actively monitors and reports on actual duplicate payments each month. She suggested a quarterly report to the Committee to provide it with the assurance it required.*

75. Resolved – That the Committee

- (1) Notes the outcome of the duplicate payments review.
- (2) Requests a report from Meridan to the next meeting detailing their findings.
- (3) Supports the undertaking of a further review of the purchase ledger in Spring 2019 as set out in Paragraph 3.4 of the report.

Technology Related Risks

76. The Committee received a presentation by Roland Mezulis, Chief Information Officer and Head of IT (copy appended to the signed minutes).

77. Mr Mezulis presented the Committee with an overview about cyber security and information security risk.

- He advised that an underlying issue relating to many cyber attacks was a lack of awareness. Response to, and prevention of a cyber attack can be dealt with by raising awareness of the points of access for such an attack, for example identifying a phish email and then by limiting opportunities for malware to execute. In the event of a successful attack, recognition of the attack and taking a making a rapid response is critical, including taking some difficult decisions quickly.
- Mr Mezulis advised that a breach to information security tends not to be deliberate and usually not malicious as is often the case with cyber-attack. The aim of Information Security activities is to encourage rigor in data collection and handling to minimise the opportunity for human error.
- Mr Mezulis advised that Brexit will not have an impact on the new EU legal framework of the General Data Protection Regulation (GDPR) which takes effect from May 2018. The new regulation has a greater focus on consent and consideration will have to be given to how some of our current practices to capture and record consent will have to change.
- There is a risk for the County Council if it does not invest in IT. Mr Mezulis advised that a more incremental approach to change would be beneficial particularly for cloud based services. There is a need to have a more innovative approach and take advantage of new technologies. There is underinvestment in various areas and propositions are being planned to identify appropriate areas for future investment.

78. Resolved – That the Committee notes the presentation on technology related risks.

Quarterly Review of the Corporate Risk Register

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

80. Dr Muller introduced the report and highlighted the improvements made to risk management in the last quarter. This has included the appointment of a Risk Manager and the planning of a number of risk management training courses for operational and managerial staff.

81. The Committee made comments including those that follow.

- Asked if Risk 9 (Managerial/Professional) had been achieved given recent staff restructures and instability that this causes. – *Dr Muller advised that all actions have been completed apart from the revised organisational structure and that the risk needs to be updated to reflect this fact. There will be an ongoing task to monitor staff satisfaction and engagement to ensure the Council continues to progress towards operating as 'one team'.*
- Requested more detailed information on Risks 14 and 19 (commercial awareness and understanding of the markets) to be presented by the risk owner or service lead at the next meeting.

82. Resolved – That

- (1) The actions and plans as detailed in the report and the current Corporate Risk Register are noted.
- (2) An item on commercial awareness and understanding of the markets is brought to the next meeting of the Committee in November.

Treasury Management Compliance Report – First Quarter 2017/18

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

84. Mrs Chuter introduced the report and highlighted key points and confirmed that there had been no breaches for the quarter. The Chairman stated that the Committee only comments on compliance and not the Strategy itself.

85. Resolved – That the Committee notes the report.

Date of Next Meeting

86. The Committee noted that its next scheduled meeting would take place on 27 November 2017 at 10.30 a.m. at County Hall, Chichester.

Exclusion of Press and Public

87. Resolved - That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraphs specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

The meeting ended at 2 p.m.

Chairman

**Summary of Matters discussed in the absence of the Press and Public on
4 September 2017**

Future of Internal Audit

(Exempt, Paragraph 2, Information which is likely to reveal the identity of an individual)

(Exempt, Paragraph 3, Financial or business affairs of any person (including the authority))

The Committee discussed the future of Internal Audit at the County Council.